

# Organisational Behaviour

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**Professor Robert Dailey**

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## Why Managers Need to Study Organisational Behaviour

In large measure all firms (including yours) depend on the resilience, resourcefulness, commitment and creativity of their workforces to sustain their competitiveness. If your firm enjoys an advantage over its rivals in the marketplace it is probably due in significant degree to some combination of these workforce qualities. No firm or organisation is granted competitive advantage in perpetuity because markets and industries are always dynamic and changing. New products are launched, foreign rivals enter established markets and firms thrive and then wither. Thus it becomes the job of executives to plan new elements of competition while managers tend to those core features of the firm that sustain a rational and resilient business model in the face of uncertainty. A key question to both executives and managers becomes 'How do we develop the core features of our workforce to strengthen our ability to compete?'

It is a given that managers must make many of the day-to-day decisions that operationalise an effective business model over time. When it comes to the core features of workforce capability and commitment, managers must know how to integrate all these with the firm's intellectual, capital, and technological resources to strengthen its ability to compete. Organisational behaviour (OB) provides the managerial know-how to sustain the quality of this integration over time. The basic theme of this course is to explain how managers and executives can adjust key organisational and human forces to strengthen the firm's competitive advantage. Some firms make continuous efforts to strengthen their competitiveness by making refinements (and improvements) to their workforce practices while others concentrate their attentions elsewhere. Managements that ignore the core features of their firms' workforces surely risk their firms' long-term competitiveness.

As you read these modules, you will find an excellent balance between organisation theory, management practice and how both contribute to competitive advantage. In the text you will find the concepts that have created solid advances in our knowledge of how organisations and workforces behave. Abundant examples and cases will show you the practical side of these theories so you can exploit them to enhance your organisation's competitive advantage.

Over the years our MBA students have told us repeatedly, 'we want an up-to-date, timely and absorbing OB course that actively involves us in the learning process'. I believe this has been accomplished and I hope you will find it to be true too. I know that your time is very valuable and that your self-guided study of this course is very important to you. Furthermore, you probably believe that this course and the EBS MBA programme can greatly enhance your own competitive advantage in your career, your job and your organisation. Why else would you allocate your scarce time resources to such a demanding educational endeavour? These considerations cause you to make serious judgements about how you allocate your personal resources. You have made an excellent decision to pursue the EBS MBA. I'll try to make your journey interesting and challenging as you work your way through the OB course.

You will find that all of the modules are linked so that your knowledge builds and diversifies as you progress through the course. You'll also find useful conceptual bridges to other MBA courses throughout OB – most notably marketing and strategic decision making. I do not doubt that you will find many ways to apply your deepening OB knowledge. All you have to do is pick up a business publication, a newspaper or look around your own organisation or firm to see course concepts in action! By the time you are ready to take the final examination in this course you'll be brimming with examples of how its concepts explain what you see every day in your jobs. So enjoy your intellectual journey! As you move forward, take advantage of the excellent learning support services offered to you by EBS. It is my sincere hope that this course will give to you new ways to understand, analyse and react to the organisational and economic forces that surround all of us.

Professor Dailey

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# The Basics of Organisational Behaviour and its Relation to Management

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### Learning Objectives

By the end of this module, you will be able to:

- Distinguish organisational behaviour (OB) and management as different yet related disciplines.
- Define OB.
- Explain the elements of the manager's job in the twenty-first century.
- Describe the relationship between organisational productivity and employee needs.
- Characterise the meaning of values and their relationship to personality.
- Explain various psychological traits of employees that systematically influence their behaviour on the job and how they can be measured.
- Explain the meaning of introversion and extroversion.
- Explain the nature of job satisfaction and recognise its determinants and consequences.
- Explain the job satisfaction – job performance relationship.
- Assess ways to measure job satisfaction in the work setting.
- Differentiate organisational commitment and job involvement.
- Explain the psychological contract and how the new generation of workers is changing it.

- Describe how economic insecurity erodes workers' commitment and involvement.
- Link personal values to whistle-blowing behaviour at work.

## 1.1 Why Managers Need to Understand Organisational Behaviour and its Theories

As you begin your study of organisational behaviour (OB), you will be struck by the fact that you can apply immediately what you are learning to the problems you confront at work. Not only will you be gaining a broad view of this highly applied discipline, but you will also find ways to alter your management philosophy to accommodate your new-found OB knowledge and to apply it to your work. As your knowledge of, and comfort with this subject grow, you will become increasingly skilful in understanding the behavioural implications of organisational problems. In this course you will become acquainted with the latest developments in the field and you will have an opportunity to see how well-known, global companies deal with the challenges of managing their diverse work-forces in highly competitive markets around the world. Our aim throughout this course is to help you see how the field of organisational behaviour contributes knowledge of how organisations behave. In turn, this knowledge can be turned into competitive advantages that can help firms realise higher returns through the best use of their human capital. Let us begin by developing a definition of the field of organisational behaviour.

Organisational behaviour is the study of the behaviour and attitudes of people in organisations. Its focus is on human work behaviour and attitudes which contribute to (or detract from) the effectiveness and productivity of the organisation. The field has three units of analysis: the individual, the group and the organisation. A 'micro' approach to the field emphasises the first two units of analysis and it stresses topics such as employees' personality traits (individual differences), employee attitudes and motivation to work, group formation and group decision-making. The 'macro' or big-picture approach addresses the organisation as the primary unit of analysis. Here the topics of leadership, organisational structure and design, service quality enhancement, organisational culture, and organisational renewal (change) are addressed.

Both the micro and macro perspectives have their roots in the behavioural and social sciences of psychology, sociology, economics, political science, anthropology and social psychology. The field of OB uses both established theories and reliable managerial practices to explain the behaviour of organisational participants. You will find throughout this course that all behavioural theories are thoroughly grounded in managerial examples and organisational cases.

### 1.1.1 Distinguishing between Organisational Behaviour and Management

#### What is the Relationship of Management to Organisational Behaviour?

The traditional field of management is defined as the process of planning, organising, leading, and controlling the human, material and financial resources of an

organisation. Management is best viewed as a process which is employed by individuals (managers) who are responsible for achieving organisational objectives through people. Therefore managers are individuals who achieve results by supervising and motivating people in work organisations. Newer definitions of management stress the importance of the manager as an 'enabler of employee performance' instead of the 'activities' approach suggested above.

These more recent (and enlightened) views of management focus more on the roles of 'coaching', integrating, advocating, tracking key aspects of unit performance and allocating resources among more independent (and trusted) employees and their self-directed teams. The definition of management is not a static concept and you'll see how it has evolved to keep up with the rising complexity of modern organisations.

A significant relationship exists between management and organisational behaviour. Organisational behaviour is an applied discipline which attempts to explain behaviour in organisations in terms of valid theories. Many of these theories address problems which managers face on a regular basis, for example motivation of subordinates, effectively charting the firm's strategic direction, delivering superior customer service, coaching and integrating the work of self-managed teams and creating reward systems that recognise individual achievement in the context of self-directed teams.

Managers and supervisors are held accountable by their superiors for achieving goals in the areas noted above. As a consequence, they often look for theories which help them interpret organisational events and processes in behavioural terms. The field of organisational behaviour contributes knowledge in critical areas important to any manager. So, part of the answer to the question above is that organisational behaviour is concerned with describing and explaining organisational phenomena while management is a professional discipline which stresses the importance of applied problem-solving skills that sustain the firm's competitive advantage.

### What Role Does Management Play in Organisational Problem-Solving?

Supervisors and managers are responsible for the day-to-day work of the organisation. They do not directly produce specific goods and services. Instead, they supervise the work of subordinates who do produce products and services. A manager's job consists of the following:

1. A technical component concerned with the efficient use of resources to achieve output goals, and the application of technology to achieve productivity goals.
2. A conceptual component concerned with the development of new systems and methods of operation. An example would be improving a pricing system to provide salesmen with more up-to-date market prices.
3. A human component concerned with employee well-being. Examples in this area include setting a programme to assist troubled employees, and designing an employee health programme to reduce insurance costs.

The amount of time managers spend in these activities is a function of their level in the organisational hierarchy. Generally speaking, technical work occupies most of the time of first-line supervisors. They spend far less time at conceptual and human work. For middle managers it is generally true that conceptual work-load and human work-load increase while technical work-loads diminish. Top managers spend the bulk of their time engaged in conceptual and human work.

## Management and Technical Problem-Solving

Virtually all firms want managers and employees to be technical problem-solvers in the areas of product and service quality improvement. Managers are promoted almost always on their ability to resolve complex technical issues, e.g., new process and product development, the creation of better distribution systems, more accurate pricing systems and enhanced service delivery systems. The 'glitch' in many organisations is that they mistakenly promote managers on the basis of their technical work expertise alone. Managers, being rational, wish to acquire technical skills in their careers because they know that their employers will reward them for these skills. This can tempt managers to interpret all job challenges in terms of technical work skills. Success in entry-level managerial positions is somewhat 'deterministic' in the sense that managerial success is too narrowly defined in technical terms. If managers demonstrate conceptual skills as well, their promotion prospects, and more importantly their performance potential are both greatly enhanced.

The missing ingredient in mix for many managers is capability in the human component of managerial work. The problems caused by 'poor people skills' are on-going problems that are evident to CEOs. In their view it is no longer sufficient to be skilful only in conceptual and technical work. Now they expect their managers to demonstrate well-developed work-force management skills (human resources). This practical (and pressing) need creates a wide and well-trod bridge between the fields of OB and management.

### 1.1.2 New Perspectives on the Manager's Job

As we have noted, the key concept in the manager's job is 'getting things done through people'. In organisations of the twenty-first century, the manager's job will evolve from an authority-derived 'issuer and interpreter of rules and orders' to creating an entrepreneurial work climate that facilitates teamwork, autonomous and timely decision making and flexibility. When studying what managers do, Professors Henry Mintzberg and Niels Fondas found that the manager's day is broken up into a fragmented collection of brief episodes. These episodes hardly allow for long periods of uninterrupted contemplation of the tasks of planning, organising, leading and controlling the human, material and financial resources of the company (our aging and out-of-date definition of management). In his research, Mintzberg found that only five per cent of a manager's time was spent on tasks lasting more than one hour. Just what are the fragmented tasks and activities performed by managers on a daily basis? In large surveys of thousands of managers



and executives, Kraut, McKenna and Dunnette identified seven basic features of their jobs:

1. Managing individual performance (supervising).
2. Instructing subordinates (teaching and training).
3. Representing one's staff (representation and advocacy).
4. Managing group performance (facilitation).
5. Planning and allocating resources (decision-making).
6. Coordinating interdependent groups (collaboration).
7. Monitoring the business environment (scanning).

These seven managerial tasks are common to all management levels in companies. The perceived importance of each task and the amount of time spent by managers on these tasks at different organisational levels vary substantially. Researchers found that tasks 1 and 2 are more relevant to lower-level supervisors, tasks 3, 4 and 5 capture the time of middle managers and tasks 6 and 7 monopolise the time of senior executives. Said another way, managers and executives perform the same tasks but with different emphasis depending on their level in the firm's hierarchy.

The workplace of tomorrow will be transformed to achieve greater speed, efficiency, responsiveness and flexibility. According to Professors Kreitner and Kinicki, the firm's control structures emphasising command and control are giving way to those which stress participative decision systems and employee engagement (empowerment). Managers who are only comfortable with exercising authority and command are being retrained or replaced by those who emphasise collaboration with subordinates and team-based work systems. Table 1.1 shows the differences between managers of the past and their replacements of the future. The shifts shown in the table are on-going and evident in large and small companies engaged in domestic and global competition.

The number of challenges and the speed of change in the manager's job (as shown in Table 1.1) will increase because:

1. **The work-force is changing.** Companies must deal increasingly with matters of work-force diversity, work-force skills and training and work-force values and beliefs. Less restrictive labour regulations and tightened immigration policies will alter the ethnic and racial features of work-forces. These work-forces will contain employees who differ by age, gender, life-style preference and personal and religious values. Their formal educations may not have adequately prepared them for the demands of new technologies and jobs with rapidly changing skill requirements. The successful managers in the twenty-first century will therefore have to understand diversity and know how to optimise the fit between employees with diverse needs and expectations and their jobs and work groups.
2. **Customer expectations are changing.** Now and in the future customers will only support companies which deliver high-quality goods and services at the best price anywhere in the world. The age of total quality management (continuous improvement) is here and companies that do not adhere to its principles

**Table 1.1** Managers' challenges in the twenty-first century

|                                   | Past challenges  | Future challenges   |
|-----------------------------------|--|---|
| Principle duties                  | Give orders to subordinates and control their behaviour    | Encourage the development of subordinates and their work teams  |
| Training and development          | Reduce these costs by hiring workers with requisite skills | Training and employee development are continuous to achieve the goal of a flexible and cross-trained work force |
| Reward bases                      | Seniority, rank and effort                                 | Merit-based individual and team contributions to competitive advantage  |
| Influence base                    | Hierarchical position                                      | Technical, interpersonal and organisational expertise   |
| Communication patterns and styles | From top to the bottom in highly formal terms              | Diffusion-based so that information goes rapidly to where the decision has to be made                           |
| Decision-taking style             | Superior/boss centred and authoritarian                    | Team-based and participative  |
| Approach to organisational change | Resist change and cling to the status quo                  | Embrace change and find ways to improve strategic, competitive processes  |

will disappear. The successful twenty-first century manager moves easily in the environment of continuous improvement (TQM) and he develops in his subordinates the dedication to improve products and customer services. The competent TQM-focused manager realises that the fundamental principle in play is a relentless search for ways to increase the organisation's ability to add value to products and services from the customer's point of view.

3. **Organisations are changing.** Eroding trade barriers and instantaneous capital flows across national boundaries greatly increase competition and these forces prod companies to search for new sources of competitive advantage. Thus, they off-shore jobs, downsize, re-engineer, form strategic alliances, alter their designs, try to compete globally, vertically integrate backward and forward and embrace new technologies and information systems. They press their workforces for performance and productivity gains and they expect all employees to find creative solutions to existing problems of competition. These complex forces tear out elements of the traditional definition of the manager's job and they create new elements that stress creativity, resourcefulness, inspiration, and collaborative problem solving.

## Why Do Managers Care about OB?

When managers are interviewed about the problems they face, they invariably turn to annoying issues in human work. The quotes which follow are fairly typical.

*A manager of special events:* 'My employees won't give that extra five per cent when a crisis occurs on the convention floor'.

*A sales manager:* 'My sales staff is constantly making errors in quoting prices and delivering service. How can I get them to be more customer focused?'

*A union official:* 'We no longer have members who are committed to union values. They carry their cards, and that's all'.

*A marketing manager:* 'My employees refuse to work with the fellows from production. They believe production managers are only interested in output quotas and inventory control. Their poor customer orientation is causing us severe problems in our product warranties'.

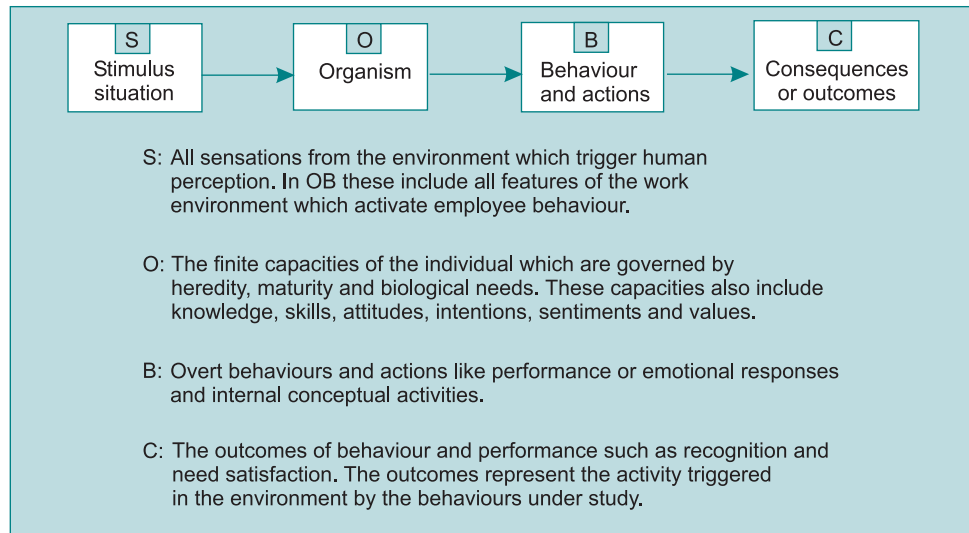
The problems noted above are aptly referred to as 'people problems'. And each one represents an opportunity for a manager to apply knowledge of organisational behaviour in his or her job. Seasoned managers with a knowledge of OB are well-positioned to find creative solutions to the problems just noted. The decisive manager can rely on OB theories to aid in solving 'human problems' in the work setting for these reasons:

1. **Behavioural theories help solve problems in the work setting.** As a manager, you should use objective methods to attack problems related to the needs of employees and the interests of the organisation; these often conflict.
2. **Knowledge of behavioural theories helps you understand new developments in the field of OB.** You must be an educated manager and you must be interested in refining your set of managerial skills.
3. **An understanding of behavioural theories helps you to evaluate effectively the proposed solutions to behavioural problems in organisations.** Just as you need knowledge of production and control systems, you need also knowledge of behavioural theories to evaluate information related to how employees and organisations tend to act.

### 1.1.3 Making Sense of Human Behaviour in Organisations

Kurt Lewin has postulated that human behaviour is a function of the person and the environment:  $B = f(P, E)$ . The SOBC model amplifies this simple idea and provides us with a mechanism for systematically considering human behaviour in organisations. SOBC is an acronym where S represents the stimulus situation which includes such things as light, sounds, job demands, supervisors, co-workers' characteristics and equipment. O (organism) refers to the characteristics of the person including personality, needs, attitudes, values and intentions. B refers to the person's behavioural responses or actions in the situation under consideration. Finally, C represents the consequences or outcomes associated with the behavioural responses. The action sequence is illustrated in Figure 1.1.

The SOBC model is a 'micro' model in that it specifies a sequence for understanding the behaviour of individuals (the 'O' in SOBC). For instance, differences in employee performance ('B' for behaviour) are a function of numerous and controllable factors. Naturally managers are concerned with an employee's performance and they can boost it through stimuli ('S') such as direction, performance feedback



**Figure 1.1 The SOBC sequence**

and guidance. Frequently managers ask an employee to perform a trial run before the actual task is attempted. Additionally, after a task is completed, the manager will review the employee's performance to provide constructive feedback. The act of reviewing performance is the C in the SOBC model. For every employee action there are reactions at the managerial and environmental levels. To fully understand the interplay among managers and their organisations and employees, it is necessary to characterise the difference (and tension) between employee needs and organisational productivity.

#### 1.1.4 Defining Employee Needs and Organisational Productivity

As the organisations we live and work in become more complex, we need new knowledge and skills to stay productive in our work lives. **This knowledge can help us understand the conditions which create organisational survival**, growth and decline. The two most pressing issues governing organisational success or failure **are the differences between employee needs and the firm's need for productivity** and strategic success (profitability). For instance, employees are interested in job satisfaction, job challenge adequate pay and fringe benefits and safe working conditions. Organisational productivity refers to the production or output of goods and services with the least expenditure of resources. Well run firms search constantly for the best balance between employee needs and productivity because it sustains competitive advantage; a rate of return (profitability) that exceeds the industry's average.

To become a versatile manager, you need an objective understanding of how the organisation's work-force drives sustainable competitive advantage. Your work-force management philosophy would be incomplete without values which reflect how employees' work can be made more meaningful and challenging. To achieve

this understanding, you must recognise and accept the pivotal role of work in your life and in the lives of your colleagues and subordinates. Recognition and acceptance of work's pivotal role in living leads you naturally to respect your colleagues and subordinates. Showing your respect for employees in everyday work situations creates work-force loyalty and commitment: the bedrock of sustainable competitive advantage. In our study of organisational behaviour, we shall examine many themes that bear on the nature of competitive advantage obtained through employment practices and organisational processes. At the centre of all of these practices and processes is the undiminishing importance of management's respect for employees.

The field of OB focuses heavily on the connection between employee behaviour, attitudes and the productivity of the organisation. Consider the following example:

René is a recently naturalised French citizen. He emigrated to France nine years ago. For four years, he has worked for a distribution firm while he has attended the technical institute at night and he will graduate in May with a degree in technical studies. His superior has only praise for René's work. Indeed, René's business abilities are often singled out because he has found ways to save his employer money through more efficient work methods. For instance, his most recent innovation is a dispatching system which uses the drivers' knowledge of routes to save fuel and to reduce delivery time. The drivers are excited by his plan because it allows them to be home more often on weekends. René's boss is particularly pleased with the plan because it also lowers overtime pay and maintenance costs. The manager hopes to keep René after he graduates, and there is a good chance that he will be offered a promotion.

This everyday example demonstrates the firm's joint concern for employee needs (more satisfied drivers who may be motivated to do a better job of deliveries) and organisational productivity (improved dispatching system). OB as a field dissects and analyses productivity gains from the standpoint of employment practices and organisational processes. Within an organisation, productivity can be increased in two ways. First a firm can acquire new technology and equipment to produce goods and services more efficiently (this, of course, is the reasoning behind the worldwide trend towards the use of information technology (IT) and the Internet to automate manufacturing and to reduce the cost of goods sold). This approach increases the capital intensity of the firm and the trade-off may be fewer jobs and short-term downsizing. In the short term, capital-intensive production methods may diminish attention to employee needs, since the productivity gains are attributed to the new equipment and technology. The alternative route to productivity enhancement emphasises the connection between satisfaction of employees' needs and productivity. Here, the organisation makes investments in future earnings by emphasising sustainable competitive advantage based on training and development, lean production systems that use self-directed teams and organisational designs that boost sales by providing better service that is delivered by a highly motivated and competent work-force. It is notable that competitive advantage that is derived from an energised and well-trained work-force is much harder to duplicate than simply investing in capital improvements. Nonetheless, forward-thinking managements typically do both.

You will learn about many organisational behaviour tools throughout this course and you'll soon be creating and analysing programmes like the one conceived by René. Your best creations will be those that address employee needs and organisational productivity at the same time.

## 1.2 Values: The Building Blocks of Individual Differences

Values exist in people at a deeper psychological level than work attitudes such as job satisfaction, job involvement and organisational commitment because they are a fundamental aspect of human nature. In our lives and work we use values as 'mental measuring sticks' to evaluate and judge our own behaviour and the behaviour of others. According to Professor Rokeach, values are enduring beliefs that a specific mode of conduct or end state of existence is personally or socially preferable to an opposite or converse mode of conduct or end state of existence. In sum, values help us judge right from wrong, good from bad, moral from immoral, and so on.

As we grow up and experience the influence of family, social institutions and culture, we find that our values develop into a coherent psychological structure known as our self-concept. Through adolescence we find ourselves in new situations which shape and form our values and, with time they stabilise into a dependable and resilient value system. Because it is not easily changed and it is the only one that we have, we use our self-concept to judge the appropriateness of our behaviour and the behaviour of others. And we use it to judge the meaningfulness of our goals in life and the goals of the people around us.

Because values and value systems relate to ethical concepts of right and wrong, businesses try to influence and manage employee behaviour because it directly supports ethical business practices. It then follows that employees' values form the basis for ethical business practices. The tight relationship between employees' personal values and ethical business practices leads many firms to create mission statements that lay out these value-based linkages. Human nature reflects values and mission statements articulate firms' business practices that are anchored by values. So, in one neat step firms craft their missions (and business models) on ethical and socially responsible business practices. For instance, Starbucks' mission statement supports educational and health programmes in coffee growing regions around the world.

At this point we should distinguish between instrumental and terminal values. Instrumental values are the means to achieve goals by using acceptable behaviours to achieve an end state. Terminal values are the goals to be achieved or the appropriateness of desired end states. Examples of instrumental and terminal values are shown in Table 1.2. Clearly the two sets of values work in harmony to determine the goals to strive for using the means that are most acceptable to the individual and to society.

**Table 1.2** Terminal and instrumental values

| Terminal values          |               |                  |                   |
|--------------------------|---------------|------------------|-------------------|
| Achievement              | Family safety | Freedom          | Inner calm        |
| Social status            | Equality      | Pleasure         | National security |
| Wisdom                   | Friendship    | Happiness        | World peace       |
| Beauty in art and nature | Equity        |                  | Prosperity        |
| Instrumental values      |               |                  |                   |
| Ambition                 | Competence    | Independence     | Self-control      |
|                          | Cleanliness   | Forgiving nature | Obedience         |
|                          | Courage       | Imagination      | Politeness        |
|                          | Cheerfulness  | Intelligence     | Responsibility    |

Work-forces containing diverse value sets challenge organisations and their managers because such diversity demands creativity in employment practices and policies. Professor Tung states that company loyalty is much more important to Japanese workers than it is to their American counterparts. American workers place a higher value on loyalty to friends than to their employers.

Values often shape the individual's views of authority and its rights and obligations. French managers view authority as a right of office or rank. Thus, they often use power based on their position in the organisation. In contrast, managers in The Netherlands and Scandinavia value group discussion of decisions and they expect their decisions to be challenged by their subordinates. American managers view organisational rank or authority as being less valuable and important than the ability to solve problems through the application of expertise.

### 1.2.1 Implications of Values in Global Organisations

Conducting business in global markets often creates situations which directly challenge the values of managers. In America the solicitation of gifts in exchange for favourable business decisions is highly discouraged. In Asia and Mexico business traditions encourage this practice. What many American managers may consider to be payoffs and kickbacks may simply be refined and accepted business practices in other countries. Variation in cultural practices leads global firms to train their managers to recognise and respect culture-based value differences. According to Professor Hodgson, 'values and culture' seminars frequently emphasise the following principles:

1. Be open minded and view other peoples' values as moral, traditional and practical.
2. Do not prejudge the business customs of others as immoral or corrupt. Assume that they are legitimate until proven otherwise.
3. Search for legitimate ways to operate within others' ethical points of view; do not demand that they fit into your value system.
4. Avoid rationalising questionable actions with excuses such as: 'This isn't really illegal or immoral,' 'This is in the firm's best interests,' 'Nobody will find out,' and 'My firm will back me on this'.



5. Refuse to do business when stakeholder actions violate the law or basic organisational values.
6. Conduct business as openly and honestly as possible.

Our final point about values is the powerful underlying role that they play in the formation of managerial style. Managers' instrumental values about the 'best way to perform work' shape their beliefs about their employees' behaviour. Douglas McGregor, a Harvard academic famously divided managerial styles into Theory X and Theory Y in his influential book, *The Human Side of Enterprise*. Theory X is the authoritarian managerial style held by managers who believe that employees prefer to avoid responsibility and they therefore require close, direct supervision. Thus, the 'X manager' believes his employees are lazy freeboarders who lack self-control and must be prodded by various 'managerial sticks' to achieve organisational goals. Some organisations adopt this viewpoint and they create control structures that emphasise rules and regulations; standardised practices; and multiple approvals for each decision made. In other words, the structure of the organisation eventually reflects the managers' beliefs: employees have to be watched closely because they cannot be trusted!

The 'Y' manager uses rewards and incentives with subordinates because he believes that employees want to exercise self-control and they are committed to achieving organisational goals through creative problem solving and teamwork. The Y manager retains talented employees by encouraging them to seek stimulating and rewarding work that not only reward their current skills but also encourage them to acquire new ones. When this managerial style is widespread, the firm de-emphasises rules, regulations, and standard procedures. This produces an organisation that values knowledge and creativity over compliance and conformity.

The effective application of OB knowledge requires an understanding of both the 'X' and the 'Y' organisation. In our study of the sources of competitive advantage we will consistently favour Y organisations because they value knowledge and they challenge their employees to innovate and create new products and services. If we want to build sustainable competitive advantage we must therefore be able to identify the residual 'X features' in our firms and replace them with 'Y' features and practices. This principle of replacement is at the centre of the connection between OB and management.

### 1.3 The Study of Personality and Employees' Personal Traits

Personality, which makes individuals unique, is a complex, multidimensional concept. It is defined as a relatively permanent set of psychological characteristics that create, guide and monitor human behaviour. Our discussion will now turn to several individual differences (personality traits) that are related to employee needs and organisational productivity. Individual differences are defined as basic aspects of personality that predict (or explain) what people do at work. For instance, a shy and retiring employee is likely to have a certain effect on his co-workers and superiors that is much different than the effects created by the employee who has emotional outbursts. Over time employee behaviour will create expectations



in co-workers and these expectations can influence organisational productivity in surprising ways.

We shall focus on locus of control, extroversion and introversion, Machiavellianism and socially acquired needs in our discussion of individual differences. Locus of control is a well-researched concept. Let us consider an example before we define the concept.

Kendrick has worked hard to improve his job skills through personal study. He hopes to use his knowledge of computer programming to solve several data management problems in his department which processes cargo manifests for a major European shipping firm. The company generally encourages personal development in job-related areas and it has a history of promoting employees who demonstrate this form of personal enterprise. Kendrick believes he can obtain a promotion if his performance improves through the solution of the programming problem.

Deiter works in Kendrick's office and is extremely skilled in the tasks associated with processing ship manifests. He has not pursued outside personal development opportunities. He can often be overheard saying that 'it doesn't matter how hard you work, management promotes those who happen to be in the right place at the right time'. As a result of this personal philosophy, Deiter sees his job in narrow terms and takes a dim view of 'doing all that extra work for a promotion that will never come'.

### 1.3.1 What Is the Difference between Kendrick and Deiter?

Professor Rotter would say that Kendrick has an internal locus of control while Deiter has an external locus of control. Locus of control is defined as an individual's belief that one's actions influence the outcomes one experiences in life. Notice that positive or negative outcomes are not specified in the definition. Locus of control has to do with perceptions of cause and effect relationships. It is neutral relative to type of outcome. It simply refers to the strength of one's belief that personal action will or will not result in certain outcomes, be they positive or negative. Try the exercise in Table 1.3 to see how psychologists measure the locus of control concept.

Table 1.4 shows some of the typical beliefs held by internalisers and externalisers (sometimes referred to as 'internals' and 'externals'). Locus of control helps an individual balance, explain and accept his life circumstances. If an individual comes to doubt his beliefs about cause and effect relations in his life, he can experience a sense of self doubt which can lead to diminished self-esteem and well-being over time. This inner turmoil can manifest itself as depression, anxiety, guilt, helplessness and mood swings.

### 1.3.2 How Is Locus of Control Related to Work Behaviour?

Generally internalisers are more attracted to work situations which have opportunities for personal achievement. Professors Watson and Baumol found internalisers to be more actively seek information about a potential employer before they accept

Table 1.3

*Instructions:* Please circle the statement for each item that is closer to your opinion.

- 1 a No matter how hard someone tries in school, they can still get poor grades.  
b Doing well in school is a matter of studying hard.
- 2 a Receiving a pay rise is a matter of hard work; being in the right place has nothing to do with it.  
b Pay rises are a matter of getting noticed by your superior.
- 3 a There are some things that people should not attempt to change because they will fail in the attempt.  
b If a person is committed enough, he can create political change single-handedly.
- 4 a Getting ahead in today's business world is a matter of persistence and hard work.  
b Whoever gets ahead in today's business world must have connections.
- 5 a When I believe I'm right about something, I feel as if I can convince anyone.  
b It is extremely difficult to change people's attitudes by talking to them.
- 6 a Managers often play favourites and give some subordinates larger rises.  
b Employees generally earn the rises they get.

*Scoring:* Give yourself one point if you answered the six questions in the following manner: 1 a, 2 b, 3 a, 4 b, 5 b, 6 a. The closer your score is to six the more external your locus of control. Scores less than three indicate an internal locus of control. Scores of three or four indicate that you are not always consistent about your beliefs about the relationship between your behaviour and the outcomes you experience.

Table 1.4 Characteristics of internalisers and externalisers

| Internals tend to believe that   | Externals tend to believe that   |
|--|--|
| Pay rises are based on hard work, achievement and initiative.                                  | Pay rises are based on having the right job in the right place in the company. |
| An excellent performance record is the function of hard work and effective project completion. | Teachers have favourites and give them higher marks.                           |
| A person addicted to drugs is willing to give up control of his life.                          | Anyone, given the right circumstances, can become addicted to drugs.           |
| Good decisions are the result of tenaciously searching for information.                        | People's attitudes cannot be changed easily by appealing to their logic.       |

a new position. Often they are more motivated and better performers than externalisers if they believe that performance is skill-based instead of luck-based. Internalisers search more for relevant information about product and process improvements before deciding on a course of action. Like Kendrick in the example, they will search diligently for new knowledge if they believe it will lead to outcomes they value. They also take quicker action to correct job confusion than externalisers do.

Other researchers such as Organ and Hammer have found that locus of control affects how anxious and emotional employees become following traumatic events. Externalisers are more likely to experience adverse emotional reactions to co-workers, especially supervisors, who put a lot of performance-oriented pressure on them. And so externalisers are more likely to become emotional (have a melt-down) on the job because they have a lower tolerance for job-induced frustration (My boss or my co-workers should handle it!). An employee (in his self-absorption) who is prone to outbursts may not realise that his behaviour makes others very

uncomfortable and therefore he ignores risks to his effectiveness in the short run and his career in the long run. Internalisers are more trusting and they dismiss job failure and frustration more readily: perhaps they are more resilient than externalisers in this regard. In addition, they prefer leaders who let them participate, and they are sensitive to organisational attempts to influence their thinking and behaviour.

### Managerial Implications of the Research

The results noted above indicate that internalisers will persist in hard work if they have been told that rewards are based on superior skill and high performance. This managerial message encourages the development of an internal locus of control in all employees, including externally orientated employees who, when they observe their co-workers being rewarded for acquiring new skills and achieving higher performance, may become similarly motivated. All corporate programmes aimed at these effects should be widely communicated throughout the firm. In addition, the value of skill-based compensation (added pay for added skills and knowledge) can be quite important for developing employees with an internal locus in their work. Skill-based compensation can build a more 'internalising' work-force consisting of employees who perceive a coherent relationship between skill-based performance on the job and the rewards they receive.

The above results underscore the practical importance of participation for sustaining employee development, e.g., creating a larger pool of potential managers inside the organisation. Managers should willingly involve employees in decision making when employee skill development is a natural by-product of decision making. Since we know that internalisers prefer to play a part in decisions which affect them, it makes sense for managers to use participation in decision-making when the decision needs employee support for implementation and affects employees in a personal manner. Additionally, participation sweeps away employee confusion about work responsibilities. Internalisers expect to find a reliable relationship between their behaviour and its outcomes and so managers can use participation to convince all of their employees that hard work and success lead to valuable rewards like promotions, pay rises and added responsibilities.

Professors Gartner and Brockhouse found locus of control to be related to entrepreneurial behaviour and the taking of business risks. Researchers have produced evidence to suggest that internalisers are more comfortable with change than externalisers and are therefore more likely to launch a new business venture if they are dissatisfied with their current situation. Internalisers will act more quickly to cut their career losses if they judge their current work to be limiting their options, suppressing their creativity, or limiting other rewards that they value. Managerially speaking, if internals are prevented from acquiring new skills, or if they are not rewarded for acquiring new skills, they become frustrated. If the conditions persist, they may leave the organisation. This, of course, leaves fewer competent people to do more work. In turn, other competent employees are affected by the loss of their stimulating colleagues and soon they too may leave.

The argument developed above underscores the importance of merit-based rewards (rewards that are earned through high performance) to internalisers. If they believe that good performance is rewarded fairly, they will believe that their efforts are more likely to result in job success. A firm's pay system should be designed to reinforce this employee belief. Under the guidance of such a system employees will become more internal in their work orientation. This is a highly desirable outcome, because managers are then relieved of some of the burden of direct employee control (close – 'Theory X' – supervision).

### 1.3.3 Extroversion and Introversion

We often notice that some people are more sociable than others. Those individuals who are outgoing and gregarious are called extroverts. Introverts, on the other hand, are shier and less willing to get involved in social activities. According to Professor Eysenck, extroversion is defined as the need to obtain as much social stimulation as possible from the environment. Those who crave social stimulation have active social lives, enjoy crowds and are more attracted to individuals who are adventurous and exciting. Extroverted managers exhibit a high level of sustained social interaction and we frequently find them involved in community work, children's sports and other organised activities after work.

Introversion is defined as avoidance of external stimulation in favour of internally oriented, contemplative activity – being alone with one's thoughts. Introverts attempt to reduce the amount of social interaction in their environments because they are more sensitive to their personal feelings and what is going on inside themselves. In a word, they are shier. Thus, they avoid many of the social activities which extroverts find so compelling.

All individuals exist on an introversion–extroversion continuum. People experience both types of needs at different times, with varying intensity, depending on how much control they think they have over the situations they confront; e.g., their feeling of security. In general, we all, whether introvert or extrovert, try to regulate the amount of social stimulation we receive. Table 1.5 shows some sample items which psychologists use to measure introversion and extroversion. Note the emphasis on external stimulation and social interaction.

### 1.3.4 How Can Organisations Use Information about Introversion and Extroversion?

Some companies attempt to identify a job applicant's extroversion level before hiring. Companies hiring salespeople often use tests with items similar to those in Table 1.5 to assess extroversion for the simple reason that many sales managers believe it is related to success in sales.

The organisational implications of introverted and extroverted behaviour are not as clear as are the consequences of internalising and externalising behaviour (locus of control) For instance, Professors Cooper and Payne found that introverts have longer tenure and fewer unexcused absences than do extroverts. Introverts also

perform better in situations which dampen or lessen external distractions. Too much external stimulation often causes the introvert's performance to drop off quickly because he or she becomes aware of a rising sense of discomfort. When extroverts are confronted with dull or meaningless work, they are more likely to engage in irrelevant behaviour which undermines the productivity of co-workers; what we might call immature disruptiveness or self-stimulation.

**Table 1.5 Items for measuring introversion and extroversion**

|   |  |
|---|--|
| 1 | I'd rather curl up with a good book than go to a party. T or F?  |
| 2 | I prefer to be around people who are funny and clever. T or F?   |
| 3 | If I had a choice, I would take a cross-country bicycle trip for my vacation rather than a Mediterranean cruise. T or F? |
| 4 | When I have to deal with a new situation involving other people, I usually jump right in. T or F?                        |
| 5 | I greatly admire individuals who take bold public stands on socially controversial issues. T or F?                       |
| 6 | When I'm in unfamiliar social situations, I generally feel self-confident and interested in meeting new people. T or F?  |

### 1.3.5 The Machiavellian Personality

'The end justifies the means' is an old expression which translates to, 'I'll do anything necessary to achieve my objectives'. Employees with this tendency will manipulate others and try to induce them to think in their terms. These were the behaviours of Kenneth Lay, the founder of Enron, and Jeffery Skilling, its disgraced CEO. Both men are now convicted felons and they are facing very long prison sentences. Not all self-serving and duplicitous executives wind up in prison nor are all of them crooks, but their behaviour does fit our definition of the Machiavellian manager. Simply put, the Machiavellian manager believes he is better at giving orders than his superior. 'High Machs' are cool interpersonally, amoral, pleased by manipulating others, and highly rational. The Mach-V Scale shown below identifies Machiavellian tendencies. If you are interested in assessing yourself try the questions in Table 1.6.

### 1.3.6 Can High Machs Have a Negative Influence on the Organisation?

When individuals get high scores on the full version of the questionnaire in Table 1.6, some interesting conclusions can be drawn. According to Professors Christie and Geis, people with high Mach-V scores generally 1) attempt more interpersonal manipulations, 2) are more inventive in manipulating others, 3) create more manipulations to choose from and 4) experience more satisfaction from successful manipulations than do people with low Mach-V scores. Further, when high Machs judge the situation to be ambiguous with few rules to govern their behaviour, they will aggressively assert their high Mach tendencies. However, if the situation is highly structured with many checks and balances on behaviour, then the high Mach will generally avoid manipulating others – he or she goes dormant.

**Table 1.6** How Machiavellian are you?

*Instructions:* Circle the answer closest to your opinion for each question then calculate your score as shown below.

|  | Strongly disagree | Disagree | Agree | Strongly agree |
|--|-------------------|----------|-------|----------------|
| 1 I enjoy getting around people by telling them what they want to hear                 | 1                 | 2        | 3     | 4              |
| 2 I prefer to take action only when I have sorted out the ethically right decision     | 1                 | 2        | 3     | 4              |
| 3 There are no situations that I encounter in which lying is the best course of action | 1                 | 2        | 3     | 4              |
| 4 I believe that most people have a deceitful streak that comes out from time to time. | 1                 | 2        | 3     | 4              |

Calculate your Machiavellian score as follows:

Item 1 + (5 – Item 2) + (5 – Item 3) + Item 4

Finally, more Machiavellian manipulations are attempted at the top than at the bottom of organisations. Just ask your boss about this; he'll confirm that it's true!

High Machs often try to turn teamwork and collaboration to their own ends. In firms that rely heavily on teamwork this can substantially lower team productivity because it creates a work atmosphere that one person's needs over the performance and productivity of the team. If the individual in question is the team leader, members of his team may demand personal rewards (that are unrelated to performance) in exchange for loyalty to the leader's personal goals. Clearly this situation undermines the goals of the firm and the strength of its competitive advantage. When this problem occurs at high levels in the firm it can soon be followed by the collapse of the firm's business model.

### 1.3.7 Socially Acquired Needs

Experts in organisational behaviour have long recognised that environment plays a substantial role in the development of personality. This idea is the basis for the how humans acquire social needs. Professor McClelland notes that social needs are learned through personal contact with key individuals in one's social environment. Three socially acquired needs exist and they are 1) need for achievement, 2) need for affiliation and 3) need for power. The need for achievement is defined by the following qualities:

1. Taking moderate risks by pursuing goals that are difficult but not impossible.
2. Needing immediate feedback on performance and goal progress.
3. Finding task activities and accomplishments to be intrinsically rewarding, regardless of the financial or economic rewards.
4. Defining work in terms of approaching success instead of avoiding failure.
5. Being totally task focused until the job is done.

## The Organisational Importance of Need for Achievement

Studies have shown that students at all academic levels who have high need for achievement perform better than students with similar ability but lower levels of achievement need. These effects are also observed in employee work behaviour. If employees with a high need for achievement judge their work to be dull and boring, they will lower their performance accordingly. Similarly, if they do not receive performance feedback, they will lower their effort on the job. High need for achievement matters most when work demands: 1) the employee's ability, 2) high quality performance feedback and 3) stimulating and novel work activities.

Need for achievement correlates with the desire to become an entrepreneur. Achievers are likely to start their own businesses, especially when they feel trapped in work settings that do not emphasise the three qualities noted above. The achiever who is not challenged by his work often thinks his employer does not value his efforts and ideas. When such employees become 'idea champions' for innovations, and upper management places low priority on 'their' innovations, they can become disgruntled and motivated to start their own firm. If the disgruntled employee is a competent engineer and a good salesman, watch out! You may soon see him as a competitor because your former customers are beating a path to his door!

## How Can Managers Use Information about Need for Achievement?

Managers who are interested in applying the motivational concepts which derive from knowledge of need for achievement would:

1. Use need for achievement as one basis for screening job applicants.
2. Use it as a factor in promotion decisions.
3. Design jobs with goals that are at least moderately challenging.
4. Design rewards and feedback that are closely tied to performance behaviours to create an achievement climate in the firm.
5. Reward employee creativity and institutionalise the role of 'idea champions' in the firm.

## Need for Affiliation

The desire to have and maintain a strong social support system, and to give and receive affection and consideration, is defined as the need for affiliation. Need for affiliation in an employee triggers these behaviours:

1. Reacting positively to work experiences which enhance belongingness, social involvement and group morale.
2. Emphasising that all members of a work group be included in events which may affect the morale and cohesion of the group.
3. Solving or confronting interpersonal conflicts which threaten *esprit de corps*.



4. Emphasising the importance of social rewards such as recognition, praise and public acclaim.
5. Reacting positively to social rewards which are made contingent on excellent performance.

### How Can Managers Capitalise on Need for Affiliation in Employees?

Managers can shape and sharpen the performance of their highly sociable subordinates by encouraging them to:

1. Be arbitrators of work-group disputes because they will take a personal interest in returning harmony to the group.
2. Evaluate the social demands of a job and match employees with a high need for affiliation to such jobs.
3. Be involved in community affairs which parallel work interests.
4. Develop and use as many forms of social rewards as possible in the firm. Be sure the rewards are dependent on high performance.
5. Realise that a superior with a high need for affiliation may incorrectly emphasise social harmony over productivity.

### Need for Power

According to Professor McClelland this pivotal need reflects behaviours oriented towards influencing others and searching for opportunities to gain influence and control. In reality, the need for power has two sides. Individuals possessing a personalised need for power are those who try to dominate or rule simply because they feel more self-confident (less insecure and fearful) when they intimidate others. Questioning such individuals (especially when they are bosses) can greatly shorten your career because they interpret any question as a form of disloyalty! Firms frequently view these malactors as unproductive because they:

1. Emphasise personal concerns at work instead of job and team demands.
2. Create tense work relations among overly anxious subordinates.
3. Are poorly adjusted to work and frequently look to palliatives such as drugs or alcohol to cope with accumulating work stress.
4. Project their own inadequacies on fellow workers and subordinates, thus eroding the work climate further.

It is interesting to speculate on the effects of the personalise need for power in executives. In its extreme form a personalised need for power may manifest as a lack of conscience or guilt. A manager or executive with this character defect believes he is always right and judges those who disagree with him to be 'traitors to the cause'. This form of psychopathology in a top executive always leads to autocratic, boss-centered decision making. The CEO who exhibits a lack of conscience will surround him or herself with 'yes men'. If he perceives his strategy to be failing (a loss of control) he will become angry, resentful and vengeful: all defense mechanisms that stem from insecurity (my strategy is a failure so I'm a failure too). He will then



criticise all 'doubters' and arrogantly refuse to work with them. The profile of the tyrant comes to mind and it is a common trait among managers who have been found guilty of looting their firms.

Happily, there is a positive side to need for power and it is called socialised need for power. The individual with this power need tries to achieve his personal goals at work by raising the confidence and initiative of subordinates and colleagues. This kind of manager gains higher levels of performance from subordinates by demonstrating his confidence in them. These managers find many opportunities to send this message to employees: 'I have confidence in you because I know you have confidence in yourselves'. This is a powerful motivational message which expresses the belief that each employee is an expert in his job. The manager with a socialised need for power implies by his actions that the best kind of organisational control is self-control in each employee.

### The Techniques for Managing Employees with Needs for Power

Organisations and their managers can certainly be more systematic in making decisions about employees with either type of power orientation. Let us consider some of them.

1. Employees who exhibit a socialised need for power should be selected and promoted over employees who exhibit personalised power motives.
2. Positions requiring socialised power should be made visible (given a high profile) in the organisational hierarchy.
3. Highly skilled managers with socialised power should be assigned to groups with low performance and morale.
4. Because they are more likely to work through people than through the task, social power managers should be allowed to delegate freely to subordinates whose own managerial skills and self-confidence will develop more quickly.
5. Career paths for managers with socialised power needs should not be blocked. If they are unable to obtain desirable rewards they may resort to satisfying power needs through less desirable personalised methods!

The socialised need for power is the most important of the three socially acquired need for predicting managerial success because managers who have it are willing to tackle the political aspects of organisational life. The absence of this need in the manager with a high need for achievement is a weakness because he often errs and completes a task himself rather than delegating it to a subordinate. The task focus of the manager with a strong achievement orientation prevents him from being a good manager because he is a poor delegator (unlike his achieving counterpart who has a socialise need for power). This weakness always resurfaces in the business started by an entrepreneur (high nAch) because he reaches the point where he can no longer control all details and decisions. Rather than delegate or hire another layer of managers, he tries to centralise decision-making in himself. The complexity of the decisions (and his lack of expertise in many areas) triggers more meddling behaviour and he finds his time is more fragmented and less productive.

Paradoxically, he ends up losing employees who share his strong achievement orientation. Remember, the employee with a high need for achievement would rather do the job himself! Table 1.7 summarises our discussion of socially acquired needs.

**Table 1.7 Work preference of persons high in need for achievement, affiliation and power**

| Need                      | Work preferences  | Example   |
|---------------------------|---|---|
| High need for achievement | Individual responsibility<br>Challenging goals<br>Quick performance feedback        | Engineer who is encouraged to find internal sponsors for his new product idea                     |
| High need for affiliation | Good interpersonal relationships<br>Opportunities to improve communication          | Member of a group which is rewarded through group-based compensation                              |
| High need for power       | Control of others<br>Frequent attention by others<br>Recognition through promotions | Manager who aspires to head special task force that must manage the firm's move to a new location |

### How Can Firms Use Psychometric Testing to Strengthen Competitive Advantage?

At this point in the module, we can introduce a short discussion of the importance of measuring individual differences to predict the extent to which a job candidate will be appropriate for an open position in the firm (a successful person–job fit). Personality testing is widely acknowledged as a useful tool to improve recruiting, job matching and correct positioning of attractive job candidates to positions in which they can quickly add value to the firm and its competitive advantage. Professor Raymond Cattell, a British and American psychologist devoted his entire career to using statistical factor analysis to uncover the basic dimensions of personality, motivation and cognitive abilities. His major contribution in this important area was the identification of 16 ‘source traits’ that underlie the observable behaviours that we commonly associate with personality.

To operationalise his approach he developed the highly regarded 16PF (Personality Factor) Questionnaire. The 16 bipolar scales tap these personality dimensions: 1) warmth – reserved to warm (remember this when you read Module 7 on leadership); 2) reasoning – literal to abstract; 3) emotional stability – reactive to stable; 4) dominance – deferential to dominant; 5) liveliness – serious to lively; 6) rule-consciousness – expedient to rule-conscious; 7) social boldness – shy to bold; 8) sensitivity – utilitarian to sensitive; 9) vigilance – trusting to vigilant; 10) abstractness – grounded to abstracted; 11) privateness – forthright to private; 12) apprehension – self-assured to fearful; 13) openness – rigid to open; 14) self-reliance – group-oriented to self-reliant; 15) perfectionism – tolerates disorder to perfectionistic; and 16) tension – relaxed to tense.

Professor Cattell’s questionnaire has been used extensively by firms interested in making effective hiring and promotion recommendations in which aspects of a candidate’s personality must match a job’s interpersonal and intellectual demands.

Companies that use the 16 PF Questionnaire reach useful predictions of a candidate's future job performance based on these global personality factors: 1) extraversion, 2) generalise anxiety, 2) tough-mindedness, 3) self-efficacy, 4) self-esteem and 5) self-control (internality). A sample use of the 16PF Questionnaire in hiring and promotion of managers would typically cover leadership style (think of the elements that make up Theory X and Theory Y); ability to interact with others, decision making skills, resourcefulness, initiative/creativity and ease of personal adjustment. Typically, a firm receives a highly detailed report on the five relevant personality dimensions and its managers tasked with hiring decisions obtain special guidance for integrating the global factors with these useful elements of the hiring process: 1) the position's job description; 2) background checks; 3) detailed results from on-site interviews, 4) the candidate's relevant work history and 5) performance data yielded by a realistic job preview.

The benefits of using psychometric testing to strengthen the person job-match are numerous. For instance, predicting a candidate's potential for job success before he or she is hired can greatly reduce the emotional and financial costs of early job dissatisfaction. Further, firms can lower costly unwanted turnover over time if they use psychometric testing carefully in their recruiting and candidate selection processes. Consistent use of such testing can raise the quality of the job candidate pool over time. As a final note, we can add the fact that thorough testing of job candidates before they are hired provides firms with an invaluable asset in the event of legal challenges mounted by disgruntled job candidates who object to not being selected (or promoted) for jobs.

## 1.4 The Crucial Role of Job Satisfaction

Job satisfaction is a key work attitude because it continuously shapes all employees' perceptions of events at work. This section discusses this pivotal employee attitude and how it is related to performance on the job.

### 1.4.1 The Meaning of Job Satisfaction

Job satisfaction is easily the most studied job attitude in all types of organisations. Job satisfaction is not experienced by workers as seamless, all-encompassing concept. Instead, they think of it as facets or relatively discrete elements that are sensitive to their perceptions of the work setting, rewards, supervision, job demands and so on. Each facet is really an attitude or a predisposition (tendency) acquired through routine and exceptional experiences) to respond to people, objects or institutions in a positive or negative way.

The facets of job satisfaction are: 1) satisfaction with the work itself, 2) satisfaction with pay, 3) satisfaction with fellow workers, 4) satisfaction with supervision and 5) satisfaction with promotions. Employees find that the importance of any particular facet changes as work events unfold. Also, it is possible for an employee to be very satisfied with one facet while being unfulfilled in another. For instance, an

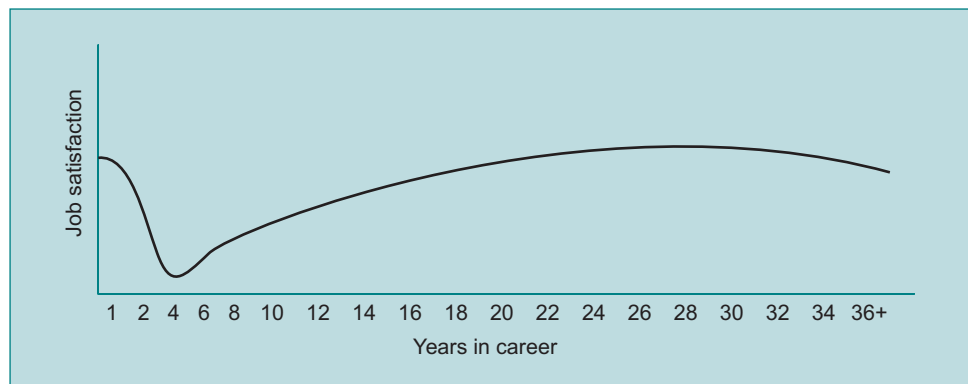
employee may be very satisfied with his recent promotion as he finds his new co-workers to be unsatisfactory.

### 1.4.2 Determinants and Consequences of Job Satisfaction

Determinants of job satisfaction occur at the individual, as well as the organisational level. Individual differences (personality traits) exert a clear influence on employees' experienced satisfaction with the facets noted above. In a similar fashion years in one's career and one's job expectations of challenge and responsibility also shape levels of employees' job satisfaction.

#### Years in Career

As employees grow older, they experience more satisfaction at work. This continues until they near retirement, where a sharp decrease usually occurs. Also, a sharp decline in job satisfaction may appear among employees who have been working for between six months and two years. This early-career dip is a consequence of the realisation by employees that the job will not meet all of his personal needs as quickly as he expected. The long-term relationship between years in a career and job satisfaction is shown in Figure 1.2.



**Figure 1.2** The years in career–job satisfaction relationship

If the level of job satisfaction is considered in the aggregate (a nation's labour force for instance), we find in some instances that workers are postponing retirement for a variety of economic and personal reasons. Some have not saved enough for retirement or they find to their frustration that their pensions and health care coverage will be much less than they expected once they retire. These factors cause many older (and healthy) workers to delay indefinitely their retirements. Increasingly, mergers and corporate bankruptcies leave behind angry and disillusioned employees with no financial 'safety net' and no health care benefits. Widespread corporate defaults on long-standing pension and health care obligations create high economic uncertainty for older workers who nervously choose not to retire or simply wait to be terminated by the inevitable corporate downsizing programme.

## Expectations

Everyone develops expectations about future jobs. As individuals search for jobs, their expectations about work and careers are influenced heavily by information from their colleagues, from recruiters and from their personal knowledge of labour market conditions. These 'pre-work' expectations remain intact until individuals start working full time; perhaps after they finish their university degrees. As the new employee goes into his first job his pre-work expectations are subject to dramatic change. If they are met or surpassed then the experiences a significant and useful jolt of satisfaction with the facets described above. If those pre-work expectations are dashed, then the neophyte asks: 'What have I done? How can I extract myself from this mess as soon as possible?' These sentiments – dashed expectations if you will – are potent drivers of early career implosion. In fact, many MBA programmes depend on this phenomenon to drive up their enrolment!

Professor Sheridan believes the initial fall in job satisfaction (see Figure 1.2) should be a concern to managers. If large numbers of new and disgruntled employees leave an organisation at the same time it is highly disruptive, a bit embarrassing and costly in terms of recruiting, hiring and training. Many firms attack the 'satisfaction dip' by using realistic job previews to characterise the positive and negative aspects of a job before an individual is hired. If it is learned through the previewing process that the potential employees' expectations do not align with job requirements, they can drop out of the recruiting process before they learn 'this job's not for me' and the company avoids numerous costs going forward. Insurance companies have found realistic job previews to be effective tools for reducing turnover among newly hired insurance agents. The replicated benefits of job previewing include lower turnover among new hires, more rapid contributions to competitive advantage, more rapid integration into work units and work teams and higher levels of job involvement among those new hires that have experienced realistic job previews.

Also growing in popularity among firms is the use of student internships which are really more extended versions of realistic job previews. The benefit to students is the opportunity to test out jobs and careers without having to commit to indefinite employment. Firms see the value of internships because they reduce recruiting costs while they provide an inexpensive opportunity – no commitments – to take a significant look at a potentially high-calibre, future employee.

Not all firms utilise realistic job previews to help potential employees sort out their 'pre-work' expectations. In that case, the job applicant has to do it himself. This raises the question that many applicants ask themselves: '*How can I find out if I'm going to like this job?*'. Let's assume that you've been brought in for an interview and this very question comes through your mind. What should you look for in interviews and site visits? Remember first that attractive firms are run by people who respect their employees. Therefore be wary of any interviewer who treats you like an interchangeable part. Second, never make assumptions; instead, ask a neutral question to get more information. For instance, do not assume that you won't travel in the job: ask if you should expect to travel for business reasons or ask what percentage of your job may involve travel. Nothing is a more valuable driver of reasonable job expectations than the third point: speak to current employees.

And fourth, try to uncover information from employees about the styles ('X' or 'Y') of upper management. You might ask if they encourage employees to manage their own time or do they require all employees to put in significant amounts of 'face time' in the office?

## The Organisational Determinants of Job Satisfaction

The nature of control in organisations, the quality (and fairness) of supervision and punitive or empowering employment policies all greatly influence employees' levels of experienced job satisfaction. In short, the organisation is a bundle of powerful forces that influence employees' satisfaction with their work lives and careers. These forces or drivers of satisfaction are reviewed below and top managers ignore these drivers of job satisfaction at their peril because they are all instrumental employment practices that support (and sustain) competitive advantage.

### Supervision

Considerate supervision supports employees' self-esteem and self-worth and leads to greater job satisfaction. Supervisors who consult with their subordinates on job decisions and policies and work rules have better informed employees who are confident in their understanding of their work and more satisfied with it. Thus, employee involvement in job-related decision making spreads job satisfaction across employees and helps them to become motivated internalisers. Not all decisions need to be participative, however. Those decisions which require subordinate support or which affect employee welfare should be subject to employee discussion and involvement.

Participation has the effect of clarifying employees' expectations about their work. Employees with clear work expectations are more likely to be self-confident than their confused counterparts who do not participate in job-related decisions. Supervisors can readily influence their subordinates' optimism about participation and their desire to be involved in workplace decisions if these supervisors are self-confident in their managerial skills and styles (refer to the Theory Y organisation and manager discussed earlier).

### Job Challenge

When jobs require creativity, application of personal skills and risk-taking, employees report higher job satisfaction. Employees who seek out job challenges (high need for achievement) are more satisfied when their jobs require intellectual or physical effort. When employees are challenged, they are more physically activated and intellectually involved in their work. Job challenge therefore makes the employee physically alert and mentally prepared to take actions that deliver job performance.

## Job Clarity

The extent to which employees understand what they are supposed to do contributes to job satisfaction. When employees receive feedback on their performance, their job clarity (understanding) improves. Giving employees a chance to participate in substantive job issues also enhances job clarity. Over time positive (and constructive) feedback on past job actions builds the self-confidence of employees and they come to think that they are capable of sustaining their performance at acceptable levels. The net result for these earnest employees is rising job satisfaction. Managers who continuously refine and clarify job requirements are doing themselves a favour because they are building rapport and trust in their work relationships. And their subordinates will return it with improving loyalty and performance.

## Incentives

Extrinsic and intrinsic rewards are related to job satisfaction. Extrinsic rewards are those that the organisation provides based on employee performance and effort. Examples of extrinsic rewards are pay rises, promotions, supervisor praise and recognition, job status symbols and job security. Intrinsic rewards are those that the employee experiences internally as the job or work unfolds. For example, feelings of competence, pride, determination to excel, and craftsmanship are intrinsic rewards for a job well done. They occur as the employee evaluates his own performance progress and goal achievement. These rewards affect how the employees feel about themselves and they exert a powerful influence on their sustained motivation and performance. Both types of rewards are related strongly to job satisfaction.

The bond between rewards (work incentives) and performance is governed by a process of social comparison called equity theory. This theory posits that employees make comparisons about the rewards they receive relative to their effort and performance levels. Further, they make these comparisons relative to the rewards, efforts and performance exhibited by other employees. These judgements are called 'social comparisons' and they produce sometimes very powerful sentiments of perceived fairness or unfairness in employees. A typical employee social comparison is illustrated below.

|                            |             |                                   |
|----------------------------|-------------|-----------------------------------|
| My rise                    | compared to | Co-worker rise                    |
| My efforts and performance |             | Co-worker efforts and performance |

To make such comparisons, an employee usually selects a 'comparison other' who is most often another colleague or perhaps the members of a particular profession or selected employees in a similar organisation. If the results of these 'social judgements' seem fair, the employee is satisfied with his levels of extrinsic and intrinsic rewards. If, on the other hand, the employee judges the comparison other's reward to be greater than his own, a perceived inequity (unfairness) occurs. Perceived inequity represents a state of psychological imbalance (discomfort). The only reasonable ways for the individual to restore himself to a state of balance are to: 1) reduce his own effort and performance, 2) change the 'comparison other' to



a more suitable co-worker, 3) increase his effort and performance and hope that he earns more rewards, or 4) eliminate the problem by leaving the job or seeking a transfer.

Equity comparisons are made for all facets of job satisfaction and for both types of rewards. Employees exist in a state of 'constant comparisons' as they move through their work days and work experiences. Therefore, managers must attend to supervision, job challenge, job clarity and incentives so that employees' judgements of the fairness of their work demands and performance outcomes (rewards) are reasonable and stable. Self-confident supervisors who inject participation, trust and support into the process of social comparison on the job build the pillars that support a skilful and motivated work-force. The insecure (frightened) supervisor usually fails this crucial test and his subordinates respond by cynically 'gaming' the reward system: they try to obtain more rewards in exchange for less effort and performance.

### The Key Consequences of Job Satisfaction

The benefits of job satisfaction cut across mental and physical health. Satisfied employees report that they have fewer ailments (heart disease, headache, sleep disorders) and less anxiety, frustration, guilt, tension and stress than dissatisfied workers. Job satisfaction improves employee resistance to job stress and its physical symptoms (*see* Module 2). In fact, some reports suggest that satisfied employees live longer. In sum: 'happy workers seem to be healthy workers!'

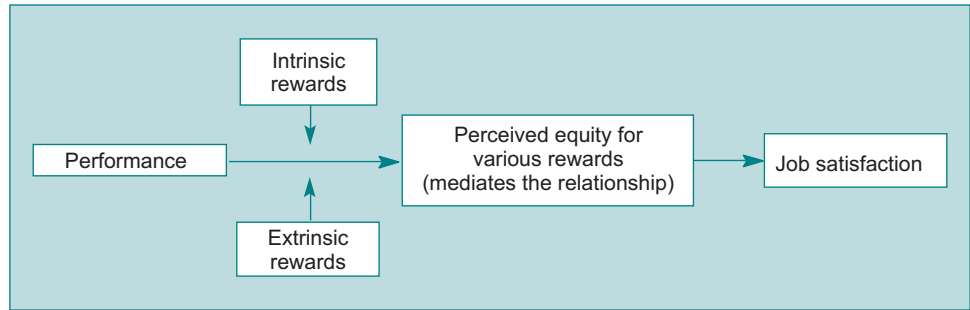
Low employee turnover and few unexcused absences are other consequences of job satisfaction. Countless research studies have found dependable relationships between turnover and unexcused absences. However, the relationship between job satisfaction and absenteeism is less dependable. For instance, there are many reasons why a satisfied employee chooses to be absent from work. Equally relevant are the reasons why a dissatisfied employee may choose to go to work. For instance, he may fear being fired, he may have no options that are more pleasant than attending work and he might simply choose work over staying home.

When a firm experiences turnover and absenteeism, its, indirect labour costs rise rapidly. High turnover increases recruiting, hiring and training costs (all indirect costs – unrelated to production), because the organisation must constantly process new members. A high absenteeism rate also drives up indirect costs in another way because the firm must have more employees in reserve to cover for those who fail to show up for work. Without a reserve, more work must be distributed among fewer workers; this, in turn, creates more job dissatisfaction through perceived inequity. These effects all undermine an effective employment relationship and threaten competitive advantage.

#### 1.4.3 Job Satisfaction and Performance

We now have all of the pieces in place to look at one of the most important relationships in organisational behaviour. This is the job satisfaction–performance relationship. This relationship is illustrated in Figure 1.3.





**Figure 1.3** The performance–job satisfaction relationship

### Applying the Reasoning of the Model

Figure 1.3 indicates that satisfactory performance triggers the release of various intrinsic and extrinsic rewards. Extrinsic rewards are available through the organisation compensation system, while intrinsic rewards are linked to the psychological elements of the job, e.g., level of challenge, clarity, variety of skills used and opportunity to learn new skills. If the compensation system malfunctions and provides poor performers with the same rewards as high performers, the excellent employees will experience perceived inequity and their pay satisfaction will plummet. Likewise, if jobs are unchallenging and boring, intrinsic rewards will be scarce and employees' satisfaction with the work itself will drop, again due to perceived inequity. Remember, both the compensation system and the job design system must function properly to ensure perceived equity.

The model indicates that a direct relationship between performance and job satisfaction does not exist. Perceptions of equity tie the two together. Also, individual differences influence job satisfaction. For example, employees with a strong internal locus of control (internalisers) would experience job dissatisfaction through perceived inequity, if they believed the job offered little challenge and if their performance were not fairly compensated due to an ineffective compensation system. An example of this would be disgruntled employees who complain that seniority is rewarded more than performance. Similar arguments can be made for individuals with various combinations of socially acquired needs. The important point is that it is not only performance and perceived equity which influence levels of job satisfaction. Employee characteristics also interact with the work situation to influence job satisfaction levels.

#### 1.4.4 How Organisations Can Measure Job Satisfaction

Managers need to monitor job satisfaction because it is an important overall indicator of the extent to which the firm is meeting the needs of its work-force. Many methods have been developed to measure job satisfaction. All of them are indirect because job satisfaction can only be inferred: it is both intangible and personal. The methods include: 1) observation of employee behaviour, 2) interviewing employees and 3) paper and pencil questionnaires. The least expensive and most dependable

method is number three. Table 1.8 shows sample items from Professors Smith, Kendall and Hulin's Job Descriptive Index (JDI); the most widely used measure of job satisfaction.

**Table 1.8 Sample items from the Job Descriptive Index (JDI)**

Think of your present work. What is it like most of the time? In the blank beside each word or phrase given below, put:

|   |                            |                            |
|---|----------------------------|----------------------------|
| Y | If it describes your work  | <i>Work on present job</i> |
| N | If it does NOT describe it | _____ Routine              |
| ? | If you cannot decide       | _____ Satisfying           |
|   |                            | _____ Good                 |
|   |                            | _____ On your feet         |

Think of the pay you get now. How well does each of the following words describe your present pay? In the blank beside each word or phrase given below, put:

|   |                            |                                    |
|---|----------------------------|------------------------------------|
| Y | If it describes your pay   | <i>Present pay</i>                 |
| N | If it does NOT describe it | _____ Adequate for normal expenses |
| ? | If you cannot decide       | _____ Insecure                     |
|   |                            | _____ Less than I deserve          |
|   |                            | _____ Highly paid                  |

Think of the kind of supervision that you get on your job. How well does each of the following words describe this supervision? In the blank beside each word or phrase given below, put:

|   |   |                                   |
|---|---|-----------------------------------|
| Y | If it describes the job supervision you get | <i>Supervision on present job</i> |
| N | If it does NOT describe it                  | _____ Impolite                    |
| ? | If you cannot decide                        | _____ Praise for good work        |
|   |   | _____ Influential                 |
|   |   | _____ Doesn't supervise enough    |

Think of the opportunities for promotion that you have now. How well does each of the following words describe these? In the blank beside each word or phrase given below, put:

|   |  |                                |
|---|--|--------------------------------|
| Y | If it describes your promotion opportunities | <i>Promotion opportunities</i> |
| N | If it does NOT describe them                 | _____ Promotion on ability     |
| ? | If you cannot decide                         | _____ Dead-end job             |
|   |  | _____ Unfair promotion policy  |
|   |  | _____ Regular promotions       |

Think of the majority of people that you work with now or the people you meet in connection with your work. How well does each of the following words describe these people? In the blank beside each word or phrase given below, put:

|   |  |                                   |
|---|--|-----------------------------------|
| Y | If it describes the people you work with | <i>People on your present job</i> |
| N | If it does NOT describe them             | _____ Boring                      |
| ? | If you cannot decide                     | _____ Responsible                 |
|   |  | _____ Intelligent                 |
|   |  | _____ Talk too much               |

The JDI is copyright Bowling Green State University. The complete forms, scoring key, instructions and norms can be obtained from Dr. Patricia Smith, Department of Psychology, Bowling Green State University, Bowling Green, Ohio 43404.

The JDI measures the five facets of job satisfaction which were mentioned earlier. The JDI's use of positive and negative descriptors avoids problems associated with other measures. And the adjectives selected for the JDI enable it to be used in any work situation and with any employee group.

Another measurement tool has been developed by Professor Weiss *et. al.* and it is called the Minnesota Satisfaction Questionnaire. It uses a different method to generate answers. Table 1.9 shows some sample questions from this instrument. Its format allows for respondents' partial agreement with the facets of job satisfaction. Although this method takes longer than the JDI, it yields very dependable results.

**Table 1.9 Excerpt from the Minnesota satisfaction questionnaire**

|   | Not<br>satisfied | Slightly<br>satisfied | Satisfied | Very<br>satisfied | Extremely<br>satisfied |
|---|------------------|-----------------------|-----------|-------------------|------------------------|
| My job security   | 1                | 2                     | 3         | 4                 | 5                      |
| The amount of pay for the<br>work I do  | 1                | 2                     | 3         | 4                 | 5                      |
| The working conditions<br>(heating, lighting, ventilation,<br>etc.) on this job | 1                | 2                     | 3         | 4                 | 5                      |
| The opportunities for<br>advancement on this job                                | 1                | 2                     | 3         | 4                 | 5                      |
| The technical 'know-how' of<br>my supervisor                                    | 1                | 2                     | 3         | 4                 | 5                      |

Source: D.J. Weiss, R.V. Davis, G.W. England and L.H. Lofquist, 1967. *Manual for the Minnesota Satisfaction Questionnaire (Minnesota Studies in Vocational Rehabilitation, No. 22)*. Minneapolis, MN: University of Minnesota Industrial Relations Center. Work Adjustment Project. Reproduced by permission. Copyright 1977 by Vocational Psychology Research, University of Minnesota.

## Problems with Using Questionnaires

The use of questionnaires assumes that employees are both willing to describe their feelings about work accurately without any distortion, and capable of doing so. It is known that employees often distort information for a variety of reasons, not the least of which is their fear of losing their jobs. Additionally, the items in a questionnaire do not have the same meaning to each employee. What is fascinating to you may appear dull and monotonous to your colleagues. Questionnaire items can have different meanings and survey results can be biased in systematic ways. These are more likely to be problems for researchers than for managers who wish to track employees' satisfaction.

## 1.5 Developments in the Study of Employee Work Attitudes

Job satisfaction is a pivotal employee work attitude that correlates with organisational productivity and employee need fulfilment on the job. It relates to turnover, absenteeism, physical and emotional health, performance, and employees' perceptions of fairness of rewards. Two other employee attitudes have been systematically studied along side job satisfaction. These are organisational commitment and job involvement. Let us consider each one.

### 1.5.1 Organisational Commitment and its Consequences for Employees and the Organisation

Professor Porter *et. al.* define organisational commitment as the strength of an employee's devotion to his employer. It has three components: 1) belief in and acceptance of the organisation goals and values, 2) willingness to exert considerable effort on behalf of the organisation and 3) desire to maintain membership in the organisation. Organisational commitment goes well beyond company loyalty. It means that employees actively promote the organisation to those who are interested in or affected by its actions. In other words, the committed employee would defend his employer in the face of criticism. It is also indicated by an employee's willingness to give something of himself to the organisation (such as developing a protégé by being a mentor). When employees defend their employer, promote its goals and advise its newcomers, they are strengthening their organisational commitment. Frederick Ashley demonstrates organisational commitment. See if you can find examples of its components in his story below.

Frederick is unusual in the age of job-hopping and multiple employers. He's 78 years old; he admits proudly that he's a company man and always will be one. When he left his job as a salesman for Gerhart, Ltd. in 2008, he retired from the only employer he had ever known. He left behind a group of employees that he called 'his family'. 'I'm sad to leave, I really am. Its time for me to move over and give some of the new guys a chance'. The former salesman, who had spent the better part of his life selling the company's machinery, recalled his work with fondness and nostalgia. Now his voice has a tinge of sadness as he comments that he entered the ranks of the retired voluntarily. 'I've grown very fond of my work, the company, and the people I've worked with over the last 60 years. I've had many of the same customers for over 30 years. They understand how our business operates. Many of them were buying tools from us even before I came along. That's how I got started, you know. I worked in the shop and then in the office for thirty years before I moved to sales'.

'I just need to take time off. Many times I'd show up at the office with a cold or upset stomach'. He doesn't say it in so many words, but he clearly relishes projecting the image of his being the company man. This company man would get out of bed at 4 a.m. to go to work and analyse customer accounts. 'Sometimes just for the fun of it I'd get up extra early to be the first one there. I guess that after a while I got the reputation around the office of being an early bird'.

Frederick lives about five kilometres from the office. He has no plans for his future other than taking life as it comes, working in his garden and visiting his sons.

'I retired because I believed I didn't have many more years left; I was getting to that age. I want to spend more time with my wife. We enjoy dining out and travelling'.

Frederick admits he is having trouble adjusting to a life of leisure. He's not too keen on sleeping late, and he misses the trip to work. 'I guess I just became too used to the sounds of the office'. He confesses that he misses the weekday work schedule and that he's just a little lonely after six decades in the same company.

'I thoroughly enjoyed my work and loved the people I worked with. My job was never burdensome. I loved what I did, and always felt good about it'. Frederick notes that his boss has said if retirement isn't for him, he can return to work any time. 'They said I could pick up where I left off with no problems. It makes me feel needed'.

Commitment to an organisation is different from job satisfaction because it requires a wider perspective that embraces the entire firm. Job satisfaction is a narrower concept because it centres on employees' reactions to their jobs. Job satisfaction also fluctuates over the short term depending on immediate job conditions (e.g., equity perceptions). In contrast, organisational commitment develops slowly and consistently over time; thus an employee may be satisfied with his job but not have accumulated enough general work experience to be committed to the firm. This partially explains why employees change employers even though they were satisfied with their previous work. People who experience career progress in a particular organisation eventually exhibit organisational commitment in their work. Chronic 'job hoppers' are not around long enough for commitment to develop. Migrant managers never experience much of this work attitude.

Periods of economic uncertainty erode organisational commitment as employees' perceptions of the quality of the employment relationship deteriorate and their fears of unemployment rise. People who once took for granted their jobs and pay rises are easily jolted by the realities of stubbornly high unemployment and corporate downsizing. Declining economic conditions raise doubt about economic security among those employees who remain on the job.

Waves of downsizings and mergers demolish employees' commitment to their employers. Continued globalisation exposes companies to more efficient low-cost competitors. The large, global air carriers are experiencing severe economic headwinds and it will come as no surprise that their combined losses during the last three years exceed their aggregate profits since 1938! During economic downturns shareholders always demand that management return firms to profitability by downsizing. Managers and executives comply and employees' organisational commitment plummets and good service for the firms' clients goes out the window!

### How Does Organisational Commitment Benefit the Organisation?

Committed employees are much less likely to leave their jobs and they are less likely to be absent from work. Once employees identify with the goals and values of the organisation, they are less likely to leave, even when they experience periods of job dissatisfaction. More committed employees perform better and they usually expend more effort to find creative ways to be productive. They set more ambitious goals when they participate in goal setting. Finally, committed employees adopt the goals and values of the organisation in personal terms. This means that committed employees are strong advocates for the products, services and policies of their employers. Clearly, many of these valuable outcomes are at risk in organisations that attempt to improve their competitiveness by downsizing rather than by making investments in training and development to deepen employees' job skills.

### 1.5.2 Job Involvement and its Consequences

Professor Steers defined job involvement as the degree to which employees identify with their job, participate actively in it and consider it to be a key determinant of their self-worth. Job involvement is determined by characteristics of the job and it creates different employee reactions from those caused by organisational commitment. Professors Rabinovitz and Hall have found that job involvement is a central component of one's satisfaction with life. When it is triggered in employees, job involvement strengthens employee's desire to be physically and psychologically embedded in their work. It contributes to perceptions of self-worth and you can tell when it's present because the job-involved employee will describe himself in work-related terms. Indeed, many of us who experience job involvement describe ourselves by telling others what it is that we do for a living.

Returning for the moment to the issue of downsizing; it may be that job involvement may be less at risk than the employee's organisational commitment. It is possible for an employee to stay highly involved with his job even though he may be apprehensive about his economic security and his future employment prospects. Indeed, because of the demands of an absorbing job, the employee may find it to be a kind of refuge that shelters him temporarily from his fears of job loss.

### How Can Managers Raise Organisational Commitment and Job Involvement?

Remember, these two work attitudes have different origins (i.e., organisations versus jobs). Managers who wish to influence both should:

1. **Demonstrate that they honestly care about their employees' welfare.** Often, managers are too busy to demonstrate much concern for employee welfare beyond creating safe working conditions. Both commitment and involvement depend on a durable strong, positive personal connection between the employee and the firm's actions. If these actions address employee welfare in conjunction with challenging tasks and participation, commitment and involvement will both form.
2. **Create opportunities for employees to achieve their personal goals.** If a competent employee wants more responsibility, perhaps to increase his chances for promotion, the manager should redesign the employee's job to make it more meaningful and challenging.
3. **Modify jobs so employees can experience more intrinsic rewards.** Many employees want more personal control over their work. An effective manager provides opportunities for employees to participate in decision-making to fulfil these needs (Theory Y again).
4. **Find ways to reward and interact with employees regularly.** If managers are unavailable when employees encounter task problems, then both work attitudes are less likely to form. Further, if managers only appear when problems surface, employees come to associate them with negative outcomes like punishment and criticism; neither of which obtains commitment and involvement.
5. **Set goals with employees and be sure that some of them are personal development goals valued by the employees.** Not only should managers explain

the importance of goals, but they should actively encourage the development of managerial competence in their subordinates.

### What is a Psychological Contract and How Is it Changing as a New Generation of Workers Enters the Labour Force?

Organisational commitment and job involvement are two of the core elements supporting and preserving the psychological contract (relationship) between employer and employee. The third element is the bundle of economic incentives that sustain the voluntary nature of this relationship. We have discussed how the employee's job involvement and organisational commitment form as a consequence of his growing experience with his job and with the firm; e.g., its policies, practices and culture. In the beginning of any employment relationship, the full details – terrain if you will – of the job and the firm are not fully understood nor comprehended by the newcomer. Thus, the bundle of economic incentives plays an early, outsized role in his level of job satisfaction. As he or she accumulates more experience and comfort in the job and in the firm, economic incentives slowly recede in importance as organisational commitment and job involvement become more compelling and pertinent. This is not to suggest that economic incentives no longer motivate the employee. Rather, the psychological aspects of job involvement and organisational commitment become more numerous, clearer and more pertinent in his or her on-going evaluation of the quality of the non-static employment relationship.

Generation Y (individuals born between 1989–1994); sometimes called the 'Echo Boom' matured during the birth of the Internet and the rise of America as the world's only superpower and the attending collapse of the Soviet Union. Generation Yers are the twenty-somethings who reject the values and practices of their more famous Baby Boomer grandparents born between (1946–1964). Most Baby Boomers grew up during the placid 50s and they acquired their self-centered ways during the successful war protests of the 1960s. While Generation Xers are preoccupied by many of the same things as Baby Boomers, Generation Yers reject many of their habits and values. In fact, they can be overheard describing Baby Boomers and Generation Xers (their parents) as self-centered, fickle, impractical and a bit desperate too.

In Australia, business owners often describe Generation Ys as 'demanding, impatient, and bad at communicating', according to recent surveys. Despite their education levels, the Yers are easily dissatisfied, and quickly reject well-understood and necessary corporate behaviours. Many Australian employers are quick to add that those Yers who job mobile and involved with their jobs are often high-energy and enthusiastic risk takers. This pattern also shows up in the UK's Yers. They are described by employers as being ambitious, brand conscious, and ready to move to a job that is more challenging and rewarding. Interestingly, these individuals are less loyal to their employers and more quick to add that their jobs say little about them as individuals.

In the US Generation Y is the 'Wireless-web Generation' in that 97 per cent own computers and cell phones and over 76 per cent use text messaging many times



each day. They use websites as their primary news sources and one-third of them own a blog while 45 per cent read them regularly. Seventy-five per cent of US college students have a Facebook or MySpace account and the same percentage own a portable music and/or cell phone/video device.

The Baby Boomers are exiting today's labour pools at a rising rate and they are being replaced by Generation Y. Generation Xers still have twenty years or more of work ahead of them and the most ambitious and clever ones are rapidly climbing corporate ladders. This highly fluid situation creates a powerful force of change to the psychological contract between employees and their firms. Baby Boomers are looking forward to retirement and good health despite the fact that they have saved too little to ensure either one. Generation Xers probably recognise that they need to save more but they rationalise that they still have twenty years to get their retirement and health care plans in good shape. It is the 'youngsters' of Generation Y who are performing radical surgery on the employment contract.

The *Wall Street Journal's* recent article about 'bait' for Generation Y sums up how the employment contract is changing. Journalist Sarah Needleman describes Jenny Balaze who left her post at Ernst & Young's Washington office for three months to volunteer her accounting services to a small, struggling publisher in Buenos Aires who described her experience there as 'the best three months of my life'. The accounting firm covered her transportation, and living expenses during her sabbatical and guaranteed her job when she returned. The short story above underscores the point about the kind of employment contract. Generation Y expects. A strong programme of employer-sponsored volunteerism is a very strong recruiting advantage and firms are recognising that it is good business to lend out skilled employees to struggling business and nonprofit enterprises. These programmes merge the values and beliefs of Generation Y with the social responsibility component of the firm's business model. Underscoring this emerging synergistic linkage is the fact that over 79 per cent of 13–25 year-olds state that 'I prefer to work for a company that cares about how it affects or contributes to society'.

The *Wall Street Journal's* reporter notes in her article that Generation Y does not want to 'park their values at the door'. Companies PNC Financial Services Group are responding by designing volunteer programmes that allow employees to choose from 200 American nonprofits in which they can apply their specific skills to on-going challenges or they can opt for projects unrelated to their skill set. United Parcel Service and Pfizer Corporation have begun to replace their old-style corporate giving programmes in favour of skills-based volunteerism that allow their employees to knowledge to problems like food distribution to homeless shelters and supply-chain management for breast cancer foundations. Both companies are very pleased with the results of their programmes and they note that these volunteer assignments produce workers who are more talents, better leadership skills and a 'better strategic sense of how to navigate in different types of environments'.



## Summary Points

- The field of OB is a social science that advances knowledge about the behaviour of people at work. OB studies organisational productivity and employee needs. All aspects of organisation performance relate to the former; work attitudes such as job satisfaction, organisational commitment and job involvement relate to the latter. The field concentrates on the acquisition of knowledge about organisational productivity and employee needs.
- Management differs from organisational behaviour in that it deals with accomplishment of organisational goals and involves the technical, conceptual and human components of organisational functioning. The manager's job in the twenty-first century will focus on his coaching, integration and conflict-resolution skills. Old job requirements such as giving orders, determining promotions and making autocratic decisions will fade in importance.
- The rate of change in content of the manager's job is being increased by work-force diversity, demands for better products and services, global competition and Theory Y philosophy.
- Values are enduring beliefs and they can be instrumental or terminal in nature. Instrumental values reflect the means for achieving one's goals in life and terminal values are the life goals themselves.
- As organisations react to global competition, managers will be challenged by culture-based value differences. Increasingly, organisations are providing culture-based values training to smooth the transitions for their managers who receive global assignments.
- Locus of control refers to one's beliefs about what cause outcomes in life. Internals believe in the causality of personal behaviour, while externals believe in the causality of environmental forces. Internals connect responsibility to outcomes in life while externals believe outcomes are created by forces and events outside themselves.
- Extroversion and introversion refer to the strength of one's need for external sensory stimulation. Introverts avoid external 'social noise' and extroverts embrace it. These qualities can influence performance if a job is designed to be either high or low in social stimulation.
- Machiavellism is the urge to influence others to achieve one's personal ends. The 'high Mach' individual manipulates others to achieve personal gains in fluid, unstructured organisational circumstances.
- The socially acquired needs of achievement, affiliation and power are important factors that shape employee behaviour. Achievement motivation often causes entrepreneurial behaviour. Affiliation needs energise supportive and collaborative behaviour in work groups. Need for power has two forms of expression: personalised and socialised power. The socialised need for power is an important managerial quality that is associated with organisational effectiveness.
- Job satisfaction is composed of the facets of pay, promotion, co-workers, supervisors and the work itself. The level of experienced job satisfaction is determined

by job challenge, job clarity, supervision and incentives, which are all organisational factors. Years in career and personal work expectations are important individual determinants of job satisfaction. Job satisfaction is not directly related to performance. The connection is determined by the availability of both intrinsic and extrinsic rewards, and by employees' perception of the fairness of their distribution.

- Organisational commitment is the employees' agreement with organisational goals, his willingness to exert effort on behalf of the organisation and his desire to maintain his membership. It takes longer to form than job satisfaction, but once formed, is more resistant to change.
- Economic insecurity (job loss through downsizing) threatens employees' well-being. Employees who remain on the job after downsizing and corporate restructuring often experience sharp drops in their organisational commitment.
- Job involvement develops through one's job and affects the employee's self-worth and desire to participate in work-related decisions. Employees can have job involvement without being committed to the organisation. Thus, downsizing, job re-engineering and corporate restructurings may have less long lasting or direct, negative effects on employees' job involvement.

## Review Questions

### True/False Questions

- 1.1 The field of OB has developed because managers need to understand employee motivation and job satisfaction. T or F?
- 1.2 The field of OB is best described as an applied discipline that focuses on the issues of employee needs and organisational productivity. T or F?
- 1.3 OB would not deal with factors that cause students to be satisfied or dissatisfied with the courses they take at the university. T or F?
- 1.4 Managers have less need for OB theories because their work is action oriented. T or F?
- 1.5 An engineer with an internal locus of control is much more likely to search for information outside his work setting than an engineer with an external locus of control. T or F?
- 1.6 Extrovert employees seek more stimulation from their social environment than do introverts. T or F?
- 1.7 A Machiavellian employee will go along with company goals, especially if the work setting is very unstructured and feedback is sporadic. T or F?
- 1.8 A good rule to follow when supervising employees is: treat them all the same way. T or F?

- 1.9 High achieving managers are good delegators of authority to subordinates. T or F?
- 1.10 Individuals with a high need for affiliation would be highly motivated to improve harmony. T or F?
- 1.11 An individual's need for power is more valuable to the firm if it is expressed as person-alised power need. T or F?
- 1.12 Job satisfaction is less sensitive to extrinsic rewards than to intrinsic rewards. T or F?
- 1.13 Job satisfaction is important to organisational productivity because it is related to absenteeism, grievance rates and turnover. T or F?
- 1.14 Equity comparisons of rewards received in relation to efforts expended are important components of the job satisfaction–job performance relationship. T or F?
- 1.15 Organisational commitment consists of three highly volatile facets. T or F?
- 1.16 Job satisfaction and organisational commitment are related to the same properties of organisations. T or F?
- 1.17 Job involvement is always present when an employee is satisfied with his job. T or F?
- 1.18 The least important dimension of job involvement is the belief that the job contributes to one's self-worth. T or F?
- 1.19 Values training in global organisations can safely emphasise instrumental values only for expatriate managers. T or F?
- 1.20 Economic uncertainty is more of a threat to organisational commitment than to job involvement. T or F?

### Multiple Choice Questions

- 1.21 The internal perspective of human behaviour explains an employee's actions in terms of:
  - A. job design.
  - B. personal beliefs and value systems.
  - C. organisational structure.
  - D. organisational authority systems.
  - E. peer relations and group dynamics.
- 1.22 OB is a field of study which places equal emphasis on:
  - A. micro and macro issues such as employee motivation and organisational design.
  - B. productivity and quality improvement efforts.
  - C. understanding the needs of employees and managerial requirements for technical problem-solving.
  - D. external environmental issues and managerial ethics.
  - E. A and C.

- 1.23** Individual differences are best defined as:
- A. the fundamental components of the OB modification paradigm.
  - B. primary constructs in the psychodynamic theory of personality development.
  - C. basic aspects of personality which predict employee behaviour in the work setting.
  - D. A and B only.
  - E. None of the above.
- 1.24** Individuals with an internal locus of control:
- A. display high anxiety and tension.
  - B. tend to be restless and agitated on the job.
  - C. prefer participative management systems.
  - D. avoid authority figures.
  - E. believe that performance is based on luck rather than effort.
- 1.25** According to research on socially acquired needs, successful top managers tend to have a high need for:
- A. dominance.
  - B. achievement.
  - C. affiliation.
  - D. security.
  - E. risk aversion.
- 1.26** A manager with a high personalised need for power would prefer:
- A. taking control of others to setting challenging goals for a work group.
  - B. gaining opportunities to improve communication to gaining recognition from his superiors through promotions.
  - C. quick performance feedback to loyal and dedicated subordinates.
  - D. taking individual responsibility to control of others.
  - E. to be involved in community affairs.
- 1.27** According to OB research, the relationship between job satisfaction and job performance is:
- A. strong and direct.
  - B. indirect and not always consistent.
  - C. strong and negative.
  - D. positive for younger employees and negative for older employees.
  - E. impossible to measure.
- 1.28** A manager with a socialised need for power who had also been promoted several times would look favourably on:
- A. employees who took a strong interest in their jobs and the work goals for their units.
  - B. raising work unit performance goals and making employees' bonuses contingent on those goals.
  - C. employees who willingly expressed their personal loyalty to him and valued unit goals.
  - D. A and B only.
  - E. None of the above.

- 1.29** Twentieth-century research concerning OB and work-force management has focused on all of the following except:
- A. employee job satisfaction.
  - B. small group behaviour.
  - C. power and influence dynamics.
  - D. leader-follower relationships.
  - E. production engineering and computer assisted design.
- 1.30** Which of the following statements is correct with respect to total quality management?
- A. Quality control is the responsibility of specialists who perform quality checks as products come off the assembly line.
  - B. Quality is a design characteristic that becomes the responsibility of all employees and managers.
  - C. Quality is a management tool to help managers communicate more effectively with their employees.
  - D. Total quality management programmes can only be installed in organisations which are highly bureaucratic and machine-like.
  - E. Quality improvements must be made only at the beginning of production operations if they are to be permanent.

### Short Essay Questions

- 1.31** What kinds of problems would a supervisor confront if all of his subordinates had an external locus of control? Are there steps a supervisor can take to influence employee beliefs about the causes of work outcomes?
- 1.32** Develop an account of the current thinking about the relationship between job performance and job satisfaction. If a supervisor believes that 'happy employees are productive employees', what kinds of problems might he encounter? Be sure to emphasise the role of rewards in your answer.
- 1.33** Which of the socially acquired needs do you consider to be of the highest value?
- 1.34** How does the manager's job change in delayed and downsized organisations?
- 1.35** Discuss some of the factors that might shape a company's emphasis on terminal and instrumental values in its mission statement. How do you make a mission statement relevant in a global company?

### Case Study 1.1: Measuring Job Involvement in the Work Setting

This case study stresses the importance of job involvement, which develops as employees gain more experience in their jobs. You can learn a great deal about the significance of job involvement in employees' lives by completing this exercise. The exercise is broken into three components: 1) the administration of a questionnaire to at least five employees in your organisation, 2) conducting personal interviews with the employees who have completed the job involvement questionnaire and 3) answering some simple questions after you have completed 1 and 2. The questionnaire you use is shown in Table 1.10.

The questionnaire is scored in the following manner: add up each respondent's circled answers for a total job involvement score. Scores can vary from a low of 12 (minimum job involvement) to 48 (maximum job involvement). Most individuals will fall in between and typical scores range between 24 and 36. After you have determined each respondent's score, calculate an average score for your sample of employees.

**Table 1.10 Job involvement questionnaire***Instructions:* Please circle the choice which most closely matches your opinion for each item.

|   | Strongly agree | Agree | Disagree | Strongly disagree |
|---|----------------|-------|----------|-------------------|
| 1 Staying late to finish a job doesn't bother me                    | 4              | 3     | 2        | 1                 |
| 2 You can tell a lot about a person by his work                     | 4              | 3     | 2        | 1                 |
| 3 I get most of my satisfaction from my work                        | 4              | 3     | 2        | 1                 |
| 4 My days at work really fly by                                     | 4              | 3     | 2        | 1                 |
| 5 I always arrive at work a little early to get started             | 4              | 3     | 2        | 1                 |
| 6 The most important things that happen to me are related to work   | 4              | 3     | 2        | 1                 |
| 7 Sometimes I lie awake at night thinking ahead about work tomorrow | 4              | 3     | 2        | 1                 |
| 8 I'm a work perfectionist  | 4              | 3     | 2        | 1                 |
| 9 I feel lousy when I fail at some part of my job                   | 4              | 3     | 2        | 1                 |
| 10 I must admit that I am a 'workaholic'                            | 4              | 3     | 2        | 1                 |
| 11 I would keep on working even if I didn't need the money          | 4              | 3     | 2        | 1                 |
| 12 I get deeply involved in my work                                 | 4              | 3     | 2        | 1                 |

The personal interviews that you conduct with employees should address the following questions:

1. What is your job title?
2. How long have you worked at this job?
3. What are the five key responsibilities that you have in your job?
4. What are the three aspects of your job that you like best?
5. What are two actions that the company could take to make you more effective in your work?
6. If you could change your job in two ways, what would they be?

Once you have gathered your questionnaire and interview information, answer the following questions and prepare a brief written report of your findings. The questions and the rationale for each one are presented below. There are no 'right' answers to any of these questions. They are designed to help you consider the unique meaning of job involvement for employees.

1. What are the major responsibilities of the employees interviewed? RATIONALE: All employees usually understand their job responsibilities. Further, these responsibilities should contribute to their personal growth in some way.
2. Are the employee suggestions of ways to improve their personal effectiveness related to their job responsibilities? RATIONALE: Employees should perceive ways to improve their performance through their own actions. In addition, they should perceive a linkage between their job responsibilities and their effort and behaviour.

3. Do the employees generally want to change their jobs relative to their major job responsibilities? RATIONALE: There should be a connection between low job involvement scores and dissatisfaction with major job responsibilities.
4. How do you explain the average that you obtained for employees' scores on the job involvement questionnaire? RATIONALE: A clear pattern between the paper and pencil test results and interview results should surface.

### Case Study 1.2: General Electric Has a Whistle-blower

General Electric Corporation consists of over 186 companies organised into 43 strategic groups and six business sectors. With over 250 000 employees, it is one of the oldest consumer and industrial products manufacturers in America. For over 50 years it has been one of the largest defence contractors. For the US armed services it builds jet engines, radar systems, missile components and a variety of replacement parts. It also builds military hardware for purchase by friendly countries after the US Departments of Defense and Commerce have okayed the transactions.

All defence contracting firms in the USA have started efforts to prevent or eliminate fraudulent and deceptive business practices. These programmes have been stimulated by the provisions of the 1986 False Claims Act, the Patriot Act of 2001 and the investigative practices of the US Justice Department and the Defense Criminal Investigative Service, both components of the US Attorney General. Besides spelling out fraudulent practices, remedies and penalties, the law specifically protects whistle-blowers. A whistle-blower is an employee who reports corporate wrong-doing such as bribes, kickbacks, false accounting practices or cheating to federal officials. The law noted above specifically protects such individuals from retaliation (termination, pay loss, job transfer, demotion, discipline or harassment) by their employers for informing the federal officials or for giving testimony in government-initiated suits against defence contractors. Further, whistle-blowers can receive up to 25 per cent of the fine or penalty assessed against the firm when wrongdoing is proven.

General Electric mounted an ambitious campaign to comply with the laws noted above. In spite of internal controls and employee training, GE has been charged with fraudulent defence contracting activities several times in recent years. One such case involved a long-time employee named Chester Walsh. He blew the whistle on a scheme designed to create payoffs and kickbacks to a GE manager and an Israeli general. The pair defrauded the US government of about \$42 million. Mr Walsh charged that Herbert Steindler, a GE marketing official who handled Israeli accounts, conspired with Israeli Air Force General Rami Dotan to prepare and submit false invoices for payment for military equipment and services which were never provided by GE. Upon learning of this fraud, GE passed the bills on to the appropriate US defence agency. The ruse lasted for several years until Mr Walsh detected it.

Rather than report the illegal activities right away, Mr Walsh learned the details of the 1986 law and he gathered irrefutable evidence of the conspiracy. For four years he assembled documents and recorded conversations. By 1991 he had reported the abuses and he filed suit against his employer under the False Claims Act. The US Justice Department and the US Air Force investigated the charges. Eventually 24 GE employees were dismissed or disciplined, including Mr Steindler. In Israel, General Dotan was convicted of bribery and related crimes and given a 13-year prison sentence. According to Professors Miceli and Near, Mr Walsh received \$11.5m of the \$69m GE had to pay the federal government to end the case.

- 1 Do you think that fraudulent business practices are more common in very large organisations? If so, why?
- 2 Why did Mr Walsh wait for four years to reveal the conspiracy between Mr Steindler and General Dotan? In your mind did he gain anything by delaying his accusation?
- 3 What are your recommendations to GE for preventing fraudulent practices and encouraging ethical employee conduct?

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# Stress and Well-Being at Work

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### Learning Objectives

By the end of this module you will be able to:

- Describe the causes and consequences of stress on the job.
- Explain the nature of the general adaptation syndrome.
- Explain the relationship between job stress and employee performance.
- Describe the features of the Type A personality that lead to adverse consequences shown in General Adaptation Syndrome.
- Enumerate the features of a successful company stress-management programme.
- Conceptualise the relationship between job stress, job insecurity and continuing efforts to control costs through corporate downsizing.

## 2.1 Introduction to Stress and Well-Being at Work

Several large global insurance companies regularly conduct nationwide surveys to assess the amount of job stress experienced by people at all levels in all types of organisations. Extensive surveys conducted on 45 000 employees by Northwestern Life Insurance Company captured some sobering information about job stress. Seventy per cent of employees said that their jobs are 'extremely stressful'. Further, the respondents reported that they were three times as likely as employees reporting low work stress to experience problems in their lives or work due directly to the

stress that they experience on the job. Their employers reported that those stressed-out employees: 1) make more physical and mental health insurance claims, 2) are less productive, 3 exhibit more outbursts on the job and 4) exhibit more turnover, absenteeism and substance abuse.

Thirty-five per cent of the respondents said that they were 'burned out' by work overload and they often experienced stress or tension-induced anger (intermittent explosive disorder) on the job. They reported on other factors that amplified their chronic work overload and experienced job stress. These 'amplifiers of stress' and their frequency pattern are noted below.

1. Unfair and demanding bosses or managers (29 per cent).
2. Unsupportive, angry and abrasive co-workers (31 per cent).
3. Inadequate authority for current job responsibilities (61 per cent).
4. Technology-based interruptions (e-mail) that undermine personal productivity (78 per cent).

Respondents reported that company efforts to reduce costs also contribute to the toxic brew of job stress. Many firms now announce large layoffs but they don't say who will get pink slips or when it will happen. This throws employees into a paralysing state of anxiety that the downsizing axe is about to fall on them. Often this intolerable situation is a consequence of merger activity or changes in the firm's ownership. Downsizing and mergers are here to stay and these forces are often cited as chronic stressors by employees.

### 2.1.1 Job Stress Goes Global

The Japanese call it *karoshi*. It means sudden death by heart attack or stroke caused by too much work. According to Professor Miller who studies this problem, The typical Japanese manager works annually 500 hours more than his German counterpart and 250 hours more than his American counterpart. After typical work days, Japanese managers go to hotels near their offices where they collapse into chairs in the lobbies and promptly fall asleep. Surveys of Japanese managers and office workers consistently show that over 40 per cent of them fear that they will literally work themselves to death. Medical experts in Japan conservatively attribute 10 000 deaths annually to *karoshi*. In 2004 the Japanese government announced a \$20m study and major companies like Sony are requiring all employees to take a two-week vacation each year, whether they want it or not. It looks as if *karoshi* is a global disease of the twentieth century because workers in America, Sweden, Great Britain, Canada, Germany and France all report similar fears.

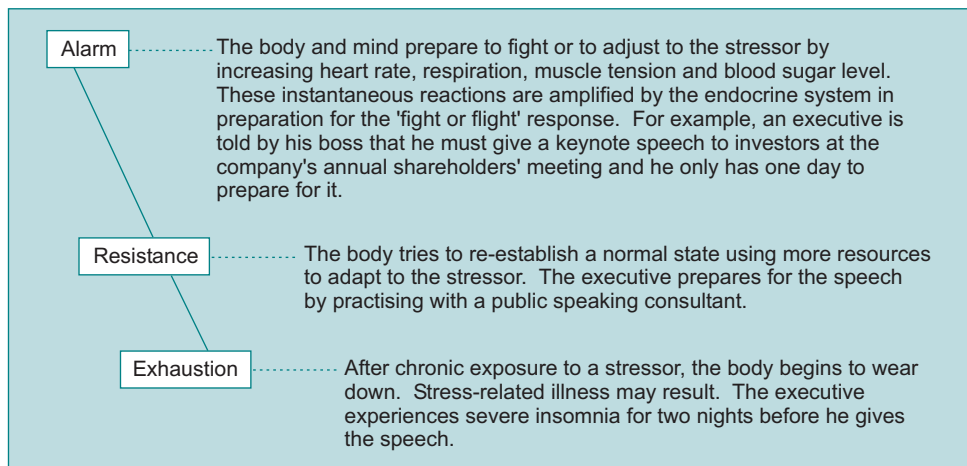
While these global results are disturbing (Do you feel depressed by these dreary research findings?), there are many examples of work systems and organisational stress management practices that benefit employees' health and their productivity. Before we plunge into those programmes, it is necessary to describe the current thinking about job stress, its causes and its consequences.

## 2.2 Understanding Job Stress and its Components

Stressors refer to objects, events and situations in our physical and social environments that make a demand on our minds or bodies. A stress response is a mental and physical reaction to a stressor. Our perceptual mechanism including our terminal and instrumental values causes us to interpret the stressor in a positive or negative fashion. Let's consider negative stress reactions for a moment. If we believe that we can control the stressful situation then we react to the stressor with anger and frustration (both are negative reactions). On the other hand, if we feel inadequate and threatened by a situation that we think is uncontrollable then we react with fear or panic (again, negative reactions). Interpretation of the stress-inducing situation (perception) is the key to understanding fear or anger: emotions that are opposite sides of the same coin.

If we respond to a request from a superior at work (stressor) as an exciting challenge that can lead to more job responsibility then we are experiencing eustress (challenge stress) – a positive mental or physical reaction that energises and concentrates our effort to perform well. But if we experience the request as a threat to our job prospects, then we are experiencing distress – a negative mental or physical reaction to stress that always involves a mix of anger or fear. Distress is the dysfunctional result of stress and its appearance usually means that the employee is unsuccessful in adapting to or removing the stressor from his work environment. When we experience challenge stress it is a reflection of our successful adaptation to and control of stress in the work setting.

Hans Selye, a noted medical researcher, coined the expression General Adaptation Syndrome for the process that governs human beings adjustment to stressors in their environments. Figure 2.1 presents the Selye model.



**Figure 2.1** General Adaptation Syndrome

All of us experience the elements of the General Adaptation Syndrome in our work and in our lives. The near-miss automobile accident, a project that is suddenly in a crisis, the sudden death of a loved one are examples of experiences that can trigger

the alarm reaction (fight or flight response) and its attending physiological and psychological changes: breathlessness, fluttering heart rate, panicky attempts to cope, painful swings in emotions, and perhaps, even lingering self-doubts. These are perfectly natural reactions to acute situations that we perceive to be destabilising in either positive (eustress) or negative (distress) ways.

When we experience the alarm reaction it is a clear signal of anxiety and frustration ahead! During our work days many of us accept these emotions, hunker down, and tell ourselves that we'll 'relax later' in a pub, at home or in a health club during the weekend. The problem with these reactions to 'alarm' is that they wear down our immune systems by allowing acute levels of powerful hormones (adrenalin and its correlates) to raise our blood pressure, paralyse our decision making, weaken our hearts over time and make us fat! The main point: how we handle distress 'in the moment' is much more important than how we relax after the fact! We'll have much more to say on this matter when we consider the individual's options for coping with stress.

If we can better understand the nature of work stressors (and our reactions to them) then we can reduce the uncertainty (fear) that they induce in us. For instance, if you are an experienced professional who has received many excellent performance reviews in the past and you have just successfully completed several key projects during the current performance appraisal period, you are probably very certain that you will receive an outstanding annual work assessment. On the other hand if you await your project review as a newly hired employee in the same job as the one described above you may experience sustained apprehension about your upcoming annual work assessment. The upshot of course is that two people with the same job can have totally different perceptions of stressors and opposite reactions to them.

Once stress becomes chronic (constant) rather than acute (as in the alarm reaction), we enter the 'resistance' or adaptation stage in the General Adaptation Syndrome. In the early stage of resistance we identify our personal resources and we assemble them to cope with the persistent stressors that we face. Beware however! Our capabilities are finite and stressors are not! Stressors do not disappear and there is no guarantee that more will not materialise: 'no layoffs allowed!' When unforeseen stress 'weights' are piled on our shoulders we may enter the 'advanced stage of resistance'. It is here that medically significant diseases of resistance (or diseases of adaptation to stress) begin to lower our capacity to cope: we are in a decline mode. People begin to exhibit: high blood pressure, insomnia, eating disorders (obesity or anorexia), substance abuse, emotional problems (intermittent explosive disorder), or depression. They may experience difficulties in their personal and work relationships. Some experts believe that cancer and diabetes qualify as diseases of resistance.

The key to coping indefinitely with the marauding nature of the resistance stage is to 'train for the long races' in life and work. We must pace ourselves and optimise our work performance without depleting our capacities to take satisfaction from other important elements of our lives. It is a complex balancing act to be sure.

Eventually all of us experience the 'knock on our door' of the exhaustion phase. Simply put, our capacities to cope with distress are either temporarily or permanently exceeded in this phase of the General Adaptation Syndrome. Entering this phase is an emergency in all cases. For many of us the exhaustion phase comes in old age because by then our immune systems are inadequate and inflexible: the ravages of life as it were. In far too many cases, exhaustion hits us when we are young because we choose to exist in our pressure-packed lifestyles and we refuse to abandon our risky behaviours. If we are lucky enough, the exhaustion phase consists of a very sharp warning: 'change your lifestyle or else!' Non-lethal heart attacks, strokes, and the like are such warnings. Often these events are preventable and increasingly firms are helping employees to find the proper balance between their home-lives and work-lives through advanced stress management and wellness programs. We say more about those in later sections of this module.

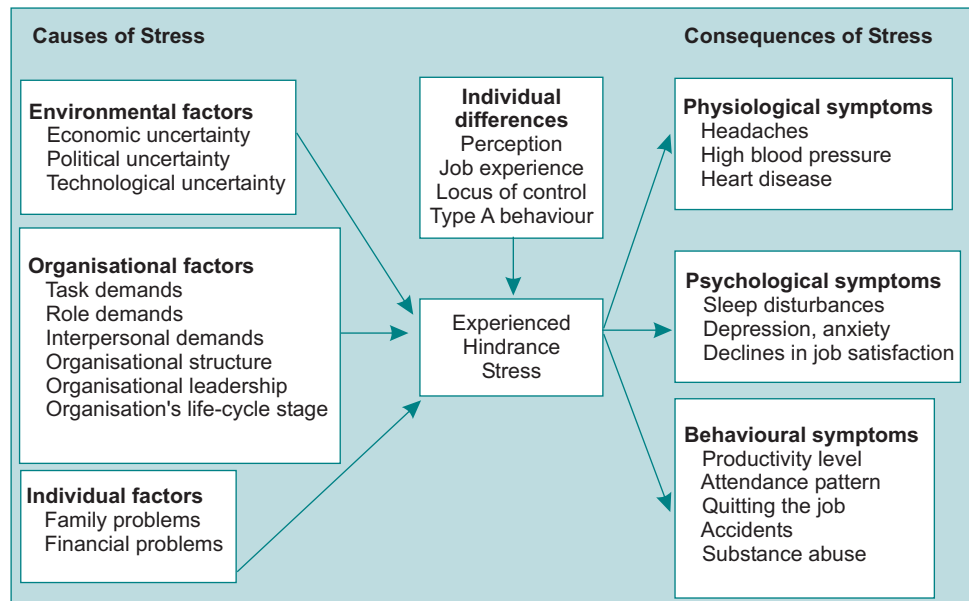
Here is a final point about the General Adaptation Syndrome that is a consequence of living in our sometimes terrorism-filled world. Individuals who perform emergency rescue and medical work, direct and coordinate the flights of aircraft and perform police and military tasks all experience near-constant alarm reactions in their work. It is therefore not surprising that these workers often experience the symptoms of the exhaustion stage more quickly than their counterparts in less taxing occupations. To keep people functioning in such stressful positions, leaders of such work teams and military units value the importance of rehearsal and emergency simulation. Constant practice and readiness remove the temporary performance obstacles (panic, freezing, paralysis in decision making) presented by the alarm reaction stage. Preparing people to be rational and effective under extreme emergency conditions requires teaching them how to suppress the alarm reaction through countless trials and practice runs. While this is entirely possible and desirable in high-stress professions; people in these careers often have to leave them at an early age.

## 2.3 A Model of Causes and Consequences of Stress

Dr. Kenneth Cooper of the famous Cooper Clinic identifies three categories of causes of job stress: environmental, organisational and individual. And three categories of consequences of job stress exist: physiological, psychological and behavioural. Along with the effects of individual differences, the stress model is shown in Figure 2.2.

### 2.3.1 Environmental Factors that Can Induce Stress

Economic uncertainty (insecurity) is the apprehension of employees who believe that their continued employment prospects are dimming (rising job insecurity). When companies struggle with declining profits caused by low-cost global competitors they often compensate by downsizing, reducing pay levels and shortening work-weeks. Under these dour conditions business bankruptcies rise and employees are thrown on the dole. In short order, personal bankruptcies rise, families



**Figure 2.2** The stress model

may disintegrate; standards of living may stagnate, and industries contract. When widespread in an economy, these conditions can spark worker protests and strikes as we've recently seen in France.

Europe's governments generally try to respond to economic uncertainty in their labour markets by supporting training to help workers cope with change. Some critics label these programmes state-sponsored, indefinite underemployment. As noted by *The Economist* in an editorial, the problem is that governments do not do it (retraining) very efficiently because, after all, government training is a form of labour market regulation. Further, the costs of state-sponsored training programmes must be borne by the private sector in the form of higher taxes on income and profit. For instance, in 2004 in the United States, for a firm to create a job that pays \$50 000 per year, it must shell out \$88 000. The extra \$38 000 covers unemployment insurance costs, payroll taxes and other levies. By comparison, a company in Germany must cough up \$105 000 to create that same job! It is not surprising therefore that Germany has a much higher unemployment rate and a less competitive economy than the USA. A similar argument could be developed for all EU countries: they are good at creating job training programmes but they are terrible at lowering their unemployment rates!

The primary antidote to economic uncertainty for workers is, of course, job creation. The private sector in Europe has been woefully inadequate at this task because the true costs of creating another job in Germany, Sweden, Denmark, France, etc., is so high that many productivity-minded firms in these nations have simply pursued greater returns from building plants in foreign markets. The added costs noted above reflect the governments' 'meddling in labour markets'. According to the International Institute for Management Development, 'as long as European



governments tinker with national labour markets, Europe will experience lackluster growth rates'. Those who will suffer the most will be unemployable young people in Europe. For them, economic uncertainty will remain a fact of life.

**Political uncertainty** is probably more of a source of job stress in countries with unstable or repressive political systems (Sudan, Nigeria, Venezuela, North Korea, etc.). Comparatively speaking, workers in the UK, Europe, Canada and the United States experience far less job stress induced by political uncertainty than their counterparts in Middle Eastern countries and the countries of Africa.

**Technological uncertainty** induces job stress through technological breakthroughs that induce knowledge obsolescence in employees. Organisations improve their business models in this way but some employees become redundant in the process. This form of uncertainty may motivate some threatened employees to retrain to obtain skills that will enable them to meet more technologically sophisticated job requirements while other threatened employees accept the inevitable pink slip and move to less technically sophisticated jobs for lower pay in other industries. Job displacement is never easy for the employee affected by technological uncertainty. However, firms and their industries become more efficient and productive thereby raising the standards of living for those employees who adapt to this form of uncertainty. In the aggregate, the general economy becomes more competitive and better jobs are created.

### 2.3.2 Organisational Factors that Create Stress

**Task demands** are potential stressors embedded in your job. They include the difficult schedules that cause imbalances between your work and home life, being isolated and overworked, reporting to multiple managers, operating in a vacuum (little feedback about your performance) and having insufficient resources to complete the job. Your job's physical surroundings may also be a repository of stressors such as noise levels, vibration, the speed of work flow, temperature and humidity levels and shortened work cycle times (induced by 24/7 competition and communications). Most experts agree that variation in job stress lessens for employees whose job responsibilities match their authority (autonomy on the job). Also, employees report less stress if they can set their own work schedules and if they can perform portions of their work from home. If job demands seem boundless employees must prioritise work goals and actions or suffer the consequences of free-floating anxiety (a state of constant, nervous apprehension that has no clear, identifiable origin). Consider the following example of a corporate programme designed to manage the stress of task demands:

In 2006, GlaxoSmithKline, PLC launched its voluntary and evolving 'team-resilience programme – TRP'. Glaxo says 18 000 of its 110 000 employees have participated in TRP and the results are very encouraging. Currently the firm has reduced work-related mental illness among its employees by 60 per cent and cut mental-health-related absences by 29 per cent since 2003. In the US alone, the programme has saved \$1.4 m. Participating employees first complete an anonymous survey designed to identify causes of job pressure such as lack of

support, inadequate feedback, or scheduling issues. Employees and their managers then discuss survey results and identify strategies to reduce stress. A year later the process is repeated to identify further issues and to track improvement. According to Ann Kohnen, Glaxo's vice president of health management, 'TRP is more than a way to manage stress, it's a way to make teams more effective'.

**Role demands** consist of the behaviours that we are required to exhibit on the job. Behind each job behaviour is our values and beliefs: our personal philosophy. Elements of our philosophies and our behaviours may be challenged by supervisors, peers, clients and others. We may find that our values conflict with our employers' stated values. This is the fundamental conflict that leads some employees to become 'whistle-blowers'. Whistle-blowers pull the lids off corporate scandals because they have been asked to take job actions that conflict with their values.

Downsizing and de-layering in organisations (removal of middle managers) causes those employees who remain to experience role overload: the expectation that they must accomplish more work in less time and with fewer resources. Role overload is usually an unwelcome companion to economic uncertainty for those employees who remain on the job after firms have merged and the 'winner' has given the sack to 'redundant' employees who worked for the 'loser'.

Role ambiguity creates job stress because it means that the employee does not understand his task demands. He may not know what to do, when to start, who to coordinate with or what resources he needs. Here's Professor Kerber's example of how role requirements can undermine employees' terminal and personal values and lead them to become whistle-blowers (see Module 1 for a case that details whistle-blowing).

Once security engineer Glenda Miller questioned the reliability of an employee identification system to be brought on-line at a TVA-run power plant in Alabama, she knew she was in for trouble when the plant's operator sent her to company psychologists. The sessions with the psychologist were a series of hostile interviews in which she was questioned about her church attendance, whether or not she missed her husband when he travelled and whether or not she had failed to pay parking tickets. Six months after she questioned the system's reliability she was fired for being unfit for duty. Now she has brought a 'wrongful termination' suit against TVA, which at this writing, refuses to comment on the case, citing concerns for Ms Miller's privacy. The practices used on Ms Miller seem to be more common in the nuclear energy generation business.

Employees get normal performance reviews and promotions until they question operating procedures or safety. Needing a method to discredit them, management turns to psychological counselling. Lately, the US Nuclear Regulatory Commission has weighed in by challenging several nuclear power companies to prove that their operations are safe based on concerns raised by employees. Psychological testing of nuclear-plant workers and thorough background checks are now routine because of terrorist threats and the danger posed to all of us by power plant workers who are unstable for various reasons. Plant operators are supposed to monitor employees closely and offer assistance to employees who are showing signs of stress. NRC officials say that they are aware of utility companies that are abusing the rules to harass psychologically

whistle-blowers. These cases are not clear cut because it is difficult to prove that psychological exams are not necessary employee screening devices. NRC officials are rightly concerned, because they think that some power companies might harass whistle-blowers who have raised safety concerns that could cost millions of dollars to correct.

**Interpersonal demands** are the social stressors created by our co-workers. Lack of cooperation, poor collaboration, and low trust and support among members of a work group will create job stress for any group member. Dysfunctional interpersonal demands will be particularly stressful for employees who are affiliation oriented and place great value on harmonious group relations.

**Organisational structure** is the extent to which the organisation is highly formalised and contains extensive work rules and policies that constrain the work choices of employees (low autonomy). Often these conditions are referred to as centralisation because they limit employee discretion in decision-making. These conditions are a by-product of a 'Theory X' managerial system and it usually lowers employee participation and job satisfaction

**Organisational leadership** reflects the managerial style of the 'C-class' executives. This is best thought of as 'Theory X and Theory Y' managerial style. Some CEOs emphasise a short-run viewpoint, higher output with fewer resources, expendable human capital and tight financial controls (Xers). Over long periods, this culture and leadership style will lead to employee burnout and poor work-force morale. (See Table 2.2 to measure your potential for job burnout.)

**Organisational life-cycle stage** refers to the establishment, growth, maturity and decline phases of the organisational life-cycle. Each stage produces unique stressors for employees. For instance, company survival is uncertain in both the establishment and decline phases because both phases may contain lay-offs and structural change. The growth and maturity phases might create job stressors because in those stages firms tend to become centralised and formalised.

### 2.3.3 Personal Lifestyle Factors that Can Aggravate Stress

**Family problems** may surface in the employee's work. Divorce, ageing parents, children's misbehaviour and demanding 'significant others' can all undermine our performance on the job. These stressors cannot be left at the office door; they often seep into the employee's relations with his work group, the company's customer and his boss.

Let's stop here for a moment and consider tips for managers on handling their workers' personal problems. If you have an employee whose personal problems cause him to disrupt unit performance then you must take decisive action. Define the problem with the employee in a private meeting, ask for his explanation of it and listen. Move to a directed solution that considers the employee's feelings and clearly spells out the consequences of non-compliance. This is the direct approach that works the best when you see that an employee's personal problems are affecting his performance and the performance of his co-workers.

**Financial problems** create job stress for employees when they live beyond their means. An example would be the folly of using one credit card to pay off the debt on another card. Rolling debt over instead of paying it down is an act of financial desperation that can ruin an employee's job performance. Another example is the employee who takes out a home equity loan to pay off credit card debt: he is simply swapping high-interest debt for slightly lower-interest debt. Again, if you are a manager and you see that an employees' performance is deteriorating, it is your responsibility to confront that employee in the manner spelled out above. The success of your work unit may depend on your decisive action!

The stressors noted above can accumulate in employees and cause them to become unreliable and unpredictable on the job. Alone, each stressor might be easily managed by the affected employee. It is a different story as unresolved stressors stack up. Employees who suffer in this way sometimes 'crack' under the slightest provocation and their co-workers are always surprised when a 'small thing' incapacitates their stressed out co-worker. The real story lies in the accumulating nature of multiple, unresolved stressors which push the employee into the exhaustion phase of General Adaptation Syndrome.

#### 2.3.4 Individual Differences

The middle portion of the stress model in Figure 2.2 shows the role of individual characteristics. Together, individual characteristics provide the mechanism that allows the person to perceive and interpret stressors in a positive or a negative fashion (challenge stress or distress). These factors amplify or dampen (moderate) the relationship between potential stressors and experienced stress. Research has found perception, job experience, locus of control and Type A behaviour influence this relationship.

**Perception** governs our reactions to stress because it influences our interpretations of reality. Reality is simply a given and it takes a back seat to the threat (or lack of it) that that we feel in a given situation. After we have moved successfully through stressful events we usually conclude that our apprehension about the event was worse than the event itself. Our sense of relief in the aftermath of stressful events suggests that feelings and emotions are paramount in human perception because they are the first reactions that we have to any situation. When they are at full strength and negative we are clearly in alarm reaction.

**Job experience** is a powerful stress reducer once it is acquired. But, for the new employee or the recently transferred employee in a new job, the absence of job experience is a powerful stressor that can lead to fears of inadequacy, experienced role ambiguity and knowledge obsolescence. Accumulated job experience correlates with more job and stress-coping skills (resistance to stress) Experienced employees who are well-practised and confident are much less likely to experience the jolting physical and emotional discomfort of the alarm stage in General Adaptation Syndrome.

**Locus of control** is a pattern of beliefs about the connection between behaviour and its consequences (*see* Module 1). Internalisers believe that they are in control

of their lives because they are responsible for the things that happen to them in life. Externalisers believe that often fate intrudes to create outcomes in their lives that are not related to their behaviour. Research conducted by Professor Murphy concludes that internalisers perceive their jobs to be less stressful than do externalisers.

**Type A behaviour** is defined by Professors Howard *et. al.* as 'an action-emotion complex that is present in a person who is aggressively involved in chronic, incessant struggle to achieve more in less and less time, and if required to do so, against the opposing efforts of other things and other persons'. Type A employees generally share the following behavioural and emotional qualities.

1. Work long, hard hours under the conditions of constant deadline pressures and chronic role overload.
2. Often take work home and are unable to relax at weekends or on vacations.
3. Compete constantly with themselves by setting high standards for performance and productivity to the point of being driven and obsessed.
4. Become frustrated by the work situation, are impatient, easily irritated with the work efforts of others and often feel misunderstood by co-workers and superiors.

A research conducted by Professors Brief, Schuler and Van Sell on Type A and Type B behaviour profiles (*see* Table 2.1) has found that impatience with the pace of work is less of a contributor to stress symptoms experienced by employees than the extent to which a person is angry, hostile and insecure regarding his abilities on the job. Stepping back in time for a moment; two centuries ago, a British surgeon named John Hunter said: 'My life is at the mercy of any rascal who chooses to annoy or tease me'. Dr. Hunter did not realise how prescient he was. Soon after he made his remark he died from a heart attack that occurred when he was having a heated argument with his university colleagues.

**Table 2.1 Classical profiles of type A and type B behavioural patterns**

| Type A behavioural pattern                           | Type B behavioural pattern  |
|--|-----------------------------|
| Measures success by quantity of results              | Is mild-mannered            |
| Is always active and moving                          | Relaxes without guilt       |
| Walks rapidly  | Is not concerned about time |
| Talks rapidly  | Is patient                  |
| Eats rapidly   | Does not brag               |
| Does two or more things at once                      | Plays for fun, not to win   |
| Cannot cope well with leisure time                   | Has no pressing deadlines   |
| Is obsessed with numbers and measures of performance | Is never rushed             |
| Is socially aggressive                               |                             |
| Is highly competitive                                |                             |
| Experiences constant time pressure                   |                             |

As stated in the *Lincoln Journal*, leading medical researchers agree that the Type A and Type B profiles have outlived their usefulness because being hard-working, interrupting people and being in a hurry are not necessarily bad for your heart. The emerging portrait is that adaptive Type As reduce experienced stress by being

hard-driving, but with no sense of hostility or aggression towards others. The latest research on personality and health suggests that a strong relationship exists between emotions and heart disease. In fact, researchers now believe that a hostile person – one who is unable to convey forgiveness or gratitude – is at much greater risk of a heart attack than his forgiving and trusting counterpart. And who has a ‘hostile heart’? Well, it is the person who:

1. is suspicious of other people’s motives,
2. instigates arguments with others (agitators),
3. quickly angers in lines or traffic jams (intermittent explosive disorder),
4. acts defensively in non-threatening situations (generalised inferiority), and
5. believes other people are not pulling their weight.

Here is the main problem confronting ‘heart hostile’ people: they respond with anger to the alarm reaction stage and, because of their personalities, they are unable to shut off their anger. The alarm reaction is chronically engaged in them and their immune systems (and hearts) are therefore under constant attack by powerful hormones (adrenalin) that are released in the body during the alarm reaction stage. The behaviours shown above are now recognised by mental health professionals as ‘intermittent explosive disorder’. You may have witnessed this disorder when individuals (clients, co-workers, bosses) exhibit behaviour that is clearly out of proportion and grossly inappropriate for the situation at hand.

### 2.3.5 Consequences of Stress

**Physiological symptoms** are the changes in our body’s metabolism caused by our interpretations of stressors. Our understanding of the links between stress and physical symptoms such as increased heart rate, blood pressure and breathing rates is improving dramatically. Type A’s who have intermittent explosive disorder is a good example of our new understanding. MRIs are now used to isolate those emotion centres of the brain that are activated by stressful thoughts and experiences. We can now say with considerable empirical confidence that chronic exposure to intense stressors produces wear and tear on both mind and body that leads to back trouble, migraine headaches, insomnia, heart disease, hypertension, diabetes and even cancer in some cases.

**Psychological symptoms** are major consequences of stress and they may appear before the onset of diseases of resistance/adaptation (*see* the Figure 2.1). The mental health of employees, according to Professor Beehr, is threatened by high levels of stress, and often poor mental health in employees, rather than physical symptoms, can very quickly cause their performance to deteriorate. Anger, anxiety, depression, nervousness, irritability, aggressiveness, passiveness and boredom accompany high stress. In turn, these problems result in low employee performance, declines in self-esteem, resentment of supervision, inability to concentrate, trouble in making decisions and job dissatisfaction. A frequently mentioned psychological symptom of job stress is burnout. Job burnout is a prolonged withdrawal from work, which causes the sufferer to devalue work and to see it as a source of dissatisfaction. Take the simple test in Table 2.2 to see if you are a candidate for job burnout.

**Table 2.2 Are you aflame from job burnout?**

These questions help you assess your feelings about your job. They tap matters concerning your career, the match between your job and your skill set, and current job stressors that you may be experiencing. Think about your job during the last six months and rate how often each question's symptom is true for you. Scale: 1, only rarely; 2, sometimes; 3, often; 4, frequently; 5, always.

- 1 I have difficulties concentrating on the job.
- 2 I find myself considering the benefits of quitting.
- 3 I'm more withdrawn at home.
- 4 When I wake, I dread going to work.
- 5 I've been missing a lot of work lately.
- 6 My job is expanding into my leisure hours.
- 7 I've become more irritable with some of my co-workers.
- 8 I don't feel refreshed after the weekend.
- 9 I'm often bored at work even though I've got lots of work to do.
- 10 Lately I've been using alcohol and drugs to unwind from the pressures of work.

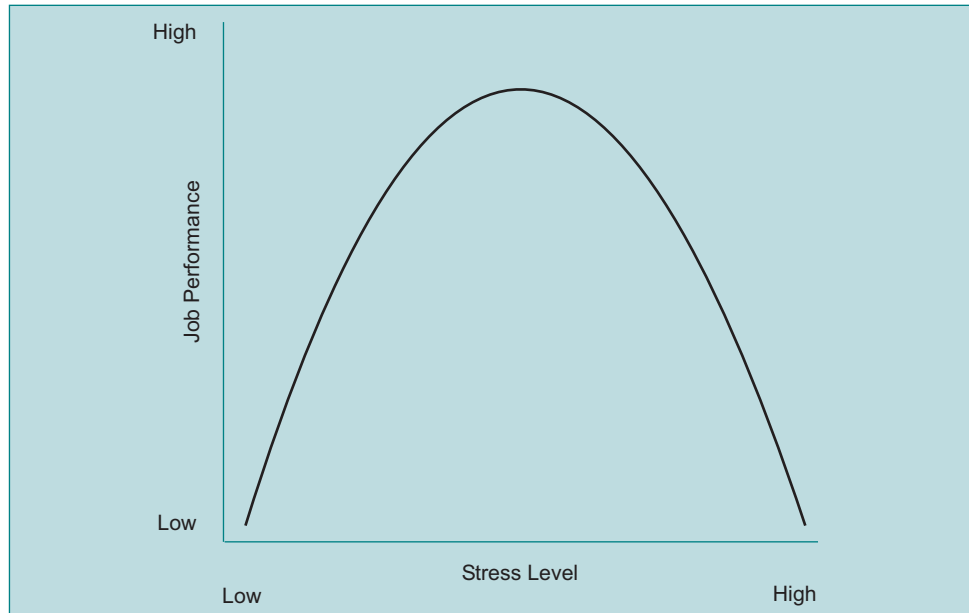
**Scoring:** 10–20: You are doing OK. 21–30: Think about the value of preventive action and some life changes. 31–40: You are showing signs of burnout and you must take immediate action to achieve improved work-life balance. Over 40: You have burned out. Watch out for other signs of diseases of adaptation in the General Adaptation Syndrome.

**Behavioural symptoms** related to stress include changes in performance, absenteeism, hopping from job to job, altered eating habits, exercise patterns, cigarette smoking, use of alcohol and drugs, rapid speech pattern, nervous fidgeting and withdrawal behaviours. Research conducted by Professors Sullivan and Bhagat explains the relationship between job stress and performance shown in Figure 2.3. The logic of the graph is that low to moderate stress levels stimulate and challenge employees to increase their job efforts and thereby raise their performance as they become more capable of handling job-induced stress. However, chronically high stress levels create unattainable demands which frustrate employees whose performance deteriorates rapidly. Likewise, if stress levels on the job are moderate, but long lasting, performance will also deteriorate due to the problem of cumulative stress. This last point explains why hospitals rotate medical personnel from emergency department duty and military units rotate personnel out of hostile fire zones.

## 2.4 Individual Approaches to Managing Stress

Employees are now much more aware of their personal responsibilities for coping with job stress and for maintaining healthy lifestyles. So much evidence of the importance of healthy life styles exists that we don't have to be convinced that we should take responsibility for our well-being. All you have to do is look through the windows of health clubs anywhere to see the thousands of people who personally follow this advice. We naturally want to improve the quality of our lives and controlling our reactions to the stress we experience on the job is a crucial component of work-life satisfaction. With this important idea in mind, let's take a look at personal strategies for managing (and controlling) job stress.





**Figure 2.3** The stress–job performance relationship

1. **Exercise.** People of all ages are walking, riding bicycles, attending aerobic classes, practising yoga, jogging, swimming, playing tennis and swatting squash balls. Moderate, regular exercise is strongly correlated with personal well-being (peace of mind), weight control, rising levels of ‘good’ cholesterol and falling levels of bad cholesterol, success in kicking the smoking habit, lowered alcohol consumption and other health risk factors. In addition, exercise mitigates intermittent explosive disorder and acts in complex ways to reduce the irritability of employees on the job. If you can make a pleasant form of moderate exercise part of your daily routine you will find yourself to be more at ease, less quick to anger, more accepting of others and a bit more resilient in your life and work.
2. **Relaxation.** Herbert Benson coined the relaxation response during his study of the philosophies and behaviours of Western and Eastern peoples. The alarm reaction phase of the General Adaptation Syndrome is the mobilisation of the body to ‘fight or flee’ (anger or fear). The parasympathetic nervous system accomplishes this in one or two heart beats. Once the threat is gone the sympathetic nervous system ‘unwinds’ the mind and body from their states of high readiness: the relaxation response. Professor Benson concluded from his research that Judaeo-Christian people trigger the relaxation response during prayer and Eastern people create it by meditating. Achieving the relaxation response does not require a theological or religious orientation. For instance, at work when you feel a growing tightness in your chest and restless agitation you are ensnared in a low-grade alarm reaction. You can take a brief inner vacation from your immediate work overload by lowering your breathing rate and



invoking a pleasing memory (image). Practitioners of meditation and relaxation exercises claim that it reduces their heart rates, blood pressure and other physiological indicators of stress.

You can also strengthen your relaxation response at work by 'keeping your distance' from work problems. For instance, when think you are in the middle of an intractable work crisis ask yourself: 'Will I be upset a month from now?' When you ask this question you are substituting calming rational thinking for emotion-driven, catastrophic impulses. The more you practice this simple 'distancing' technique the cooler you will become under pressure.

3. **Diet.** We are what we eat. Diet plays a significant, indirect role in stress management. Foods with high sugar or fat content stimulate or prolong the lingering effects of stress because they adversely affect blood chemistry by elevating bad cholesterol while lowering the good. Good eating habits (moderation comes to mind) contribute to our overall health, making us less vulnerable to diseases of resistance. In his strict diet that de-emphasises medication and surgery for individuals with coronary artery disease, Dean Ornish puts patients on his 'reversal diet' to open up their coronary arteries and lessen their risk of heart attack. He claims to have had success in greatly reducing the blood cholesterol levels of individuals who have rigorously followed his approach to nutrition-based good health. Further, he claims that long-term followers of his approach to nutrition have greatly lessened or completely eliminated their need for heart medication.
4. **Differentiate guilt from shame.** We all experience guilt or shame as a result of traumatic events in life. One aspect of wisdom is the ability to differentiate between guilt for your actions and shame for who you are – and between what you are responsible for and what you cannot control. Guilt is a useful emotion when we resolve to make amends; e.g., it leads to a productive outcome such as reconciliation. People who experience guilt will alleviate it by becoming more empathetic and working harder to resolve conflicts. Individuals who feel shame isolate themselves (I'm a bad person), become depressed (I'm worthless) and alienate others (It's their fault). Shame is the more intractable problem on the job because its sufferers may be very indecisive (I'm bad or worthless). When the sufferer is your boss, you will suffer too! An indecisive boss can be a real threat to your satisfaction on the job because there is no ready solution. You know his tricks (endless delays, asking useless questions, ending meetings without resolving issues, and hiring a consultant to take the blame).
5. **Build up your stress resistance.** The key principle is learning to handle more stress while you resolve to experience less of it. If you are a high-achieving Type A manager, take more walks and don't eat lunch at your desk! In addition, accept the fact that you are not a weakling when you delegate some tasks to subordinates. If you have the time, try software-based biofeedback. Freeze Framer software uses a finger clip attached to a PC to measure heart rhythms in much the same way that a thermometer measures body temperature. The goal is to learn how to control your anxiety by adjusting your breathing, correcting your posture (drop your shoulders), and bringing your body back to a calm state. The software noted above includes self-training video games and exercises that

are intended to help you become skilled at bringing your mind and body to a peaceful state.

## 2.5 Organisational Programmes of Wellness and Job Stress Management

At the Merck Corporation when eight top-level managers asked employees in a focus group how they would respond if company managers handled work-life issues with flexibility and respect, they were surprised and delighted. The employees told them they would react with 'increased loyalty, a willingness to work hard and productivity improvement'. At first, creating competitive advantage from managerial flexibility in helping employees handle personal conflicts seemed nice, but too hard to measure and justify. Since Merck was a sponsor of the Wharton-Merck Roundtable, the company felt it had to make headway in this area. The Roundtable is a discussion group made up of 20 managers from Merck and professors from the University of Pennsylvania's Wharton School of Business. Together these professionals are trying to develop the skills needed by managers and employees to achieve life balance and to help others do the same.

Six years later Merck managers and the Wharton professors now know that it is possible to train a 'new enlightened manager' who is not a creature of the increasingly unfavoured command and control organisational design (Theory X). Here are the managerial skills that reduce stress identified by the Roundtable participants:

**Reward performance and productivity, not 'face-time' spent working.** A Merck employee who travelled 30 per cent of her time including weekends resented her boss who required her to be in the office by 8 a.m. on Mondays. While she kept up her performance, she told herself, 'OK I'll do the best I can, but you're not getting any more from me'. Relieved when this boss left, she was much more productive and motivated by his replacement who had a very different management style. Her new boss said:, 'I trust you to get your job done. I'm interested in results'. The employee responded by thinking, 'I was completely loyal to her and much more enthusiastic about my work'.

**Live by your values and encourage others to live by theirs.** A top female manager and her female subordinate took very different approaches to handling work and motherhood. After maternity leave, the subordinate was tormented by her job-induced separation from her child while her boss joked, '[I'm] more of an ice queen'. She cares for her two children without any guilt or sense of distraction at work. Despite the boss's different views, she helped her subordinate ease her concerns by designing a job-sharing programme that has delighted her subordinate, raised her loyalty to Merck and prevented the occurrence of a host of performance problems.

**Build respect based on trust and respect.** A financial analyst did not expect time off when her toddler needed a tonsillectomy. To her surprise, her boss looked at her and said, 'Your daughter comes first'. The gesture fostered intense loyalty in the

employee. As she was preparing for a long-awaited vacation her boss's assistant called for help in preparing a pressing management report. Without hesitation she drove to work and helped get the report done.

It is clear that there are ways to generate organisational commitment in a period of downsizing and structural change in organisations. The point of the Merck story is that employee loyalty and exceptional performance spring from supervisors who demonstrate real concern for the well-being of subordinates. Trust and support – and a Theory Y style – are at the heart of each Merck story.

Consider this example in terms of organisational stress management.

During the summer of 2004, in the board room of the Jameson Corporation, an 80-year-old maker of industrial pumps, a group of executives and managers met with the firm's employee council. The fifteen executives, managers and workers finished discussing the goals of the firm's new safety and employee health programme. Its focus for the firm's 1700 employees was four-fold: 1) reduce the frequency and cost of work-related injuries; 2) reduce employees' obesity; 3) reduce the number of employees who smoke and 4) increase the level of employee fitness through exercise.

Jameson's managers and employees tackled the first problem by analysing its two cluttered factory floors. Over the years its factories had expanded in a piecemeal way and they presented many obstacles that caused back sprains and pulled muscles. Problems 2, 3 and 4 linked to the creative 'wellness bonus' – a bonus for middle managers who achieved health goals set jointly by executives and the employee council. The thinking in this idea was that employees' benefited by being healthier, managers received a bonus for employees' documented health gains and the firm benefited through lower absenteeism, turnover and health care costs. The annual bonuses were to be paid to managers if their employees: 1) achieved at least a 15 per cent reductions in their body fat readings; 2) 50 per cent of smokers quit for at least six months and 3) 25 per cent exercised at least three times per week in the corporate wellness facility. The company paid outside consultants to set up the improvement programmes and all employees were required to complete the training during the fall of 2004. Looming in the background was the December 31, 2005 payout date for management's wellness bonus.

By 15 December 2005 the results for the safety and health programme were in. Factory worker injuries had dropped from 250 days lost to just 12 days. This dramatic result was achieved by using low tables to hold parts, reduce clutter and prevent back injuries. Workers adopted new portable pneumatic hoists and found very creative ways to use them to reduce injuries and speed production: an unexpected programme benefit. The achievements for goals 2-4 were equally impressive: body fat percentages dropped by 17 percent, 50 per cent of smokers had been off cigarettes for seven months and 33 per cent of the workers were exercising 3 times per week. The managers, who worked safely, exercised and quit smoking alongside their subordinates profited too because the firm distributed \$1.3m in bonuses on 31 December!

## 2.6 Downsizing and Outsourcing: New Forms of Permanent Job Insecurity?

The accelerating effects of global competition and job 'outsourcing' and 'offshoring' by corporations that are trying to control their labour costs are fuelling employees' economic uncertainty and unease about their job prospects. Immigration issues in the expanding EU and in America also stir up labour markets and drive flag-waving and, in some cases, car-burning protestors into the streets. Loss of pension and health insurance guarantees for retirees and for long-serving employees of major companies that are in bankruptcy or are flirting with it (Delphi, United Airlines, Delta Airlines, General Motors, etc.) stoke economic uncertainty. These forces will not abate because every firm and their respective industries is locked in a fierce battle with global competitors that will grab market share at every opportunity. Governments cannot stop it: France's leaders recently enacted some very timid labour market reforms and then quickly caved in to young protestors who demanded total job security. Countries like China and India enjoy immense cost advantages because they each have a vast labour pool and these pools are growing rapidly in capability and quality. Business infrastructure is being built at furious rates in both nations. It now appears that these forces will continue to produce turmoil in the labour markets of the Western nations and some of that turmoil will materialise as downsizing. American and European firms will shed workers in their home nations and add workers to their operations in China and India. Capital flows and jobs will pour into the Far East and governments in Europe and America will be powerless to stop it. With these forces in mind, let's take a look at some of the forces that are pushing the downsizing trend. We'll finish the module by noting some ways to make downsizing more humane and less damaging to the employees who must remain behind to pick up the pieces.

### 2.6.1 Domestic Competition Goes Global

Deregulation (less government meddling) in global industries like air travel, telecommunications (including the Internet), banking and financial services (insurance), has opened up huge opportunities to small and large competitors. Through the late 80s Japanese car makers built their cars at home and shipped them to global markets. Now numerous Japanese models are built in the markets where they are sold. In America in the early 1990s, Detroit's 'Big Three' enjoyed a combined market share of 75 per cent. By 2006 that percentage had fallen to about 55 per cent. And now Toyota is predicted to soon become the world's largest car maker. Apparently investors believe it because they assign a value of \$186bn to Toyota and about \$20bn to General Motors and Ford combined!

During the last 20 years America's domestic steel industry and car industry have shed nearly one million jobs. More steel and more cars than ever are being produced in America: the problem is that the 'name on the building has changed!' Newly confident and capable Indian and Chinese firms are shopping in Europe and America for attractive business acquisitions. Politicians across the Western hemisphere become indignant and use arguments based on 'national security' to

drive off aggressive and highly productive foreign rivals of protected and coddled 'national industrial champions. These forces are shaping the new economic order and there is pain ahead for workers in nations that are run by politicians who believe that they can shield their economies from global economic change.

### 2.6.2 Merger Mania

The recent combining of Chase Manhattan and Chemical Banking Corporation to form the largest commercial bank-holding company in America made large numbers of jobs redundant in the new company. At least 12 000 jobs were lost in the new company because there is simply too much overcapacity in the US banking system. A spokesman for the new company said, 'it's not like the foreign banks operating in the US are taking business away'. In American manufacturing the Whirlpool Corporation (home appliances) acquired in 2006 the 108 year-old Maytag Corporation to create a giant with annual sales of \$6.9bn and market share of 63 per cent.

Every merger defines a 'winner' and a 'loser'. The managers and employees who work for the loser become the next ones to be unemployed: 'to the winner go the spoils!' This rough and tumble – some might say harsh – reality gives 'Anglo-American capitalism' its bad reputation in Europe's capital cities. Mergers are here to stay in America and Britain because firms have to find ways to grow when other means are exhausted. When an industry has excess capacity (due to ill-advised over-expansion or declining competitiveness) the number of rivals in it must diminish for the industry to return to profitability. This phenomenon is called consolidation and no industry (or nation) is excused! Lately, mergers in America and the UK are more likely to consist of one competitor acquiring another competitor in a given industry. The acquisition where a firm in one industry buys a firm in an unrelated industry – building a conglomerate – has clearly fallen out of fashion. Now, only a few conglomerates are judged to be financial successes. Even the mighty Siemens AG is showing its age as is the unrivaled General Electric Corporation.

### 2.6.3 Government Spending and Labour Market Involvement

Downsizing is being driven by global economic forces and governments react to it by putting a welfare cushion under workers who are adversely affected by it. In Europe and elsewhere the common thought is that a government should 'ensure employability' by subsidising the training of laid-off employees to help them sustain 'serial employment'. Serial employment acknowledges that companies and industries will inevitably go through cycles of lay-offs. Governments often reason that being laid off should not sentence a worker to permanent unemployment and therefore through training and internships employees should be 're-employable' in other, growing industries. This is a humane and considerate perspective to be sure. However, the question of 'which industry' and 'what training' is left to be answered by government officials. Once the questions are answered the result is

an inevitable distortion in the labour market: some industries lose training and development subsidies and others gain them.

#### 2.6.4 Small Is Beautiful

Large companies that dominate their industries – firms like Siemens, Airbus, Wal-Mart, Toyota, Microsoft try to hang on to market share by mimicking the frugal and adaptive ways of their smaller competitors. The principle at work is to not hire too many employees in the first place. For example, several large American firms (DuPont, 3M, Motorola) now nurture ‘intrapreneurship’ – or ‘innovation from within’. Professors Cauley and Lipin believe that wrapping ‘smallness around intrapreneurship’ encourages employees to think (and feel) in the ways noted below:

- share credit (without being told or forced to),
- know it is easier to ask for forgiveness than for permission,
- come to work each day willing to be fired,
- follow your intuition about people and build the best team,
- ask for advice before asking for resources,
- build a coalition for ideas, early publicity (leaks) triggers the corporate immune system,
- only bet on those races in which you are running,
- stay the course and be realistic about how to achieve your goals and
- honour your sponsors.

Initially, these ways of thinking and responding may seem awkward to workers. However, learning them well may be an appealing form of ‘job insurance’ for employees who prefer to avoid the economic uncertainty that inevitably accompanies bloated work rolls. The behaviours noted above can certainly contribute to a firm’s competitive advantage. In addition, these are the behaviours of employees who know how to add value to the business model of their firm. In all respects, flexible and creative employees make contributions to their firms that lessen the need for the heavy-handed (and often ineffective) use of downsizing.

#### 2.6.5 Restless Shareholders

Proponents of shareholder rights argue that the only responsibility of top managers is the maximisation of shareholder wealth; e.g., the firm’s total market capitalisation. Therefore, downsizing, re-engineering and the outsourcing of all non-core business activities are strongly encouraged by supporters of this viewpoint. This is the short-term (and short-sighted) argument of raising profits by lowering costs and risking the loss of highly skilled employees. Large blocks of company stocks are held by pension, mutual, and hedge funds. The managers of these financial giants do not hesitate to question management’s decisions or to demand seats on corporate boards. Nearsighted (only net income matters) fund managers applaud downsizing, spinoffs and buyouts because they believe that these actions raise share values. Sometimes managements appease these restless shareholders by

authorising large, stock buyback programmes. In the short run, buybacks do raise earnings per share because they reduce the number of outstanding shares; but new product and new market development may suffer as a result.

## 2.7 A Semi-Last Word on Downsizing

Does downsizing help or hurt the firm? This key analytical question should inform any debate over cost reductions in a firm that wishes to resuscitate its flagging business model. Most executives believe that downsizing is a fast way to cut costs, reposition their business and boost productivity. On the other side of this issue are economists and consultants who say that downsizing doesn't work. Instead, it damages customer relationships and crushes employee morale. Bain and Company and Mercer Management have completed recent studies of downsizing across many industries and they conclude that 68 per cent of 'cost cutters' have not regained profitability, even after three years. Despite these cautionary findings, downsizing continues to be the 'first action contemplated' by three of five executives whose firms are delivering below-average returns for their industries. Watson, Wyatt and Company further darken the view on downsizing by concluding that after-downsizing only 46 per cent of the downsizers report increased productivity; 32 per cent said that competitive advantage improved and a disappointing 21 per cent became more effective in their markets. Clearly, downsizing should be a third or fourth stage action plan rather than the first one management tries!

Sadly, downsizing will not disappear as a first-stage element of plans to raise profits by chopping jobs. That brings up the question: 'If downsizing is inevitable, what is the best way to handle it?' Many experts and executives seem to achieve a consensus on the answer to this question. For instance, employees' must be treated with respect and so a firm should set aside money for reasonable severance packets, invest in outplacement counselling, and ensure that women and minorities are not disproportionately affected. Further, executives who have authorised and implemented downsizings suggest that the firm's reputation (with future employees) is driven to some extent by how they handle being laid off. This brings up a final caution: If a firm downsizes, it should proceed by being honest and candid with employees. Find and use as many internal outlets as possible to better communicate the details of a layoff plan to employees.

## Summary Points

- Alarm reaction is the 'fight or flight' response that mobilises the body and mind to defend against physical threat.
- Behavioural stress symptoms are consistent patterns of employees' low performance, inattentiveness and lack of carefulness in work. These patterns in employees may suggest that they are nearing the exhaustion phase in General Adaptation Syndrome.
- Stressors mount up and their effects are cumulative. At some point an employees' resources and capacities to cope with stress begin to deteriorate and diseases of resistance or adaptation ensue.



- Challenge stress (eustress) results in increased employee effort and performance.
- Environmental stress factors originate from economic, political or technological uncertainty and induce alarm reaction or press employees with limited stress-coping resources into exhaustion in General Adaptation Syndrome.
- Intermittent explosive disorder connotes angry outbursts that are inconsistent with the demands of the situation.
- Exhaustion is the final stage of General Adaptation Syndrome, and is the wear and tear on the body and mind created by chronic stress overload.
- Type A behaviour is a set of actions and emotions characterise by competitiveness, impatience and sometimes hostility that is rooted in self-doubt.
- Job burnout is prolonged psychological withdrawal from work by employees who suffer from chronic work overload.
- *Karoshi* is a fatalistic Japanese expression that means to die of a heart attack or stroke on the job.
- Organisational stress factors increase in number and intensity in firms that are contemplating downsizing or outsourcing to revitalise a flagging business model (deteriorating competitive advantage).
- Physiological stress symptoms are changes in a person's metabolism and bodily processes that can occur as headaches, high blood pressure and heart disease.
- Psychological stress symptoms are chronic negative emotional reactions to stress such as anxiety, irritability and depression. When these reactions are chronic in the employee, he or she is nearing the exhaustion phase of General Adaptation Syndrome.

## Review Questions

### True/False Questions

- 2.1 Job burnout is principally caused by work overload. T or F?
- 2.2 As far as the physiology of stress goes, the body cannot tell the difference between eustress and distress during the alarm reaction phase of the General Adaptation Syndrome. T or F?
- 2.3 An employee with 'high employability' would have probably shown considerable adaptiveness and resourcefulness in his previous positions. T or F?
- 2.4 Whistle-blowing behaviour may be a response to job stress induced by conflict between organisational work demands and personal values. T or F?
- 2.5 The Type A person who is most prone medically to the effects of job stress is hostile towards others and unsure of his own abilities. T or F?



- 2.6 Internalisers with adequate authority to make job decisions in their work are less likely to burnout on their jobs than externalisers who have an equal amount of authority. T or F?
- 2.7 Because challenge stress activates and motivates employees, it cannot trigger the alarm reaction (fight or flight response) in an employee. T or F?
- 2.8 A distressor like knowledge obsolescence can be removed for employees who experience it by teaching them the relaxation response. T or F?
- 2.9 The fight or flight response in the alarm reaction stage can re-occur during the exhaustion phase of the General Adaptation Syndrome. T or F?
- 2.10 Incremental, day-to-day stress management is more stress-relieving than an extended vacation. T or F?
- 2.11 The condition of chronic job stress and mild frustration with a job tend to represent the resistance phase of the General Adaptation Syndrome. T or F?
- 2.12 In general, corporate stress management programmes aim at: 1) reducing risky employee behaviour; 2) increasing employees' resistance to stress; and 3) improving productivity and lowering costs associated with job stress. T or F?
- 2.13 Government programmes to lessen economic uncertainty always distort labour markets. T or F?
- 2.14 In general, job stress declines when job responsibility exceeds job authority. T or F?
- 2.15 Role overload and economic uncertainty both rise in firms that have recently downsized. T or F?
- 2.16 An employee with a high need for affiliation would be more sensitive to interpersonal stressors than an employee who has a personalised need for power. T or F?
- 2.17 Centralised and formalised structures (X firms) are most common in the establishment phase of the organisational life cycle. T or F?

## Multiple Choice Questions

- 2.18 A 'Y' manager would be likely to have a managerial style that
  - A. emphasises close, constant supervision.
  - B. encourages employees to come to him with their personal problems.
  - C. does not include delegation of authority or responsibility.
  - D. does not encourage employees to work as a team to solve problems.
  - E. is none of the above choices.
- 2.19 Our sense of relief after a stressful job episode is most closely tied to
  - A. cessation of the alarm reaction stage.
  - B. the extent to which we are Type As.
  - C. our ability to control our hostility toward others.
  - D. whether or not we are experiencing work overload.
  - E. whether or not we are internalisers.

- 2.20** Knowledge obsolescence and role ambiguity occur least often in employees who
- A. are externalisers.
  - B. are non-hostile Type As.
  - C. are senior employees with vast job experience.
  - D. have recent university degrees.
  - E. all of the above.
- 2.21** A Type-B behaviour pattern could be most easily acquired by
- A. a hostile, insecure Type A person.
  - B. an internaliser who has a high need for affiliation.
  - C. a person who has a personalised need for power.
  - D. an externaliser with a low need for achievement.
  - E. any of the above.
- 2.22** The link between emotions and heart disease
- A. ignores the impact of work stressors.
  - B. grows in importance as we deepen our understanding of how our personalities govern our perceptions of stress.
  - C. cannot be proven because emotions are unique to each of us.
  - D. is strengthened only in the alarm reaction phase of the General Adaptation Syndrome.
  - E. none of the above.
- 2.23** An employee who is consistently defensive in all job situations is
- A. in the resistance phase of the General Adaptation Syndrome.
  - B. an overloaded employee.
  - C. both A and B.
  - D. a type-A person.
  - E. none of the above.
- 2.24** In general, individual approaches to stress management emphasise
- A. raising resistance to stress and reducing risky behaviour.
  - B. higher performance on the job.
  - C. getting along better with colleagues, friends and family members.
  - D. safety on the job.
  - E. all of the above.
- 2.25** The relaxation response can be learned and it teaches us how to
- A. eliminate our alarm reactions.
  - B. monitor our heart rates under stress-inducing circumstances.
  - C. control our breathing, invoke pleasant imagery, and to put 'distance' between us and stressors.
  - D. both A and C.
  - E. none of the above.

## Short Essay Questions

- 2.26** Comment on the relationship among job stress, formalised work systems that allow little employee work discretion and long-term employee productivity.

- 2.27** Why might managers experience high levels of job stress and burnout if their companies are trying to lower their costs by downsizing?
- 2.28** Comment on some of the features of organisational stress-management programmes and suggest those features that may be most useful from the employees' perspective.

### Case Study 2.1: Samuel Logston

Samuel Logston left home at 5 a.m. and headed for the train station for his 30-mile ride to the centre of the city. Sam's job was temporary and he hoped he wouldn't be late because he wanted to make a good impression: there was a chance that his position would become permanent. However, he wasn't holding his breath. After 15 years in the profession Sam knew that most employers would try to hire plumbers with less experience at lower salaries.

Sam believed that the commercial and industrial construction business would never recover to full employment, so he had begun the ambitious job of learning computer repair skills so that he could land a job in the city's bustling service industries. Although he vowed to study hard in all of his computer courses, he had found it very difficult to concentrate because he had assumed all of the childcare and household duties since his wife worked as a full-time teacher. This was a serious commitment because their two children were not yet in school. Caring for the two little children left Sam with scant time to concentrate on the complexities of computer repair.

Sam's wife, Nora, taught social studies in a tough, inner-city school known for its gangs and drug problems. While she was a senior teacher at the top pay level, pay increases were few. When they were both working full time, they had to get up early, prepare the children for daycare and travel by public transport to their jobs after one or the other had dropped the children at the daycare centre. When one of the children was sick, either Sam or Nora had to leave work to take them home to see to their needs. Sometimes this created problems for each of them at work because it was difficult for their employers to arrange to find a qualified substitute at short notice.

For the last several months Sam had been picking the kids up from daycare, preparing the evening meals and finishing the household chores. At the weekends, he added shopping and bill paying to his list of family jobs. Nora had to concentrate on her teaching and the weekends often found her marking students' exams and preparing lessons for the coming week. By the time the children were in bed at 8 p.m., both Sam and Nora were beat from their 15-hour work days: they were just too tired to talk! They both dozed in front of the television and one or the other would wake up to an empty sofa and a droning BBC programme around 11 p.m.

Increasingly, Nora complained about her job and the pressure she was under. Teachers had to handle discipline problems and they had to be available to meet the parents of students who were disruptive at school. Nora had experienced a few unpleasant encounters with parents even though her principal had attended these meetings. She still enjoyed teaching but she dreaded activities that took her from her classroom. She found being a hall monitor to be particularly stressful. She felt uncomfortable with the tougher teenage boys and she knew that they sensed her uneasiness. Some bolder boys would make threatening remarks to her. Just last week she had to fail a student who retaliated by saying that his father would be paying her a visit in her classroom. Sam had noticed that lately Nora seemed more depressed and he was concerned because she frequently talked about giving up her job. Even more worrisome to Sam was the fact that one of Nora's colleagues had called him to say that she was worried about Nora.

Sam and his family had not really adjusted to the financial effects of his under-employment. For 18 months he had worked an average of only two days a week. Sam had given up going to the plumbers' union hall to bid for jobs. Companies simply were not hiring. Since Nora's salary would not adequately cover their living expenses and the costs of his computer repair courses, he had begun to do small plumbing and carpentry jobs for people in the neighbourhood. If the children were sick, he would try to make arrangements with Mrs Phillips, the next door neighbour, to take care of the children when he had a repair job to finish.

At this writing Sam's temporary job had lasted for nearly a month. Yesterday he had come home at 6:30 p.m. to find Nora crying in the living room. The children were crying too: apparently they were hungry. As he looked closely at his wife, Sam saw that she had a bruised cheek. Through her sobs Nora explained how the irate father of a failed student barged into her classroom as she was preparing to leave for home. He said that she had to change his son's mark because failing the course might mean that he would be held back for a year. Nora had said that she couldn't do that and he would have to take up the matter with the principal. In a very threatening way the father blocked her exit from the classroom. A security guard overheard the man's loud and threatening language and he wisely called the authorities. The belligerent father had not hurt Nora but she was so unnerved by the experience that she tripped and fell causing her cheek bruise. She told Sam that she had to attend a meeting with the father, his son, the school principal and the director of security tomorrow at 9 a.m. Nora winced as she told Sam about her dread of tomorrow's meetings.

As Sam saw the pain on his wife's face and the nervousness in her voice he understood why she wanted to leave.

- 1 What are the stressors that are at work on Sam and Nora?
- 2 Given their current circumstances, is it possible for Sam and Nora to overcome their difficulties? What recommendations would you make to them?

## Case Study 2.2: The Pain of Downsizing<sup>1</sup>

The bombshell fell in the guise of a videotape. It was a slick, corporate 'news' programme for employees, the kind that typically delivers some feel-good message.

Not this one. It featured a nervous Nynex Corporate executive who insisted that the profitable company must slash its operating budget by up to 40 per cent to remain competitive. The upshot: another downsizing that would eliminate 15 000 to 25 000 people from the payroll. That meant more than one in five employees would lose their jobs. The survivors of an earlier cutback cried foul, while management soberly tried to justify the work-force meltdown.

This is the tale of what has been happening at Nynex in the wake of that shattering announcement. It is the story of a flabby company in the midst of a gargantuan effort to remake itself, reduce costs, improve customer service, and prepare for an onslaught of more aggressive competition in the years ahead. But it is also a wrenching human drama. The players: a dynamic, steely executive leading the effort; an outside consultant whose firm is billing the company \$1m per month to help with the downsizing; a

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<sup>1</sup> John A. Bryne, (1994) 'The Pain of Downsizing', *Business Week*, 9 May, 60-3 and 66-8.

thoughtful survivor; and a resentful victim. In unusually revealing, introspective interviews, they offer an inside look at what it's really like to live through the painful process that has become a central fact of corporate life.

**ANGRY AND BITTER.** Like many corporations, Nynex has been shrinking for years; riding itself of 19 200 employees out of a total of 95 400, including 13 000 managers. In pure percentage terms, this latest cutback is one of the largest ever reported by a major telecommunications firm. The company made its plans official by taking a \$1.6bn charge to earnings to cut 16 880 employees, or 22% of the work-force, over the next three years. Two months later, Nynex acknowledged the cutbacks would cost an additional \$1.3bn in charges for severance terms more acceptable to union leaders.

'Even though the company hopes to avoid forced layoffs by enticing employees to accept buyout offers, many months ago I would have said that morale was low and it couldn't go any lower,' says one executive. 'But I'd have to say it's even lower today'. Adds a former manager: 'The top executives are willing to sacrifice people to make their bottom line on a quarterly basis. In the long term, they are selling the corporation out'.

The drama now playing out at Nynex is being enacted at many other corporations that are downsizing, outsourcing and dumping pension obligations to reduce costs. Rarely a week passes without the announcement of yet more cutbacks in giant firms like General Motors, United Airlines, Ford Motors, Delphi (an automotive parts maker) and Boeing. In their quest for efficiency, companies have been charging billions of dollars against their current earnings to lay off hundreds of thousands of workers. The current euphemism is 'reengineering' – a bloodless term for corporate bloodletting on an unprecedented scale. In the year's first quarter, employers announced an average of 3106 pink slips per day.

The sight of so many bodies on the corporate scrap heap is sparking a complex debate – about profits and loyalty, and about the benefits and unforeseen consequences of layoffs. Critics, including some prominent executives, believe massive downsizing has become a fad because investors bray for cost cuts. Others maintain that large-scale staff reductions even at profitable companies such as Procter & Gamble Co. and Xerox Corp, are necessary to maintain competitiveness in a fast-changing global marketplace. In effect these analysts are proposing that downsizing should be a permanent part of corporate strategy!

**HARD CHOICES.** Few observers expect an end to the spate of downsizing announcements. 'In many large companies, we still see tremendous fat,' says Noel M. Tichy, a management professor at the University of Michigan. 'Yet there still remains this naive view that as the economy continues to take off, these jobs will come back. That's nonsense'.

Tichy and others believe that gains in productivity – which rose in America at an annualised rate of 4% during the last decade – are largely the result of these work-force meltdowns. What the statistics of efficiency don't measure, of course, is the costs in emotional trauma to laid-off workers and their families, to the executives who often carry out the orders, or to the less secure and over-worked survivors in dramatically smaller firms.

Today's corporation is no longer a secure or stable place. It's an uncertain, turbulent environment where managers often find their compassion and humanity in conflict with the pressures of competition and ambition. Fear is almost palpable in the corridors of the reengineered workplace, where loyalty takes a backseat to survival and personal advancement.

The events that unfolded at Nynex are unique and coloured by the company's own culture, traditions, personalities, and politics. But they are also universal: they exemplify the challenges and the pain that face both healthy and troubled organisations everywhere.

## Downsizings

In the quest for efficiency and survival, many of America's corporate behemoths have been shedding employees at unprecedented rates. Table 2.3 shows the largest announced staff reductions during the previous decade.

**Table 2.3**

| Company           | Staff cutbacks | Company             | Staff cutbacks |
|-------------------|----------------|---------------------|----------------|
| IBM               | 85 000         | Proctor & Gamble    | 13 000         |
| AT&T              | 83 500         | Phar Mor            | 13 000         |
| General Motors    | 74 000         | Bank of America     | 12 000         |
| US Postal Service | 55 000         | Aetna               | 11 800         |
| Sears             | 50 000         | GE Aircraft Engines | 10 250         |
| Boeing            | 30 000         | McDonnell Douglas   | 10 200         |
| Nynex             | 22 000         | Bellsouth           | 10 200         |
| Hughes Aircraft   | 21 000         | Ford Motor          | 10 000         |
| GTE               | 17 000         | Xerox               | 10 000         |
| Martin–Marietta   | 15 000         | Pacific Telesis     | 10 000         |
| Du Pont           | 14 800         | Honeywell           | 9 000          |
| Eastman Kodak     | 14 000         | US West             | 9 000          |
| Phillip Morris    | 14 000         |                     |                |

## The Recession Is Over But Downsizing Isn't

During the last recession in America corporations laid off more than a million workers in a two-year period. Even in the midst of the economic recovery that followed, big companies continued shedding workers at the rate of 3100 per day.

## The Cost-Cutter: He's Gutsy, Brilliant, and Carries an Axe

Behind every major downsizing there is a person who leads the effort, and in so doing becomes both leader and scapegoat. At Nynex, it is Robert Thrasher. He is a tough-minded, 51-year-old executive vice president with a history of breaking the rules.

At 5 feet, 3 inches, Bob Thrasher is a compact, muscular bundle of frantic talker, a boiling bundle of energy – 'a bionic gerbil,' he jokes. And he is committed to the company. Divorced from his physician wife, he typically arrives at his office by 6.45 a.m. and leaves at 7 p.m. He can't remember a Sunday in the past 20 years when he hasn't worked at home or in the office.

Thrasher would surely prefer to be known as the 'agent of change'. Instead, the executive who nervously announced the impending layoffs on that in-house video has been branded the 'corporate assassin' – the person responsible for the plan to eliminate 16 800 jobs. His critics – and there are many of them – would say that he has ice water in his veins and a pocket calculator for a heart.

Since Nynex announced its downsizing, he has had to disconnect the answering machine at his Stamford (Conn.) home because every evening it was filled with obscene messages and threats from anonymous employees. Colleagues dub him 'Thrasher the Slasher'. In

that same employee video an interviewer wryly noted that he was running 'unopposed as the top management SOB'.

A former Air Force captain in a tactical fighter group, Thrasher insists that the tough choices he's now making are inevitable. 'I know this is the right thing to do,' he says. 'Today, we have a virtual monopoly, but the states are in the process of opening up their markets. We have to improve service and reduce costs to stay competitive.

That realisation, says Thrasher, came during long-range planning discussions when he was chief operating officer of Nynex' New York Telephone unit. Top management concluded that if it continued to run the business the same way, the company's costs per access line would keep increasing even as revenues steadily declined.

Thrasher was relieved of his COO job to head the effort to reinvent Nynex. Why him? Many companies have sought outsiders to lead their attempts at transforming themselves. Thrasher, by contrast, is the consummate insider. He joined the company as a construction foreman fresh from Massachusetts Institute of Technology, where he earned a graduate degree in structural engineering. The job was in his blood: His late father was a foreman for the Niagara Mohawk Power Corp. And what would he have thought of what his son is doing now? 'My dad would have thought I'm breaking a social contract we have with our employees', Thrasher says – but then dismisses the notion. 'That's the monopoly mind-set'.

No one would ever accuse Thrasher of being a cautious bureaucrat who found shelter in the highly regulated embrace of the mother of all utilities. If anything, several associates describe him as 'crazy' because of his gutsy candour and his irreverence for authority. When he was the general manager of the company's Long Island unit, he transformed what had been one of the most troubled operations with horrendous service into one of the best. He did not worry about bruising feelings. 'In the first six months,' boasts Thrasher, 'I reassigned, furloughed, and forced-retired half of the senior management team there'.

It was that sort of hardheadedness that made him a natural for the company-wide reengineering effort. 'There was no other choice than Bob Thrasher' says Ivan G. Seidenberg, president of Nynex. 'He has enormous energy, commitment, and passion for the company. He's relentless'.

**WEEKEND HUDDLE.** Thrasher wanted to examine the company not by division, or department, or function. Instead he planned to analyse the company by its four core processes, which cut across the \$13.4bn corporation: customer operations, customer support; customer contact – i.e., sales and marketing – and customer provisioning, that is, the planning, design, and building of Nynex' network. He created four teams, with a handpicked captain for each. After spending three days at GTE Corp. to get an inside look at its reengineering effort, he hired GTE's consultants, Boston Consulting Group (BCG), to assist in the reengineering drive at Nynex.

At a weekend meeting at the Stouffer Westchester Hotel in White Plains New York, he put his teams together and told his incredulous audience what he wanted: a 35% to 40% reduction in operating expenses. The teams with 80 Nynex insiders and some 20 BCG consultants in total, dispersed and rushed through the bureaucracy observing all its key operations and they sent other teams to 152 'best practice' companies in 15 industries, looking for useful ideas.

Back home, the inefficiencies they discovered shocked all of them – most of all Thrasher. He learned that Nynex bought 83 brands of personal computers a year; that dozens of New York Telephone Co. employees spend their time repainting brand new white trucks a different shade of white at a cost of \$500 per truck; that Nynex spent \$4.5m to find and bill only \$900 000 in previously unbillable telephone calls. Thrasher asked



himself: 'How could I have presided for two and one-half years over an operation that has been that screwed up'.

His teams first came up with a list of 85 'quick wins' – easy fixes to make. By printing on both sides of customers' bills, for example, the company will save \$7m a year on postage alone. Buying only two types of PCs saved Nynex \$25m in annual capital expense. Six months later came the announcement that there would be massive layoffs.

All told, the teams compiled more than 300 specific changes, from consolidating work centres to simplifying procedures for approving customer service. Change doesn't come free, however. Thrasher initially estimated the 300 moves would cost \$700m to achieve annual savings of \$1.5bn in an operating budget of \$10bn.

**HUGE RETURN.** On three consecutive days some eight months into the reengineering effort, Thrasher made presentations to the directors of three boards at Nynex and its operating subsidiaries, New York Telephone and New England Telephone. He did something that would make any executive cringe: he asked the directors to swallow a record \$1.3bn charge against earnings and to make wholesale cuts from the payroll.

The slide that clinched the decision contained the prediction that all of Thrasher's fixes, if implanted, would generate an internal rate of return of 1025% and a payback on investment in two years. He told directors that if his teams could achieve only 25% of their goals, they would see a 226% return and a three-year payback. But those estimates didn't reflect the sharp increase in the actual cost of cutbacks, which had grown from \$700m in January to \$2bn two months later as a result of union negotiations.

Although he got approval to move forward – some 950 people are working to carry out the changes – Thrasher still meets resistance. 'Some of our senior managers still don't get it,' he says. 'What we've got to do is find them and get them out of the business'.

That's tough talk. 'This is tough, ugly work,' he says. 'The stress is palpable; I'm vilified throughout the company. People look upon me as the principal to the downsizing. That's a tough thing to carry around. Hell, I'd like not to downsize a single employee. But that would not be a prudent decision to make'.

### The Consultant: A Dentist Who Only Does Root Canals

For Phillip Catchings, the Nynex assignment has been the most challenging and difficult of his consulting career. As a partner at Boston Consulting Group, Catchings is the day-to-day leader of the consulting project that is costing Nynex \$1m a month. If BCG stays at Nynex until the job is done, the total bill could reach \$40m.

Like Thrasher, he's hardly a popular figure at Nynex these days. For one thing, employees have seen their share of high-priced consultants come and go. 'Nynex is a champion at spending millions of dollars on consultants and doing nothing with the results' groused one manager.

Besides, every time Catchings begins a consulting assignment – he has done about 45 so far – he is typically met with cynicism. 'There is some natural resentment when we come in,' he says. People ask, 'What makes you guys so smart?' and 'Why doesn't management trust us to do this ourselves?'

His job, he says, is to allay such fears – but he can't do so by pretending that his remedies will be painless. 'A dentist who claims a root canal is not going to hurt will lose his credibility,' he says. 'I'm here to do the best possible [root canal] on the organisation'.

Above all, of course, Catchings' presence provokes shudders because he is a *memento mori* in pinstripes. His arrival at Nynex or anywhere else usually means layoffs ahead. In half of his past 10 assignments, he has been part of a major retrenchment [reengineering] effort. Yet his background hardly seemed to have prepared him for his role as the



hardheaded, cold-hearted consultant. After graduating from Dartmouth in 1973, with a degree in psychology, Catchings ran a foster home for delinquent teenagers. He grew a beard and long hair, bicycled across the country, and studied pottery in Washington. The wanderlust out of his system, he spent five years in human resources with AT&T, then headed to Harvard Business School. He graduated with his MBA in 1982 and went straight to BCG.

Like most consultants, he's afflicted by 'jargon disease'. Catchings, 42, speaks of 'crafting process platforms' and 'de-averaging costs,' of 'optimum solutions' and 'phase-one diagnostics'. He concedes that his family is often disappointed with his inability to tell an anecdote about his work. 'I must have a confidentiality filter on my brain,' he says. Along with his partner, Jeffery A. Bowden, Catchings first consulted for Nynex and Chairman William C. Ferguson. That established a relationship that led to the current assignment. Catchings, whose expertise is mainly in 'change management,' has spent 80% of his 55-hour workweeks at Nynex for the last year. Bowden, a telecom expert, was already spearheading a similar effort at GTE that will claim 17 000 jobs.

**SCRIPTWRITING.** The consulting pair huddled with Thrasher and other top executives weekly for four months, mapping out the project. At that point Thrasher had picked his captains for the teams and Catchings and Bowden assembled two-dozen BCG consultants. Their role: write the script for the reengineering exercise and guide the effort.

A 'compendium' of several hundred pages detailed the project's five major phases, from 'direct process observation' in the first four months to 'broad scale implementation,' which is now under way. Catchings and Bowden helped to select the companies that teams visited for inspiration and ideas. After each trip, teams engaged in so-called clay-modeling sessions from the visits were moulded into recommendations.

Now Catchings must get on with the painful task of building the new structure and helping to make the downsizing decisions. How does he reconcile himself to the job of helping others wield an axe to people, their careers, and families? 'I try not to focus on that aspect of it,' he says. 'I'm also part of taking a frustrated, comparatively unsuccessful 70 000 employees and transforming their environment so they can be more productive. I think I'm involved in saving lots of jobs, not destroying them'.

### **The Survivor: Staying Power Has Rewards – and a Price Tag**

Nancy P. Karen, 46, thinks her job is safe. In her 24 years with the company, she has been an energetic workaholic in the critical area of information systems. As director of the company's personal computer network, she faces new and tougher demands as a result of Thrasher's efforts.

She joined Nynex twenty years ago during its big bulge in hiring, often called 'the service glut'. To meet rapid growth, Nynex hired tens of thousands of people. Karen, a Vassar College graduate with a degree in math, became one of the 103 000 employees at NYT (New York Telephone) before it changed its name to Nynex in the wake of industry de-regulation. Working in a regulated monopoly, she felt a sense of comfort and security that now seems a distant memory. 'Downsizing was totally unheard of,' she says. 'Just about everybody here started with the company at a young age and retired off the payroll'.

Thrasher's plan – and Nynex' earlier efforts to slash the payroll – have changed all that. Karen's department of 79 people, including five managers, is likely to suffer a 30% reduction in staffing. 'When they started talking about another round of downsizing, people were a little more anxious because they feel they're already stretched thin. Now we'll have to learn to work smarter and completely change the way we do things'.

Working smarter also means working harder – much harder. Soon Karen will directly supervise 55 people and she will see her work hours grow from 9–5 to 8–7! Wherever she goes these days, she carries a company-supplied cell phone and she checks her e-mail and voice-mail every hour. 'It's a different mentality,' she says. 'My weekends and holidays are not reserved'. On a recent biking vacation through California's wine country, she called the office at least once a day from 'every little town'. Since Karen is single, 'nobody complains about my work hours,' she says.

Nynex did not push Karen into her new and gruelling pace completely unprepared. The company dispatched her to a local hotel for a workshop on culture change put together by Senn, Delaney Leadership, a Long Beach (California) consulting firm. She was skeptical at first. 'To me, it was yet another program,' she says. Surprisingly, Karen left a believer. The sessions – dubbed Winning Ways – inculcates the values and skills that Nynex believes it needs to make Thrasher's reengineering changes take hold. It is a quick-and-dirty roundup of today's managerial commandments, stressing teamwork, accountability, open communications, respect for diversity, and coaching over managing.

Although impressed by how the sessions encouraged employees to speak more freely to each other, Karen saw her share of non-converts at the initial two-and-one-half-day meeting. 'Some people come back to work unchanged,' she says. 'But there's a big middle section that seems willing to change, and then there's a small percentage at the top that's very enthusiastic about it...'

Despite the increased workload and her concern over employee morale, Karen considers herself lucky. 'This is a wonderful challenge,' she says. 'I'm looking at a task of building a new organisation in the next six months to a year. I have the chance to test myself as I've never been tested before'.

### **The Victim: The Living Hell of Life on the Firing Line**

Not everyone shared Karen's optimistic view of life at Nynex. Uncertainty and fear loomed over many. When Nynex began sending written and electronic details of the buyout packages employees knew that if too many people refused the packages Nynex would be forced to push them out.

Many employees were embittered because they felt like victims of some abstract management exercise beyond their control or even their capacity to understand. One of them, an urbane manager with more than 20 years of experience, pounced on an early-retirement package, to walk out, and start a new phase of life. 'This company's values have changed,' the manager says. 'There are now right people and wrong people here, and I don't believe in that'.

Fearing retribution, this employee doesn't want to be identified. But Pat, as we'll call this middle manager in a staff position, is remarkably candid about the turmoil inside the company. Pat has made presentations before Bob Thrasher and thinks he's a 'brilliant, if ruthless executive. As an officer of the company, he's very focused and clearly sees the possibilities'. But this Nynex veteran fails to see Thrasher and other top managers sharing the pain. 'The officers all have golden parachutes. They're in charge of their own fates. We're not involved. We're just affected'.

Looking at the fate of the managers and employees who lost their jobs in Nynex' earlier cutbacks, Pat can see the profound changes that may lie ahead. Many are still without work. More than 150 of them have joined a class action (wrongful termination suit) against the company, alleging that they were selected for dismissal because of age discrimination.

Although the company formally announced its latest round of cutbacks three months ago, not one employee has yet lost a job. Details of buyout offers, including accelerated pensions, are being sent to employees in selected business units. Thrasher says the buyout offer 'removes the anxiety and angst in the work-force'.

Not to Pat, who believes offering incentives to quit isn't that much different from firing employees outright with severance pay. 'Even if people won't be fired this time, they're still frightened of the future. It affects their self-esteem and their pocketbook. And most people aren't going from something to something. They have no place to go'.

Sure Pat fears for a job that may be lost. But mostly, he claims to fear that the company to which he's devoted a big chunk of his life will never recover from the bloodletting. Pat recalls taking hours to walk to work in the aftermath of a major snowstorm – a degree of commitment employees won't be likely to feel in the future. He wonders if the repairmen who now rush to set up emergency communication lines at the scene of incidents such as the bombing of the World Trade Center will move less urgently because of Nynex' perceived lack of loyalty to its employees. Corporate values that not long ago focused on caring for employees have been rewritten so that now employees come last, Pat says, after shareholders and customers.

The Draconian downsizing, Pat believes, is really a knee-jerk response to a complex set of problems that might be addressed more subtly. 'Other companies, like Hewlett-Packard, have refocused their strategy, cleaned up their product and service lines, and for the most part retrained their folks without massive layoffs, and they're doing exceptionally well'.

Such humane options, however, may be for executives and companies that do not have to cut as deeply or as thoroughly as Nynex. As everyone involved would concede, the pain of this massive downsizing is not likely to go away any time soon.

- 1 What are the organisational stressors for managers at Nynex?
- 2 What may be some of the long-run dangers to companies in service industries that seek to gain competitive advantage through extensive downsizing?

### Case Study 2.3: A Gunman Comes Back to Work

Joe Stephenson and Andy Barkin, both supervisors in Engine Systems, Inc., power train assembly pods in the firm's Atlanta plant, were greatly troubled by anonymous, threatening phone calls to their homes. They both suspected that the unidentified caller was Phil Jacobs, a recently fired worker. During his troubled one-year employment at the plant, Jacobs had reported to both men and they knew from the start that he was a very troubled individual. Just prior to his dismissal three weeks ago, Jacobs, who smelled strongly of alcohol, had scuffled with one of his co-workers. Andy had called plant security personnel who quickly escorted Jacobs from the facility. Plant security notified the Atlanta police and they spoke to Jacobs who told them that Ronnie Nolan, his co-worker, had provoked the scuffle. Fearing Jacobs and having seen his outbursts before, Ronnie was reluctant to press charges. As a result, the police told Joe, Andy, Ronnie and Bill West, the plant manager, that they could not hold or charge Jacobs under the current circumstances. Bill signed Jacob's termination order and he was told his last check would come in the mail and he was banned from entering the company's facility. Soon after Jacob's termination, Joe, Andy and Bill met in Bill's office and agreed that they should keep Jacobs out of the factory and that employees should be told to immediately report any attempt by Jacobs to contact them at home or at work. It was

about a week after this meeting that Joe and Andy began receiving the threatening phone calls.

One month to the day after the plant floor altercation and Jacob's expulsion, Joe was reviewing inventory records prior to the start of his usual night shift duties. He was startled by the sound of a cocking gun and he looked up from his desk to see the muzzle of a 9mm semiautomatic pistol inches from his face. Holding the gun with a look of cold rage on his face was Phil Jacobs. Jacobs snarled at Joe to remain seated as he stepped behind him to roughly grab the back of his shirt. Pressing the pistol into Joe's neck, Jacobs ordered him to stand up and walk towards Andy's office. In a few seconds they were in Andy's office and Jacobs quickly slammed the door. He then ordered Joe to lie on the floor as he quickly lowered the office window shades. A few moments later Andy stepped into his office and was shocked to see his friend lying on the floor! He was shocked again to see a highly agitated Phil Jacobs who screamed at him to move behind the desk and face the wall. In that moment, looking down at Joe's terror-stricken face, Andy realised he would do whatever Jacobs asked him to do. Jacobs ordered Joe to get off the floor and to stand facing the wall next to Andy. He quickly returned to his 'caged animal' nervous, gun-waving pacing as he muttered gibberish to himself. Neither Joe nor Andy knew what to expect and their minds raced with frightening thoughts about their families and friends.

Cocking the hammer of his pistol, Jacobs screamed at Joe to use the plant's wireless communication system to summon Ronnie Nolan, Leo Bane and Stu Parsons – all of his former co-workers – to Andy's office. Joe made the call to Ronnie who motioned to the two men to stop their work and join him in Andy's office. Surprised to see Andy's office shades drawn, the men looked at each other as Ronnie knocked on the door. They could hear the muffled agitation in Andy's voice as he asked them to enter and Ronnie asked himself what could possibly make this otherwise easy-going man sound so shaky. Ronnie and his work mates entered the office and instantly Jacob's leapt from behind the office door and gestured with his gun for them to join the two supervisors who were still facing the wall.

After calling Ronnie on the two-way radio, Joe hid his movement and left it on the 'talk' setting thereby keeping a channel open to the plant's automated phone system. Joe knew that after two minutes the plant operator would switch on the channel and she would be able to overhear the voices in Andy's office. Although Joe did not know it, the operator had opened the channel and she immediately realised that employee hostages were being held by an unknown gunman in Andy's office. Without hesitation she dialled 911 to alert the Atlanta police where a calm emergency operator told her to relay all calls to her radio multiplex at the police station as well as to keep an open channel to her switching system in the plant. In that moment, every sound in Andy's office was being fed to the 911 switchboard in the police station. Within seconds the Atlanta police mobilised and dispatched a S.W.A.T. (special weapons assault team) to the plant.

Within five minutes the SWAT swept into the factory and quickly herded the confused and alarmed employees to the safety of the parking lot. Circling slowly above this beehive of police activity was a local television station's news helicopter. Inside the plant, the police team cordoned off Andy's office and kept the plant manager at a safe distance away in the event that he might be needed to communicate with the men inside Andy's office. No one knew for sure how many employees were being held hostage, but they knew who the gunman was based on a description given to them by employees who saw Jacobs running through the complex. The SWAT captain assessed the situation and turned on his megaphone. Through his loudspeaker he asked those

individuals inside to identify themselves and to describe their physical condition. No sounds came from the shade-darkened office.

Jacob's mind reeled as he grappled with his deteriorating predicament. His hand shook as he trained the gun on his hostages. Despite his dazed, angry and frustrated state he knew that the office was sealed and he and his captives were surrounded by a heavily armed SWAT. Waving his gun with less resolve, he told his hostages to move toward the office windows and to stand facing the shades. As he clamoured to find a safer position in the office, Jacobs tried to control his desperation. He knew that he could not walk out of the factory and his once feverish resolve to 'get even with his bosses and co-workers' began to crumble. He looked down at the gun in his hand thinking that he would probably be better off shooting himself because he could not undo the mess that he had created. With no particular reason for it, he shouted that he was going to release some hostages. The SWAT captain signalled his officers to lower their weapons and to not move forward – they waited for the office door to open. At that moment, with their hands in the air, all of the hostages emerged from Andy's office. At the same time Jacobs slammed the door shut as the freed men were hustled to safety by members of the SWAT team.

Desperate and deeply despondent – he was clearly suicidal – Jacobs hunched down behind Andy's desk. Despite the buzzing and ringing in his ears, he could hear the SWAT captain say that releasing the hostages was the right thing to do and that the situation could be resolved with no injuries to anyone. The captain then told Jacobs to open the door, toss out his weapon and come out with his hands up. Jacob's mind cleared somewhat as he stood up and walked toward the office door. Unsure of what to do next, standing behind the closed door, he found that his hands and body shaking uncontrollably. As he opened the door and stepped through it, Jacobs reached inside his vest and pulled the short cord that detonated five pounds of high explosives attached to his chest.

### The Aftermath...

Along with Jacobs, two SWAT members closest to the doorway were killed instantly. Ronnie, who was the last to leave the office also died in the blast. Andy was badly burned on his back and neck and he lost the use of his left arm and his hearing. Stuart lost his right foot and 30 per cent of the use of his right arm. Miraculously, the two other employees and the rest of the SWAT members escaped serious physical injury. Jacobs left behind two children and his wife. At this writing, the injured employees and police officers are undergoing medical treatment and vocational rehabilitation. They all expect to return to work after their rehabilitation is complete.

### OB clues in the case

This scenario reflects many stress-related managerial challenges and issues at several levels of OB analysis. On the personal level, the scenario and its events are extremely psychologically and physically devastating to the family members and friends of the dead and injured SWAT members and ES employees. The event was a paralysing and sudden life or death situation that thrust the hostages and many of the SWAT members in extreme personal danger. The hostages were totally dependent on a deranged, unhinged killer who was determined to exact revenge by committing suicide and killing 'his tormentors' at the same time. In the aftermath of the tragedy, the hostages, members of the SWAT and all of the employees who were present must find ways to cope with a psychological sea change in their feelings about physical recovery, psychological recovery, personal safety and security. The deeply personal changes

that they must confront and adjust to include physical disability, disorientation, altered personal and work relationships, physical and mental symptoms of panic and stress, and delayed psychological reactions – post traumatic stress – not unlike those experienced by people who have survived barbaric acts of terrorism.

At the plant level, managers and pod leaders have to find new ways to help employees feel safe as they struggle to again concentrate on their jobs. This process cannot be rushed without doing serious damage to the morale of the plant's work force. Also, it is quite likely that the plant employees who were not hostages were also profoundly affected by the terrifying situation. Therefore, company programs developed and designed to help employees should include family members and they should be long-term, multi-disciplinary and thorough. Superficial and temporary programs that thinly disguise a 'get over it and get back to work' attitude would back fire down the line because employees would conclude correctly that the company takes no personal interest in them other than their ability to perform at their former levels of output and productivity.

A third level of analysis is the reactions of key executives to the crisis and its aftermath. The immediate and indelible attitudes of traumatised employees toward the company will be forever shaped by the personal statements and actions of the firm's executives in the immediate aftermath of the tragedy. Most crisis experts would tell the firm's executives to charter a jet, head to Atlanta and be ready to give personal support on the spot as the event plays out. The executives do not need coaching or prepping. All they have to do is react to the crisis in the same humane way that they would react to seeing a person who is injured in an automobile accident – you stop to give aid and assistance.

A fourth level of analysis – one that comes well after the situation is stabilised – shapes the company's formulation of policy to handle crises (risk assessment and management). This analysis is impersonal and objective but it is just as important as the company's effort to take care of the physical and psychological needs of its employees. Crisis analysis and policy formulation addresses: 1) assessing weaknesses in plant security and surveillance; 2) training to teach employees and supervisors how to recognise and handle disgruntled and aggressive employees; and 3) designing an instant response to contain an unfolding crisis. A typical error in crisis planning that any firm should avoid is assuming that the crisis was a 'one time event' – an isolated occurrence that can conveniently be ignored for that reason. Management should be broad-minded and realise that crises come in many forms: fires, product failures (Ford's SUV rollover problem), the deaths of one or more key executives, acts of terrorism... You get the picture.

### Analysis warm up

Choose the answer that is most consistent with your understanding of the concept in each statement. Record your answer next to each statement according to the following scale:

- |                  |                     |
|------------------|---------------------|
| 4 Strongly agree | 2 Somewhat disagree |
| 3 Somewhat agree | 1 Strongly disagree |

- \_\_\_\_\_ 1 A company crisis does not require the development of a risk management plan once the crisis is resolved.
- \_\_\_\_\_ 2 Employees can return to normal after a job-based trauma by talking to one another.
- \_\_\_\_\_ 3 During a crisis, executives should first meet with the corporate legal team to map out the best response.
- \_\_\_\_\_ 4 Because disgruntled employees are rare and they seldom become violent, firms would be wasting money by training managers and supervisors to recognise and handle disgruntled workers.
- \_\_\_\_\_ 5 The best response by ES to the tragedy would be to install electronic surveillance devices and bomb sensors in all of its plants.
- \_\_\_\_\_ 6 All of the elements of a thoughtful and minimally invasive plan to deal with disgruntled employees exist in the company's employment practices.

### Interpretation of your score

If you accumulated ten or fewer points, then you are aware of the interplay among extreme physical/psychological (traumatising) stress, emotional reactions to physical injury, job stress, and corporate reactions to serious emergencies. Your score indicates that you would show consideration and empathy toward your employees and you would strive to lower the chances of repeated traumatic emergencies. You realise that during an emergency, and in its aftermath, immediate consideration and empathy are the two most important features of your managerial response to the needs of your employees. Your answers suggest that you believe that once the situation and your employees are stabilised, you would then turn your attention to learning and prevention. Your score indicates that you are willing to be patient while your workers reclaim their feelings of personal safety on and off the job.

The Atlanta hostage situation and its aftermath was an example of organisational panic made more painful by the deaths and injuries to employees and policemen. Powerful stress hormones surge through the human body during periods of intense panic and threat. In some individuals, particularly powerless hostages, these hormones can trigger heart attacks and strokes – they literally die of fright. A panic reaction can easily lead to hysteria and paralyse the person so he or she can neither flee nor fight. They become the deer that is frozen in the headlights of the oncoming car. For this reason antiterrorist specialists and SWAT members must pass psychological tests under extreme stress and why they are constantly training so that they can overcome their natural panic reactions. They have to 'learn' to suppress their hormone-driven fear and function in spite of it.

The company needs an employee assistance program (EAP) to provide crucial support to employees in the wake of the trauma. The EAP is a crucial support system because employees can use it confidentially to help them dissipate, resolve and control their high levels of emotion and stress in a healthy way. If ES were to prematurely plunge these employees back into their jobs, the affected employees would be cut off from finding healthy and meaningful ways to dissipate their feelings about the terrible crisis. If the company stubbornly – or stupidly – chose to emphasise performance and productivity rather than human needs, then most of the affected employees would quit or turn to very unhealthy ways to cope with their post traumatic stress. We would expect to see the following types of dysfunction: substance abuse, failing marriages, absenteeism, physical illnesses, and hostile aggressiveness at work, absenteeism, and rising accidents, grievances, and turnover. The impact of these dysfunctions on customer



service, productivity and other factors related to revenues would be simply awful and they would seriously impair the firm's future competitive advantage.

- 1 Predict how the employees who survived their injuries might cope with their harrowing experience over the next six months to one year.
- 2 What human values and beliefs should underpin the reactions of executives and managers to a crisis or emergency?
- 3 What should the company and its plant managers learn from this emergency?

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# Contemporary Theories of Motivation

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### Learning Objectives

By the end of this module you will be able to:

- Identify the elements that make up employee motivation.
- Clearly distinguish motivation from performance.
- Explain the various levels of human needs.
- Differentiate hygiene factors from motivators.
- Describe the differences between content theories of motivation and process theories of motivation.
- Explain how employees' personalities can interact with their perceptions of work outcomes to affect their motivation and performance.
- Explain the major components of expectancy theory and how they relate to organisational processes.
- Develop organisational examples of how behaviour modification works.
- Explain a contingency of reinforcement and how managers can apply it.
- Differentiate among various schedules of reinforcement.
- Explain why managers should practise 'stretching the ratio' in providing rewards to employees.
- Know how to set up a behaviour modification programme in a company.
- Identify the pros and cons of using punishment in the workplace.

## 3.1 Introduction

It is necessary for managers to consider the importance of motivation because it stimulates employee behaviour to achieve organisational goals. In many ways,

employees' motivation (and performance) provides the firm's day-to-day support for competitive advantage. Motivation sustains our behaviour; keeps it systematic; and it assembles and concentrates our intentions to achieve the goals we value. Managers who ignore established principles of motivation will foul up their operations because they will fail at the crucial task of linking the firm's goals to the behaviour of their employees.

### 3.1.1 What Stimulates Human Behaviour?

Human behaviour rests on needs and motives. A need is an experienced state of deficiency (a sensed imbalance) that pushes one's behaviour. Examples of needs are hunger, thirst and belongingness. A motive (achievement, power, greed, altruism) pulls human behaviour toward a goal that is predicted or anticipated. Table 3.1 illustrates these concepts, which, of course, often work in harmony. For example, you may need a pay rise to cover the cost of your summer holiday. You begin to work harder at your job with the knowledge that pay rise decisions will be made four months before your scheduled summer departure. You come to work on time, avoid taking sick leave and work more closely with your colleagues. You engage in all of these behaviours with the hope that they will trigger a rise. Your behaviour is thus pulled along by your performance motive.

**Table 3.1 Understanding needs, behaviours and motives**

| Need                               | Behaviour  | Motive   |
|------------------------------------|--|--|
| Pay rise to pay for summer holiday | Increased work output<br>No absenteeism<br>No lateness<br>Improved cooperation with co-workers<br>Higher work quality<br>Better customer service | High performance on the job to obtain merit pay rise |

Work motivation is referred to as the direction, effort and persistence of employee behaviour on the job. The direction of behaviour reflects an employee's actions which he thinks will result in task performance. The direction of motivation is evident when an engineer consults with his project leader concerning rising new product design costs. The level of effort component of motivation is how hard the employee will work (physical and intellectual energy expended) to execute the behaviours or actions chosen. For instance, if the engineer prepares a written analysis and empirical evidence of rising costs, he is working much harder than if he simply mentions his concerns to his project manager over an informal lunch. Persistence (staying power over time) is the employee's tenacity to overcome obstacles to achieve the desired result. When the project manager disagrees with the engineer's cost analysis, does he give up or does he refine his analysis by using more realistic assumptions about expenditures?

### 3.1.2 Is there a Distinction between Motivation and Performance?

On the surface, it may appear that motivation and performance are the same thing. However, while managers and employees may often confuse them, they are separate and distinct concepts. Performance implies evaluation after it occurs and therefore it suggests the presence of some sort of measuring system. Motivation, on the other hand, is only one of several psychological (internal) states that influence performance. For instance, an engineer's performance is reflected in the quality of his designs, the number of patents he obtains and the customers' satisfaction with cost and performance of his new product. While we would expect a highly motivated engineer to produce excellent products that satisfy the needs of customers, it would also be true that his performance could be affected by many other factors besides his motivation level. Such factors include: 1) his ability, 2) his need for achievement or his Type A personality, 3) the difficulty of the design task, 4) the extent of job resources available, 5) his working conditions and 6) his organisational commitment and job involvement. As you can see, motivation is just one driving force when it comes to performance.

Likewise low motivation does not necessarily cause low performance. An employee may have skills and abilities in such abundance that his high performance is assured in spite of his motivation level. Therefore, Theory X managers who always assume that poor performance is a result of low motivation risk taking the wrong steps to correct performance problems in the workplace. For instance, they may overlook the pivotal role of training and development, better equipment and technology or excessive centralisation of decision-making as primary causes of performance problems. And so, motivation has to be thought of as one of several factors that influences performance on the job.

### 3.1.3 Are there Different Types of Motivation Theory?

Motivation theories are of two types – content theories and process theories. A content theory of motivation specifies those human needs which activate behaviours aimed at need reduction. Therefore, a content theory of motivation answers the question: 'What specific needs cause motivation?' A process theory of motivation explains how behaviour is stimulated, directed, sustained, or stopped. Process theories inject the importance of human perceptions of environments in explaining motivation. The process theories of motivation show how human beings weigh the importance (value) of incentives and how intention (motivation) occurs. Both explanations offer help to managers who want to realise higher performance from their employees. The first content theory of motivation is Maslow's Hierarchy of Needs.

## 3.2 Content Theories of Motivation

### 3.2.1 A Question of Needs: Maslow's Hierarchy

Abraham Maslow, according to Professors Lawler and Suttle, believed that motivation could be explained by organising human needs into five levels. He made his

theory sufficiently broad to address human behaviour in all settings. Not to his surprise, his theory was quickly applied to the narrower range of human behaviour in organisational settings. Along with definitions and organisational examples, the five levels of Maslow's hierarchy are shown in Table 3.2.

**Table 3.2 Maslow's hierarchy of needs**

| Need level          | Description of the level  | Organisational example   |
|---------------------|---|--|
| Highest-level needs |   |  |
| Self-actualisation  | The need to reach one's fullest potential   | An engineer uses all of his design skills to create a new subcomponent   |
| Esteem              | The need to feel good about one-self and one's abilities; and to be respected by others and to receive their approval | Company promotes deserving managers and recognises employees with awards   |
| Belongingness       | The need to experience social interaction, friendship and love  | Having and sustaining good relations with co-workers, supervisors, being a member of a cohesive work team and being a part of social functions at work |
| Safety              | Need for security, stability and a safe work environment  | Having good job benefits, safe working area and job security   |
| Physiological       | Food, water, shelter and clothing to ensure survival  | Guaranteed minimum pay level that is sufficient to provide basic necessities   |
| Lowest-level needs  |   |  |

Physiological needs are the lowest level of needs in the hierarchy; they include food (hunger), water (thirst), shelter (warmth) and sex (reproduction). In today's world these needs rarely dominate (obsess) us. Real hunger (starvation) in developed nations is rare. Mostly our first-level needs are satisfied. Only an occasional experience of a couple of days without sleep, a day on a diet without food or a frantic 30 seconds under water reminds us that these basic needs are still with us. As Maslow notes, physiological needs are basic to our biological survival and are therefore dominant over psychological needs. Therefore, physiological needs are often referred to as lower-order needs.

Maslow states that physiological needs must be satisfied first. For example, your concern about a business meeting will abruptly disappear if you arrive home to see your house in flames. Your motivational base will shift dramatically to saving your family and your laptop computer because it contains your EBS MBA courses.

Safety needs are protection against danger, threat or deprivation and they are activated next. These are the guarantees that we want in our lives and from our work. Economic and physical security is generally embodied in these needs. Safety needs are tied strongly to physiological needs because meeting safety needs ensures continuity and predictability for fulfilment of the basic needs.

## How Do Safety Needs Affect Employee Actions?

Looking at examples of employee behaviour answers this question. For instance, a market researcher provides for his continued employment by joining a professional group meeting once a month to discuss new trends in his field. He then becomes prominent in the association and other professionals seek his advice on how best to position new products. A second employee fulfils the same job security need by attending a course in marketing research at the local university. Each individual is motivated to be more skilful in marketing research and both link their need for safety to it; albeit through different means (behaviours).

Belongingness is the third level of Maslow's hierarchy. This complex set of needs covers the desire to give and receive affection, show friendship, express altruism, sustain acceptance by a group and give and receive emotional support. It marks the beginning of higher-level needs which Maslow considers to be infinite; i.e., they can never be completely satisfied. We learn to value higher-order needs in our social environments and they become part of our self-concept or self-image (*see* Table 3.2).

The need for esteem is the fourth level. Self-esteem is a general feeling of self-worth that is not anchored to particular capabilities or abilities. Its external component consists of inputs such as social status, recognition, prestige and appreciation from others. The internal component of the esteem need consists of challenge and autonomy. Employees can experience the internal component as personal feelings of control over work. When work does not adequately meet this need, employees describe their work as 'monotonous' or 'mind-numbing' and they believe that work is dissatisfying. Differing substantially from self-esteem is self-efficacy; the unshakable belief held by some people that they have what it takes to succeed (the can-do trait). Self-efficacy is a touchstone of the 'positive psychology' movement that focuses on developing character strengths instead of alleviating pathologies. A simple determination to succeed defines the persistence of J.K. Rowlings who was rejected by 12 publishers before a small, London imprint agreed to publish 'Harry Potter and the Philosopher's Stone'.

Competent 'Y' managers know that self-efficacy can be built by showing subordinates how to master tasks. They can also 'model' or demonstrate successful behaviour that motivated and determined subordinates can mirror. Finally, employees can move in the direction of self-efficacy when they receive targeted and specific positive feedback about their performance. Empty praise may reinforce the self-esteem of some, but it does not create resilience and determination in employees.

Self-actualisation is the final level of the hierarchy. It is the desire to fulfil oneself by making maximum use of talents and experience: in other words, living up to one's potential. People sometimes describe it as their desire to reach their potential in life and work. Self-efficacy is sensitive to self-actualising on the job. The most resilient, stress-resistant employees usually have multiple job, career, and life sources of self-actualisation. Workers who are deficient in self-actualisation may be more susceptible to diseases of resistance and they may experience prematurely

the exhaustion phase of the General Adaptation Syndrome. To round out your understanding of Maslow's hierarchy you should also consider that:

1. For lower-order needs, a satisfied need ceases to motivate behaviour at that level. For instance, when an employee decides that he has sufficient insurance coverage for himself and his family, part of his security or safety need is met and he forgets about it unless his situation changes in some way.
2. Unsatisfied employee needs at all levels lead to undesirable outcomes at work because they create experienced inequity for employees. In turn, this produces job dissatisfaction, absenteeism, quitting, sabotage, and ineffective work relationships.
3. People have a need to grow and develop their full potential, and consequently, they believe that promotions lead to greater need satisfaction. Therefore, career management, mentoring programmes and training and development all support self-actualisation.
4. Higher-order needs are never fully satisfied. But, more of them are satisfied for employees of Y organisations than for employees of X firms.

### 3.2.2 Applying the Need Hierarchy

The need hierarchy tends to parallel employee career development. Early career stages are characterised by security concerns and learning organisational values. After five years or so, the employee's concern shifts to the establishment of a professional identity in the firm and in his chosen profession: both forms of recognition help to meet esteem needs. At the same time that esteem needs become active, the employee will pursue increased autonomy via promotions and choice project assignments. Increases in authority and responsibility at the expected times on a career path will help employees satisfy esteem needs. Self-actualisation is active during career progress but it evolves in scope. Initially it is job-focused but in later career stages it becomes organisation-focused if the employee rises to a top management position.

Senior employees who reach a career plateau – no more promotions ahead – often become mentors or sponsors of younger employees who show exceptional capacities for noteworthy careers in the organisation. Being a mentor can be a meaningful pathway to self-actualising. Other employees choose to start their own business so they can obtain more autonomy. Entrepreneurship sustains self-actualisation because it strongly and consistently reinforces the human desire for self-determination. More self-determination also has important effects on the esteem need. For instance, employees who overcome career and job disappointments and go on to achieve greater successes in their work are resilient and resourceful – they know how to create options and they don't panic when they suffer a setback. These are solid indicators of self-efficacy and, over time, it stabilises and deepens self-esteem.

The hierarchy makes it clear that unmet needs are more motivating than satisfied ones. The implication is that motivation and need satisfaction are anticipatory in

nature. This means that any employee wants to believe that his future job prospects have great potential for meeting his needs. And this is the human condition: we want to do better and we want our children to have more opportunities than we have. Managers who do not recognise (and reinforce) this hope for the future in their employees fail to seize a most powerful source of employee motivation. An effective, trustworthy manager helps his employees find a pathway to future work satisfaction because he also wants the same thing for himself and his family. Anticipating a happy and secure future is a hallmark of achieving societies that build wealth and security for the next generation. Societies and organisations that fail in this regard are not likely to survive without resorting to the suspension of human freedom.

### Criticisms of Maslow's Hierarchy

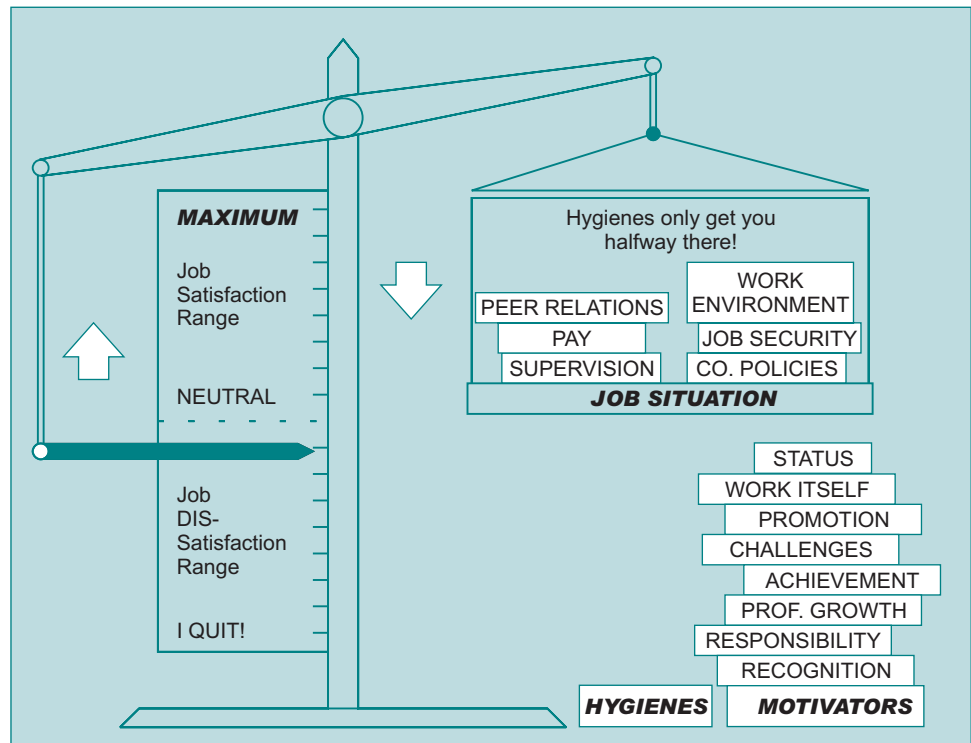
Dozens of field studies over the years suggests that the hierarchy of needs can be reduced to two levels: one physiological and the other psychological. Two fairly discrete levels seem to appear when data from many participants is aggregated. When counsellors work with individuals the five levels re-emerge. When the analysis is more individualised and personal we see the five levels at work. This is a sensible outcome because the hierarchy itself in a content theory of *individual* motivation. Some theories break down in the aggregate; perhaps Maslow's Hierarchy is one of them.

Professors Lawler and Suttle have found that as managers advance in their careers, their needs for security and safety decrease, with a corresponding rise in the importance of their social, esteem and self-actualisation needs. This leads to the reliable conclusion that as lower-order needs become less important as they are satisfied, there is no decline in the importance of higher-order needs as they are satisfied. In firms this means that employees will continue to strive for recognition, status and autonomy in their work even after experiencing considerable success in these need areas.

In summary, strong evidence supports the view that unless physiological needs are satisfied, the higher-order needs are not usually activated. As employees move through their careers, their need patterns shift to consideration for higher-order needs. In early career stages, employees focus on job security and on obtaining and holding an accepted position in the organisation, i.e., being needed and belonging. By near mid-career, their attention begins to shift to recognition, autonomy and self-development.

### 3.2.3 Herzberg's Two-Factor Theory of Motivation

A content theory of work motivation which is closely related to Maslow's hierarchy is Professor Herzberg's two-factor theory or the motivator-hygiene theory. In his study of engineers and accountants, Herzberg *et. al.* discovered that the reasons these professionals gave for experiencing motivation (or the absence of it) were quite different. Herzberg's discovery is summarised in Figure 3.1.



**Figure 3.1 Herzberg's two-factor theory of motivation**

Figure 3.1 shows that employee motivation (and job satisfaction) range from: unmotivated-dissatisfaction (resentment); to neutral (indifferent complacency); to motivation/satisfaction with the job. The level of experienced job motivation/satisfaction depends on the availability of hygienes and motivators shown on the right of the diagram. From the diagram it is apparent that hygienes (pay, status, peers, supervision, working conditions, and job benefits) by themselves are insufficient to sustain motivation and satisfaction. The various motivators must also be present to sustain the employee's motivation and satisfaction. In other words, hygienes are necessary but not sufficient to sustain high motivation. The diagram also shows that the absence of hygiene factors leads to job dissatisfaction, but when present, hygiene factors do not necessarily provide job satisfaction. In contrast, the presence of motivators does lead to job satisfaction if the hygienes are already in place.

### Why Are the Factors called Hygienes and Motivators?

The explanation for the terminology used lies in how employees experience factors that are external and internal to their work. The hygienes are elements of job context. They are contextural because they emphasise what is outside or 'around' the employee and his work. When they are not present or they are inadequate in some way, the employee's job is impoverished (frustrating, stressful and repellant). For this reason the absence of hygienes correlates strongly with turnover, absenteeism,



job withdrawal, job burnout, alienation and sabotage. In extreme cases employees may experience physical illness in extremely adverse work environments (loss of pension benefits, downsizing, etc.).

According to Herzberg, when managements improve hygienes, employees often experience short-term positive feelings, but the general improvement of hygienes does not lead to sustained motivation and satisfaction simply because employees eventually take hygiene improvements for granted. However, if the hygienes are removed as they are in re-engineering and downsizing, motivation and satisfaction naturally plunge. For this reason, hygienes are sometimes called maintenance factors.

Consider the following example.

For years, employees of the Acme Referral Service shared a bonus plan which distributed five per cent of profits as semi-annual bonuses. The firm had declared these bonuses for the previous nine years. In some years, the bonuses were as much as 45 to 55 per cent of employees' salaries. Because of poor sales one year, no bonuses were declared for the next year. However, senior executives did receive bonuses, although these were smaller than usual. Management neglected to explain to sales and office personnel its decision to eliminate their bonuses due to the company's poor performance. Consequently several skilled salespeople left the firm in the next six months.

Bonus loss was perceived by office and sales personnel as a unilateral decision to reduce their pay hygiene relative to senior executives (whose pay hygiene was sustained). This threatened lower-order need satisfaction for the affected employees. The loss of the bonuses led to increased employee turnover. Notice how quickly the highly skilled employees experienced inequity and reduced their motivation. The management lesson in this example is that reductions in hygienes must be fully explained to employees and managers must share in the loss of hygiene. (In Japan, executives are the first to experience pay cuts.) Moreover, hygienes should be restored as soon as possible.

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The factors that raise motivation and job satisfaction in the long run are called motivators (*see* Figure 3.1). Motivators are embedded in the employee–job interaction, and they are job-centred characteristics. They are also called intrinsic job factors or content factors. When they are present and hygienes are acceptable, employees are more likely to exhibit sustained job motivation. No motivators lead to apathy and job withdrawal (rusting out on the job because employees find their jobs to be unchallenging and boring. Consider the following example:

Ian is a highly successful manager of a data processing department in a large insurance organisation. During his tenure, the department has grown from 25 to 90 employees. He has always been responsible for training new employees and working with other executives to set up new systems to manage information flows. Last week Ian was told that a committee would now be responsible for devising new work systems which he would install with the help of the accounting department. Furthermore, accounting and human resources would now be responsible for training new employees for Ian's department.

Several motivators were removed from Ian's job. His autonomy and responsibility were reduced sharply by the committee's control of all new information systems. His ability to meet challenges and obtain recognition through his employee training work was eliminated. Although all hygies remain intact, one would expect Ian to be less motivated and satisfied. Further, his performance, as well as that of his department, will drop. Who would be surprised if Ian quit his job after a few months? He was a self-starting employee who made a real contribution and he was heavily involved in his job. Even if the company undid the damage, Ian would probably leave anyway.

The example above indicates that employees think of motivators as rewards which should occur in the wake of good performance. Abundant and available motivators bring out the best in self-starting employees and high achievers. According to Professors Dunnette *et. al.*, some employees will respond very favourably to such conditions by demonstrating more intrinsic motivation. Intrinsic motivators unfold as the employee succeeds on the job and their availability redoubles the employee's effort. Such employees are thought to be intrinsically motivated. Hygies, on the other hand, are sources of extrinsic motivation because they are part of the job's context. Building on that principle, it is true that extrinsic motivation is subject to the effectiveness of the firm's reward, supervision and performance appraisal systems. Therefore, the availability of extrinsic motivators is less subject to employee control whereas the sources of intrinsic motivation in a job are determined by the employee himself.

### Benefits of Herzberg's Work

Herzberg's work has influenced thinking in organisational behaviour and management. Its most enduring benefit is its focus on the effects of company systems and job design on employees' motivation and job satisfaction. Job design refers to how work is structured and how much employees control their work decisions. Before Herzberg's theory, employee motivation was thought to be a simple function of pay (extrinsic reward). His theory expanded the set of available incentives to include intrinsic rewards. He also clarified the motivation-satisfaction puzzle by framing the difference between hygies and motivators as well as their differing effects on satisfaction and motivation. We now know that concentration on hygiene factors will not ensure that organisations have creative, involved, productive and motivated employees. This conclusion is reinforced by the description of the Theory Y organisation presented in Module 1.

### 3.2.4 Comparing Maslow's and Herzberg's Models

The work of Maslow and Herzberg is different yet related. Herzberg is concerned with work and organisational sources of motivation and satisfaction. Maslow focused on generalised human needs which occur in life situations, one of which is work. Maslow's lower-order needs resemble hygiene factors because they provide the platform from which individuals begin their search for personal growth. Maintenance factors (Maslow's lower-order needs) do not guarantee this growth for employees on the job. Once they are met or satisfied, the individual can pursue higher-order need satisfaction if it is warranted by his job's design. Thus, hygienes are necessary but not sufficient to ensure employees' personal growth through work. Herzberg's model is a specific application of Maslow's hierarchy to work. It answers some very practical questions about the factors which lead to high motivation/satisfaction and the factors that lead to low motivation/satisfaction. Herzberg's theory appeals to managers because it suggests ways for them to control motivation and job satisfaction through the manipulation of job design and rewards.

The two-factor theory has been criticised for several reasons. According to Professor Korman, the most important criticism centres on the method for testing the theory which requires employees to consider their work experiences retrospectively. Researchers believe that 'historical' comparisons lead employees to identify a predictable set of factors related to high or low motivation. Other researchers believe the theory oversimplifies the nature of motivation and satisfaction: a frequent criticisms of content theories in general. Critics of Herzberg's work (Professor Lawler and others) suggest that more emphasis be placed on the motivational and performance consequences of the model.

## 3.3 Process Theories of Motivation

Now we turn our attention to those process theories of motivation that help us understand how employees decide to be motivated. Process theories target decision making, perception, and elements of the work environment; especially the available rewards. In this section we will return to equity theory and discuss its important contributions to managers' understanding of employee motivation in organisations. Then we shall address expectancy theory: the dominant process theory of motivated behaviour on the job.

### 3.3.1 Equity Theory: Social Comparisons in the Work Setting

As we noted in Module 1, equity theory as developed by Professor Stacy Adams makes a contribution to understanding how employees react to incentives and outcomes in the context of the performance–job satisfaction relationship. On its own, equity theory is a prominent process theory of motivation. The theory proposes that employees gauge the fairness of their work outcomes in comparison to the work outcomes received by others who perform comparable jobs. To the extent that employees feel that their rewards are inadequate, they experience a state of

imbalance or perceive inequity. Felt or perceived inequity motivates the employee to take action to address his dissatisfaction (restore a sense of balance between his feelings about outcomes and the actual outcomes he receives). Inequities (imbalances between feelings and facts) at work exist whenever employees feel that their rewards for their efforts are less than the rewards or inducements received by others for their efforts or contributions. This process of social comparison is shown below.

|                             |             |                          |
|-----------------------------|-------------|--------------------------|
| Employee's rewards          | compared to | Others' rewards          |
| Employee's inputs (efforts) |             | Others' inputs (efforts) |

A felt negative inequity occurs when the employee believes that he has received relatively fewer rewards than others in proportion to the level of effort that he expended on the job. Felt positive inequity occurs when an employee feels that he has received relatively more rewards than someone else for a measured level of effort or input. Both of these mental states are motivating and the employee in question seeks to remove the felt inequity and return to a state of balance or equity. To restore a state of equity, an employee might:

1. Change work inputs and reduce performance efforts (to eliminate negative inequity).
2. Change the outcomes received (ask for more responsibility to reduce positive inequity).
3. Exit the circumstances (leave a job or request a transfer).
4. Change the people who are used for comparison.
5. Mentally distort or alter the comparison (rationalise that the inequity is only temporary and will be resolved in the future).
6. Take a decision to alter the inputs or outcomes of the comparison other (get his or her co-worker to work less hard).

Numerous organisational and laboratory studies generally confirm that people who feel overpaid (felt positive inequity) are often motivated to increase both the quality and quantity of their work. Those who feel underpaid and overworked often compensate by decreasing both the quality and quantity of their work. Further, felt negative inequity is a stronger motivating emotional state than felt positive inequity. Thus employees are less likely to correct an 'overpaid' imbalance than they are to correct an 'underpaid' imbalance.

### 3.3.2 New Research Light on Equity Theory Applications

Professors Huseman *et. al.* propose that individual differences (personality) enters the process of social comparison. Benevolents are employees who are comfortable with an equity ratio which is less than that of their comparison other(s). Such employees are altruistic and they willingly volunteer to cover for colleagues and they will expend extra effort to achieve unit goals. While it has not been investigated, such employees might have a higher need for affiliation (*see* Module 1).

Equity sensitives are those employees who prefer outcomes that do not vary from the original formulation: they want rewards and the way they are distributed to stay the same: NO CHANGES PLEASE! Entitleds are those employees who are comfortable with an equity ratio which exceeds that of their comparison others. Some researchers view these individuals as 'slackers' (freeboarders): they gladly accept their portion of the rewards that are spread among group members without feeling any guilt for their sub-par contributions.

When a manager employs principles of equity theory he soon learns – perhaps to his confusion – that his criteria for distributing rewards (and the rewards themselves) is judged by his subordinates who may be 'benevolents, sensitives or entitleds'. For this reason, it is a managerial mistake to believe that all employees will perceive their work assignments and rewards in the same way. What the manager thinks is going on when it comes to rewards is much less important than how employees perceive rewards and their distribution. The manager must be on the lookout for imbalances and he must channel employee behaviour in a constructive fashion to restore balance without sacrificing important unit goals. When employees experience fairness they respond with more motivation, and they experience more satisfaction. If employees experience negative inequity their motivation and satisfaction vanish, they become distrustful of management's motives (more work for less pay), and they grow suspicious of their co-workers. This brings us to the following question: What 'equity principles' should rise to the top of the manager's thinking?

1. When highly valued rewards are allocated, equity sensitives will make social comparisons that are based on the firm's traditional method for allocating them: they want to 'stick to the old system'.
2. Anticipate that certain employees will feel both positive and negative inequity (entitleds and benevolents).
3. In advance, tell employees about salary ranges, pay increases and promotion opportunities.
4. Avoid secrecy about pay policies and procedures. While it may not be advisable to encourage employees to compare their levels of pay with others, do make sure that they fully understand pay ranges, pay brackets and the relationship between high performance and significant rewards.

Let's end our discussion of equity theory with a 'short story'.

Alicia was overloaded by work so she decided to go into the office on Saturday morning. She saw a document in the fax tray so she picked it up and read it. It contained the base compensation, bonuses, performance ratings and salary rises for all 75 of her co-workers. She was surprised – outraged might be more appropriate – to see that a confirmed nincompoop was earning \$50k per year more than competent colleagues, and some new hires were earning \$20k more than several seasoned veterans. Her first reaction the data was to ask herself:

*'Why in hell am I working weekends for less pay than these slackers?'*

Alicia quit three months after she read the memo because she 'just couldn't stand the inequity of it all'. She never shared her secret knowledge with any

of her co-workers. Her reason for this was: 'I would have been better off not knowing any of that. I couldn't share it with people who were still working there because it would have depressed them like it depressed me.'

### 3.3.3 Understanding the Basics of Expectancy Theory

Expectancy theory comes next. It is a robust process theory of motivation that is quite useful for analysing employee work behaviour. Let us begin with an example.

Paul chose Tristan to help him with an interesting project. It involved the relationship among real-time pricing factors, market conditions and the behaviour of commodities brokers who bought and sold agricultural commodities in electronic, international markets. The study results were going to be used to modify the firm's strategic plan. Paul realised that Tristan was the logical person to assist in the project because he had experience as a broker and his university degree was in international finance. Tristan was flattered to have been chosen to work on this important project; yet, for some reason, he was not highly motivated to tackle its complexities. He was confident that he could work well with Paul, but something was amiss. Tristan attributed his lack of interest to his belief that completing the project would have little impact on his career in the company. For past five years he has not worked in agricultural commodities. Instead, he has been part of a team that worked on reducing the overhead cost structure of the firm. He now feels that this is the area in which he would like to advance his career. So, the project is an interesting distraction, but a distraction none the less. It isn't related to his career path.

Paul recognised that Tristan was not highly motivated to work on the project. On several occasions, he had tried to prod Tristan's enthusiasm for the project. He was not successful until he decided to send Tristan to talk to the head of the internal auditing division, André Worthington. André had been a broker at one time and he pointed out to Tristan that the project was important because it could lead to the creation of a new division to handle trades for large commodities firms in Europe. The new division would need a controller. If Tristan successfully completed the project with Paul, he could easily be a serious candidate for the job. Paul followed up on André's point with Tristan. Paul and André were not surprised to see Tristan declare: 'Full steam ahead on the project!'

Tristan had a motivational problem. His project abilities were high, but he was uninterested until André pointed out the connection between the successful completion of the project and the creation of a new division which would require a new controller's position. Once Tristan saw the connection between the project and a goal he valued personally, his effort level on the project increased dramatically. The example shows that motivated employees think that their work activities should help them to achieve personally important goals. The motivational process which explains Tristan's story is expectancy theory.

The expectancy theory of motivation was developed by Professor Tolman. He realised that behaviour is always purposeful and goal directed and it could only be understood in terms of the probabilities that a given behaviour will lead to outcomes valued by the individual. Professor Vroom of Yale University applied Tolman's ideas to employee behaviour and expectancy theory was born. It is now

a leading explanation for employee behaviours such as 1) turnover, 2) absenteeism, 3) joining a new organisation, 4) career choice, 5) performance, and 6) leadership effectiveness. Researchers continue to add new 'explained behaviours' to the list each year. For the sake of simplicity, let us first describe the theory, then describe its components, give examples of each component, and finally apply the ideas to Tristan's story.

### Components of Expectancy Theory

Valence is defined as the personal attractiveness of different outcomes. If an outcome such as a promotion has a positive valence, then the employee is strongly motivated by behaviours that he thinks will make that outcome more likely. Negative valence is attached to undesirable outcomes and it suggests avoidance behaviours to the employee. Thus, being censured publicly by the boss is negatively valent for most employees. The concept of valence is highly idiosyncratic and value-laden. Valence is like stress: 'It's in the eye of the beholder'.

### Outcomes in Expectancy Theory

Expectancy theory has two classes of outcome. First-level outcomes are the result of expending effort in some directed way. Important first-level outcomes at work would be job performance, coming to work late, leaving or accepting a position and working at home. These outcomes are important to organisations and they have profound effects on employees. Second-level outcomes occur after first-level outcomes and are the direct result of achieving, or not achieving, first-level outcomes. Examples of second-level outcomes include getting a promotion, being transferred, receiving recognition, obtaining a pay rise and attending a training programme. Employees assign valences to each type of outcome.

### Probabilities in Expectancy Theory

Instrumentality is the personal belief that first-level outcomes lead to second-level outcomes. If instrumentality is positive, then the employee believes a second-level outcome will occur given some level of performance. For example, if a worker believes that he will not be promoted if he continues to be the lowest producer in his unit, then he will increase his performance to gain the valued promotion. Negative instrumentality refers to the employee belief that a second-level outcome will not occur after a given first-level outcome.

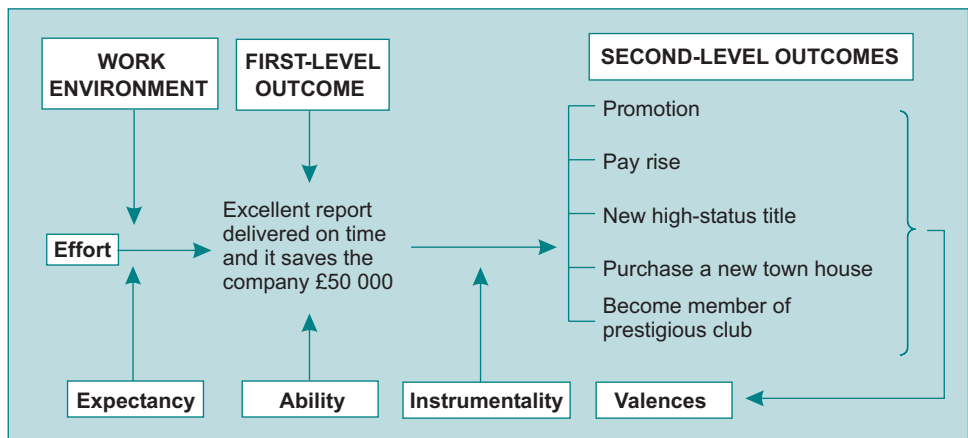
Managers must evaluate and direct instrumentality. For instance, they want their employees to see a clear pathway from performance excellence to second-level outcomes that are positively valent. If rewards are distributed equitably for excellent performance, then employees experience rising instrumentalities and increased job satisfaction. In other words, the pathways from excellent performance to valued rewards become clearer, more reliable, better understood and enthusiastically pursued by motivated employees (This principle is called line of sight). Any management action or company practice that breaks, bends or alters instrumentalities



must be removed. Professors Stahl and Harrell note that unintended turbulence in instrumentalities triggers lowered levels of employee effort and performance.

Expectancy is the employee's subjective belief that a given level of effort will lead to a first-level outcome on the job. Expectancies are judgements about the relationships between voluntary levels of effort and various first-level outcomes just mentioned. When you watch a horse-race and your choice is leading, you raise your expectancy that your horse will win. The same reasoning applies to employees when they decide to expend energy on the job. If expectancy is zero, then they believe that there is no connection between their effort and measured, first-level outcomes. For example, a student with a degree in zoology will not try very hard to get a job as a lawyer even though he may be interested in the behaviour of lawyers. If expectancy is high, then the employee believes that his effort will produce acceptable and valued first-level outcomes.

Figure 3.2 shows all of the concepts discussed so far. In the figure, the employee exerts effort to achieve a first-level outcome such as high performance on the job. He does this for two reasons. First is the fact that high performance may be positively valent in its own right: e.g., he enjoys the feeling of accomplishment for a job well done and you can think of it as being intrinsic motivation. A second reason that the employee in the figure exerts effort is his belief that successful performance (first-level outcome) will produce a valued second level outcome (recognition from his boss and co-workers, a pay rise, etc.). This example highlights the importance of the performance-reward connection (instrumentality).



**Figure 3.2** The expectancy theory of employee motivation

By way of contrast, no effort will be forthcoming if the employee believes that no connection exists between effort and performance (e.g., 'No matter how hard I try, I'll never get to be a chartered accountant'). Notice in the figure that prompt feedback about performance and rewards (second-level outcomes) is necessary to sustain high effort levels. The ability of the employee is an important component of the model because ability must be sufficient to achieve and sustain a given level of performance. Thus, the employee must know how to competently perform the task



at hand. If ability is low, no amount of effort will cause successful performance. Therefore, performance is the product of motivation and ability.

The last component in the model is the block labelled work environment. Its elements include both hygienes and motivators. For instance, the nature of supervision would be included in this component. The reward and performance appraisal systems would also be included in the work environment. Finally, the way work is organised (Job Design in Module 5) is an element of work environment.

### 3.3.4 Applying Expectancy Theory

The story of Tristan and Paul conforms to expectancy theory. Tristan became extremely interested in the commodities project. High performance on the project became a first-level outcome which he believed was associated strongly with a highly valent, second-level outcome: e.g. becoming a candidate for the controller position in the new division. The instrumentality between making a success of the project and being a candidate was also positive and so he reasoned that making the project successful would establish his strong candidacy for the job.

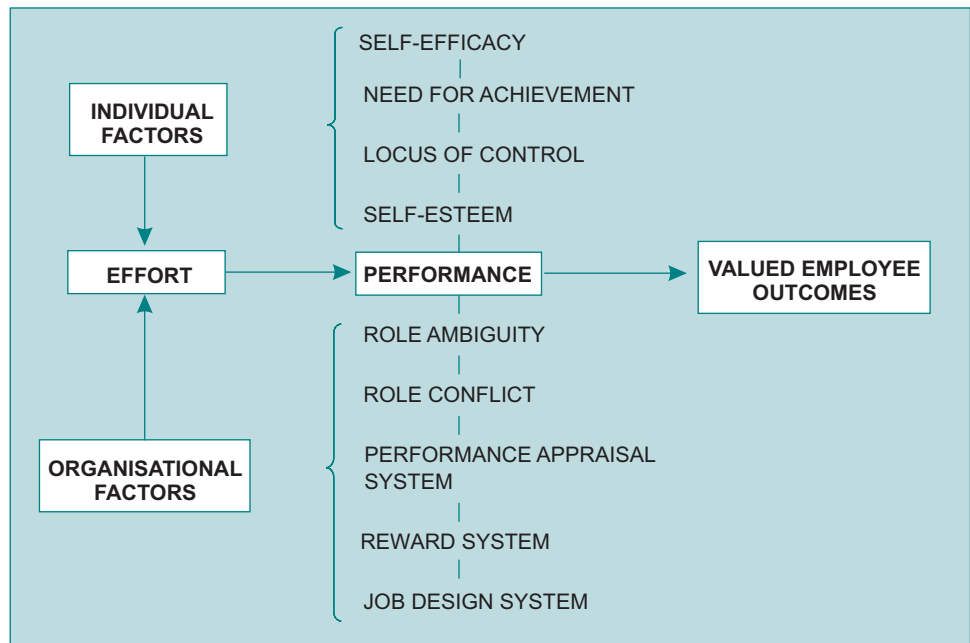
Once Tristan grasped the instrumentality of working with Paul on the project and advancing his career, his level of effort (motivation) improved. His expectancy (belief that effort will lead to performance) was high and outcome valences were high and positive. If Tristan has the ability (we must trust Paul's judgement on this), then the project should be completed by the desired date.

Referring to the model in Figure 3.2, André becomes an important component of Tristan's work environment. André pointed out the connection between the project and Tristan's potential candidacy for the controller position in the division, if it were to be established. Tristan was previously unaware of this connection, so his instrumentalities for the project were low. Through André, Paul cleared an expectancy pathway for Tristan (he created line of sight; e.g., effort to performance) and an instrumentality pathway (performance to reward). This example emphasises the critical role of leadership as a component of the work environment.

### 3.3.5 Extending Expectancy Theory to the Individual and the Organisation

Expectancy theory can help managers understand their subordinates and the organisation they work in. There are several other factors that bear on this understanding and they are shown in Figure 3.3.

The individual's need for achievement is a personal trait which influences effort, instrumentality and expectancy. The achieving employee believes his performance can and should be high, and he is willing to expend much effort on the job if it challenges (and increases) his skills and abilities. If the achieving individual believes the organisation rewards performance, then his instrumentalities will be high and positive. If the achieving employee believes the organisation does not equitably reward performance, then he will probably leave. Remember, every frustrated employee with a high need for achievement is a potential competitor!



**Figure 3.3** Individual and organisational factors in motivation

Locus of control has systematic effects on the motivational process. It represents the employee's beliefs about whether his behaviour influences the outcomes he experiences in work. If an employee has a strong external locus of control, he may see no instrumentality between performance and second-level outcomes (instrumentality is zero). On the other hand, the individual with an internal locus of control believes in a strong connection between his behaviour and valued outcomes. Under conditions which enable this employee to control his work, he will be more motivated than his externalising co-worker.

Locus of control shows the importance of providing employees with opportunities to control significant features of their jobs. Organisations tend to develop complex reward systems which distribute extrinsic rewards exclusively. Employees often believe that rewards are not distributed equitably (i.e., the system does not recognise performance as the sole basis for assigning rewards) in their companies. Or they may believe that there are too many layers of external control between them and their work (too much red tape as in a Theory X firm). These employees come to believe – and they are right about it – that management does not trust them to exert self-control on the job. These complex control systems are designed to 'check up' on employees; not to reward their initiative and creativity. In turn, their real effect is to reduce motivation levels (cloud line of sight) for internally oriented employees.

Self-esteem (esteem needs in Maslow's hierarchy) also influence the expectancy theory model. If employees have a positive self-image, then they are likely to believe that their effort will lead to successful performance and they experience high expectancies for given performance behaviours. Employees with negative self-images will believe that their abilities are inadequate, and they will expend

less effort on the job. This is a dangerous self-fulfilling prophecy because the employees fail at the task and this deepens further their negative self-images.

## Organisational Factors and Motivation

Let us consider the organisational factors that influence employee motivation.

Role ambiguity, when it is high, really whacks expectancy and instrumentality. It is defined as a lack of clarity or lack of understanding of job or work demands. As supervisors explain a job or give employees feedback about their performance, they are removing role ambiguity as they strengthen the connection between effort, performance and second-level outcomes for employees. If supervisors do not take the time to explain their work expectations or if they do not give regular and meaningful performance feedback to workers these workers will react by lowering their expectancies and instrumentalities. If you keep employees in the dark about their job responsibilities and their performance, you surely cannot expect much in the way of improving performance and motivation.

Role conflict leads to inconsistent work expectations. The essence of role conflict is having two sets of work expectations which are antagonistic. For instance, a manager of a production unit may be held responsible for increasing output while maintaining a given level of product quality. At the new level of output it may be very difficult to preserve the quality requirements dictated by higher management. Supervisors themselves create role conflict. If an employee reports to more than one boss: role conflict. The employee is in the 'damned if I do, damned if I don't' position.

When role conflict and role ambiguity are both high, the accuracy and stability of expectancy and instrumentality deteriorates (and of course line of sight suffers too). Employees experience wide fluctuations in instrumentalities under these conditions. One day they may feel confident about the relationships between work standards and valued second-level outcomes such as promotions and pay rises. The next day supervisors alter work demands and employee instrumentalities erode. Volatile or unreliable work demands always raise employee frustration and job dissatisfaction.

The organisational performance appraisal system plays an important role in expectancy theory. It provides employees with tangible information on their performance progress and goal attainment. The very best systems emphasise formal and informal performance feedback throughout the year: employees come to expect it as a permanent feature of their work. The primary goals of performance appraisal are: 1) informing employees about where they stand relative to performance, 2) developing information to make personnel decisions, e.g., promotion, pay rises and termination and 3) identifying employees with training and development needs. Reliable, accurate on-going communication must be present to accomplish those three goals. If supervisors take their responsibility to carefully assess the performance of their subordinates, then their employees will have less volatile, more stable, and more reliable expectancies and instrumentalities regarding work standards, productivity goals and performance feedback (that's line of sight of course!). If

supervisors then make informed recommendations based on data for pay rises, promotions, training programmes and terminations, then subordinates will perceive the system as being equitable and understandable. They will recognise that a dependable relationship between performance and reward exists. This will lead to higher levels of effort, performance and job satisfaction.

The firm's reward system plays a key role in the effective application of expectancy theory at work. Employees do not want to be confused about performance expectations and company goals. They want their bosses to keep them informed about requirements for successful job performance. However, if poor performers consistently get larger rewards than excellent performers, then the expectancies and instrumentalities of the excellent performers disintegrate. This triggers lower motivation, performance and job satisfaction for high performers (as we've seen in Alicia's story above). The high performers judge the reward system to be unfair and may start searching for new employment opportunities. The valence of alternative jobs has increased for them! Of course, the big loser is the firm: the ratio of duds to stars increases because the denominator shrinks!

The job design system also plays a key role in expectancy theory. Most employees prefer more control to less in their work. Employees do this by getting promoted. Promotions are not, however, available to all employees: after all, the firm is a pyramid and there are few positions available in the 'executive attic'. This situation is a particular problem in mature firms that compete in very stable – also mature – industries. Such firms must make more control available in the absence of abundant promotion opportunities. This can be done by making existing jobs more challenging and fulfilling. One way to do this is to reward employees for acquiring new skills. The more skills they learn, the more control they acquire over their work assignments. Managers can also delegate authority for more meaningful tasks to subordinates. This too creates control opportunities for employees. When an organisation gives employees more control over their work, those employees perceive stronger connections between their performance and second-level outcomes (rewards). Finally, when employees are more skilful and their job control increases, they are more versatile. Over time, this contributes to work force flexibility and productivity; both drivers of competitive advantage.

The process and content motivation theories which we have discussed up to this point have emphasised the role of the individual in relation to his work environment. These models emphasise that people are motivated by thoughts, feelings, sentiment and mental processes. And so, our motivation theories are cognitive theories that view the individual as the origin of motivated behaviour. The external work environment plays a secondary role in cognitive motivation theories. After we look at cultural elements of motivation, we shall examine organisational behaviour modification. This is a process theory which emphasises exclusively the role of the environment in shaping the behaviour of employees.

### 3.4 Cultural Differences in Motivation

As globalisation and outsourcing grip companies and their workers, researchers are interested to see if cultural differences affect levels of employee motivation.

These differences apply to 1) socially acquired need theory, 2) Maslow's hierarchy, 3) Herzberg's two-factor theory and 4) expectancy theory. For example, Americans rate self-actualisation as very important while the Greeks and Japanese regard security as the most important need. Individuals in other cultures also fail to value need for achievement as much as Americans do. In Sweden and Norway, belongingness needs are more highly valued. The hierarchy of needs works for the people of Peru, India, Mexico, the Middle East and Canada in the same way that it works for Americans.

Research conducted by Professor Adler in New Zealand indicates that supervision and relationships with peers are classified as motivators while American workers generally consider these to be hygiene factors. In cultures which value cooperation and collaboration, principles of expectancy theory break down because the theory is individually based rather than team based. Thus, when rewards are dependent on team efforts and performance, the salience of expectancy and instrumentality is diminished in those collaboration-oriented cultures. For example, US managers and employees have a consistently high expectancy that their efforts will lead to higher performance. In sharp contrast, according to Professor Hines, Muslim managers believe their performance and success are determined by God.

#### 3.4.1 Behaviour Modification (BMod)

BMod places the environment front and center in motivation and it de-emphasises the role of the individual in the motivation process. Human needs and mental decision processes are ignored in this form of motivation theory because BMod focuses exclusively on behaviour that can be observed, BMod targets for study the learned connection between behaviour and its consequences (both good, bad and neutral). BMod has had a major impact on our understanding of how human beings learn and it has broad organisational applications. Let us now establish the basics of BMod so that you can begin applying it to problems in your firm

BMod is rooted in the work of B.F. Skinner. Professor Skinner and others argue that behaviour is a function of its consequences. Please recall this contrast: cognitive motivation theories posit that behaviour is a function of internal needs and motives. BMod states that external or environmental consequences determine behaviour. Table 3.3 lists the key concepts used in BMod.

The main principles of BMod are the four contingencies of reinforcement defined in Table 3.3 and shown in Figure 3.4. Table 3.3 helps you distinguish among the four. Both positive and negative reinforcement strengthen behaviour. In the case of positive reinforcement, a pleasant outcome is obtained; in the case of negative reinforcement, an unpleasant consequence is avoided. In both cases, a given behaviour is reinforced and thus it is strengthened: it is more likely to occur under similar circumstances. For negative reinforcement, the behaviour that is reinforced is the one that helps the person avoid an unpleasant consequence. Therefore, when you are negatively reinforced you have successfully avoided a potentially aggravating or painful situation.

**Table 3.3** Key concepts in BMod

| Key concept               | Definition  |
|---------------------------|---|
| Operant conditioning      | Reinforcement which modifies behaviour through its consequences   |
| Law of effect             | Tendency to repeat behaviours which cause favourable consequences, and not to repeat behaviours which cause unfavourable consequences |
| Positive reinforcers      | Favourable or pleasant consequences   |
| Negative reinforcers      | Unfavourable or unpleasant consequences   |
| Neutral reinforcers       | Consequences which are not favourable or unfavourable   |
| Positive reinforcement    | Strengthening a behaviour by occurrence of a pleasant consequence   |
| Negative reinforcement    | Strengthening a behaviour by removing an unpleasant consequence   |
| Punishment                | Weakening a behaviour by occurrence of an unpleasant consequence  |
| Extinction                | Weakening a behaviour with occurrence of a neutral consequence or removal of a positive consequence                                   |
| Behavioural shaping       | Successively closer and closer approximations of desired behaviour  |
| Schedule of reinforcement | Frequency with which reinforcement accompanies behaviour  |
| Stretching the ratio      | Altering the rate of reinforcement  |

Source: Adapted from R.C. Dailey, 1988. *Understanding People in Organizations*. St. Paul, MN: West Publishing Co.

|                        | CONSEQUENCE<br>PRESENTED  | CONSEQUENCE<br>REMOVED    |
|------------------------|---------------------------|---------------------------|
| PLEASANT CONSEQUENCE   | POSITIVE<br>REINFORCEMENT | EXTINCTION                |
| UNPLEASANT CONSEQUENCE | PUNISHMENT                | NEGATIVE<br>REINFORCEMENT |

**Figure 3.4** Contingencies of reinforcement

In extinction a pleasant consequence is removed or a neutral consequence occurs. This has the effect of weakening behaviour. Consider what happens to you when you try repeatedly to make a point and you are ignored by the meeting's chairman. After a while you will cease participating because a neutral – perhaps slightly negative – occurrence takes place (you are ignored by the chairman).

Punishment occurs when an unpleasant consequence is presented. Punishment and extinction both weaken behaviour. Figure 3.4 shows that behaviour can be linked to its consequences in four ways. Each of these relationships is called a contingency of reinforcement. Let's develop an example of each of the contingencies.

## Positive Reinforcement

Behaviour is strengthened by the occurrence of pleasant consequences. A manager gives a subordinate a difficult assignment. The employee exerts great effort and completes it on time in excellent form. The manager reviews the work and has him present the analysis to higher management. His analysis results in a savings of \$4000 for the firm. He then receives a bonus of \$1000.

## Negative Reinforcement

Behaviour is strengthened by removal of an unpleasant consequence. This is negative reinforcement (avoidance learning). Employees come to work on time to avoid supervisory reprimands. Negative reinforcement is abundant in most organisational employment policies. As a preventative measure, various forbidden behaviours are specified in an employee handbook. Along with those behaviours, a variety of organisational sanctions are also specified. Together the forbidden behaviours and their sanctions represent a stated threat: and the employment rules clearly specify the desired avoidance behaviour. The result is the suppression of bad behaviour. The employee matches his behaviour to the employment policies and 'presto', the negatively reinforced employee toes the line (and avoids unpleasant consequences too!).

## Extinction

Behaviour is weakened if a positive consequence does not follow. For example, an employee engages in distracting conversations with his fellow workers. They respond by ignoring him. Eventually his immature behaviour ceases. From an operational standpoint, managers can use extinction if the employee behaviour in question has no adverse effect on individual or team performance. 'Ignore it if it doesn't matter!'.

## Punishment

Behaviour is weakened if an unpleasant consequence occurs after the behaviour. In a team meeting an employee is caught playing hearts on his laptop by his supervisor. The supervisor singles out the card player and makes an example of him before the entire group. Punishment has definitely taken place. Nothing ends ineffective behaviour (and builds instant resentment) like a public reprimand.

## Behavioural Shaping and Employees

Behavioural shaping is an important extension of contingencies of reinforcement. Animal behaviourists have successfully taught animals to perform tricks that are not part of the creatures' normal behavioural repertoire by simply linking rewards to closer and closer approximations of the desired behaviour. Further reinforcement occurs only if behaviour conforms more closely to the desired standard.



Managers use shaping when they help employees learn new skills. They should liberally use praise and recognition as the employees' behaviour approaches the desired standard. For example, a manager must reduce wastage rates by 15 per cent without incurring any additional labour costs. He thinks the solution is improved cross-training: employees learn to perform each others' jobs. As employees learn each other's jobs, the manager would use praise and recognition to reinforce improved waste-reducing behaviours. As waste began to diminish, he would insist on further improvements before he would administer rewards. Eventually he would achieve the new wastage rate. The essence of behavioural shaping is 'catching employees doing things approximately right' and rewarding further improvements.

Before we move on, let's spend a few lines on the use of praise in the work setting. It is a powerful tool to use in the event that employees are learning to master new skills. However, when it is over-used with seasoned veterans they experience it as condescension; a celebration of mediocrity if you will. Some firms (and managers) literally create a 'culture of praise' and it comes as no surprise that praise gimmicks soon fail to work. Keep this little story in mind when you are asking yourself if you are using too much praise at work. Otto Klemperer, the famous conductor was quite stingy with praise. One day, during an excellent rehearsal, Otto issued a curt 'good' to his musicians. They broke into applause and Otto whacked his music stand with his baton until they fell silent. At that moment he uttered, 'Not *that* good'.

### 3.4.2 Making Sense of Schedules of Reinforcement

So far we know that consequences occur predictably after each relevant behaviour. And we know that consequences are the environment's 'reaction' to the behaviour in question. When a consequence (reinforcement) occurs after each behaviour it is called continuous reinforcement and it represents only one of an infinite number of ways that reinforcements can follow behaviour. The relationship between behaviour and consequences is captured by the idea of partial reinforcement schedules. Partial reinforcement schedules can refer to the number of behaviours necessary to trigger a reinforcer or to the time that elapses between reinforcers. The various reinforcement schedules and an organisational example of each are shown in Table 3.4.

#### How Partial Reinforcement Schedules Influence Employee Behaviour

Each of the schedules noted in Table 3.4 has a unique effect on behaviour response rate. Behaviour learned under partial reinforcement schedules is more durable; it resists change or extinction. Two main types of partial reinforcement schedules are apparent in Table 3.4. When reinforcers occur based on elapsed time they are called interval schedules (either fixed or variable) When reinforcers occur after some number of behaviours they are called ratio schedules (again, fixed or variable). As the table shows, four types of partial reinforcement schedules are used in organisations.



**Table 3.4 Schedules of reinforcement**

| Schedule   | Description   | Example  |
|--|---|--|
| Continuous                                       | Consequence follows each response   | Co-worker comments each time an employee comes to work late.   |
| Partial  | Consequence does not follow every response  |  |
| <i>Types of partial reinforcement schedules:</i> |   |  |
| Fixed Ratio (FR)                                 | A fixed number of behaviours must occur before reinforcement occurs                                 | After testing 25 units, a technician is eligible for a bonus of one on each additional unit tested   |
| Variable Ratio (VR)                              | A variable number of behaviours (around some average number) must occur before reinforcement        | A service technician might get rewarded after handling five accounts then he might be rewarded again after handling seven accounts                     |
| Fixed Interval (FI)                              | After a given amount of time has elapsed, reinforcement occurs.                                     | Co-workers get together for a tea break at 10 a.m. and 2 p.m.  |
| Variable Interval (VI)                           | After a variable amount of time (varying around an average time) has elapsed, reinforcement occurs. | In one instance, a superior disciplines an employee after two days; in the next instance, he lets four days elapse before he disciplines the employee. |

### Characteristics of Partial Reinforcement Schedules

The fixed ratio schedule links rewards to a given number of behaviours. This schedule produces a very high behavioural response rate. For example, firms often use individual piece-rate pay systems (fixed ratio schedule) to generate high output. These systems require a certain number of units to be produced before the employee earns an incentive. Under these systems, employees will work extremely hard to trigger the incentive condition. The fixed ratio schedule can be used in sales work where it is called a commission system. In either application we find performance behaviour that is extremely durable and effective (little wasted effort). referred to as a commission system.

The variable ratio schedule presents consequences based on an average number of responses. A variable ratio schedule implies that an uncertain (but around some average) number of responses must occur before the reward is earned. For instance, an employee might be rewarded after successfully handling 10 customer inquiries, while at another time the reward may occur after the employee successfully handled only six. The variable ratio schedule would average out to eight behaviours to generate a reward. This schedule produces extremely durable and persistent behaviours once they are well learned.

Fixed interval schedules require that a constant amount of time pass before the reward occurs. This schedule produces response rates that are punctuated by bursts of high and low activity. Consider an example. Imagine your work behaviour if your manager came into your work area each day at 9 a.m. and 3 p.m. Your activity level would rise and fall around his entrances and departures!

The variable interval schedule allocates a reward for the next behaviour after a variable amount of time has passed. The interval between rewards always averages

out to a pre-established time. An example of this schedule is the length of customer waiting time at a bank teller's window. While the time for a given customer can vary, there is an average waiting time.

Now that we have developed several examples of partial reinforcement schedules, let's see how good you are at identifying them. Please follow the instructions below for **Identifying Reinforcement Schedules**.

*Instructions:* Please read each description and then indicate the type of reinforcement schedule in operation.

1. Two hours of time off if clerks are error-free in their work of matching register funds to the digital record of sales for five working days.
2. Giving a £20 bonus to hourly workers if electricity bills are reduced by 5 per cent.
3. Dividing all profits above 6 per cent among employees.
4. Giving employees the use of a company car for four hours if they are not absent from work over a one-month period.
5. The time clock on the wall where employees punch in and out of work.
6. Pay day every Friday.
7. If employees do not miss a day of work for one year, they become eligible for a draw in which they can win from £25 to £50.

*Answers:* 1 FI, 2 FR, 3 FR, 4 FI, 5 FI, 6 FI, 7 FI

### Stretching the Ratio and Interval of Reinforcement

Stretching the ratio or interval of reinforcement refers to shifting a reinforcement schedule from one rate to another. Let us consider an example of how this idea could be applied in the workplace.

Adrian is the manager of a shipping department. He recently discovered which shipping errors were due to an ineffective feedback system which did not indicate when employees were incorrectly processing orders. He corrected the feedback problem and set a goal of 95 per cent accuracy in order processing. He then trained his supervisors to reinforce goal attainment with praise and recognition arranged on a fixed interval schedule. Once the employees were consistently exceeding the goal, the supervisors were instructed to shift reinforcement to a three-day average using a variable interval schedule. After three months, employees were averaging a 99.7 per cent accuracy rate. At this time the supervisors stretched the variable interval schedule average to five days. No change in accuracy was detected.

### Is Stretching Ratios or Intervals a Way to Use Fewer Rewards?

Definitely not. The procedure is used to keep employees from taking rewards for granted; e.g., treating them as entitlements; unlike the musicians in Otto Klemperer's orchestra. This can be a problem when reinforcers such as praise and recognition are used on a continuous basis as supplements to pay. At first, the rewards are appreciated by employees. But, if they continue to occur too often,

they can lose their meaningfulness. Their potency can be maintained by stretching the ratio or interval of reinforcement. As a rule, financial rewards should not be administered through stretching reinforcement schedules because such a manoeuvre is experienced by employees as a cynical and transparent ploy.

### 3.4.3 BMod in Perspective

The major benefit of BMod is that it focuses on observable employee behaviour which can be measured and used to improve motivation and performance. Because it focuses on observable behaviour, advocates argue that it is more objective than other approaches to motivation. Professor Locke who is a critic of BMod argues that its methods are undemocratic and that they undermine individual choice in the workplace. The critics label these problems as the manipulative aspects of BMod (see Table 3.5). Supporters of BMod argue that it is naive to believe that organisations can be made to be free of manipulation, persuasion and influence. They state that these are natural aspects of organisational life. Proponents of BMod say that worries about manipulation are overblown and they should take a back seat to the practical value of having employees actively participate in the design and administration of BMod programmes.

**Table 3.5 Pros and cons of BMod**

| Supporters believe   | Opponents believe   |
|--|---|
| It focuses on observable employee behaviour instead of intangible individual differences | It undermines employee respect and dignity                      |
| No manipulation occurs when employees participate in the behaviour modification          | It makes organisations more manipulative and exploitative       |
| It improves employee instrumentalities   | It makes employees dull and dehumanised                         |
| Employees receive higher quality feedback about their performance                        | extensions of the machines or systems they operate              |
|  | It oversimplifies work behaviour and erodes employee creativity |

BMod systems can be designed to assist workers in obtaining higher performance levels and more significant rewards. A key feature of any BMod programme is giving employees more control over the performance feedback mechanism. This suggestion requires managers to trust their workers to gather, record and report on their performance levels to management. This process can be very meaningful to employees because they sense that they are trusted to generate their own performance information, which they then check regularly with the supervisors. This is the team approach to improving performance. The consistent interaction of employees and supervisors on the issue of performance can greatly strengthen expectancies and instrumentalities for employees.

Research conducted by Professor Fry indicates that employees are more motivated when they believe that rewards are performance contingent or merit-based. Conversely employees are less motivated and satisfied when they believe that rewards are not performance contingent.

Critics such as Fry and Hammer believe BMod violates some of our most cherished assumptions about human nature. They believe it undermines individuality

in the workplace and they believe that Mod research results cannot be extended to human beings. Professor Fry says you cannot apply 'ratomorphism' to humans. Proponents readily concede that rats, pigeons and chickens are not the same as human beings. They do counter with the point that the learning mechanisms in humans and animals are quite similar for certain levels of behaviour.

Professor Fry states that organisations are much more complex settings for behaviour than the simplified learning circumstances in a rat laboratory. Because of these complexities and differences, human behaviour in organisations is much harder to control and predict than the simple, repetitive behaviours often found in the laboratory. Our critics are not finished yet! They would also scoff at attempts to control employee behaviour by using BMod principles. They say that such programmes ignore the complexity and spontaneity of human beings at work. They charge that the application of BMod principles reduces valued differences among employees and makes them interchangeable. Lastly, they believe that BMod programmes oversimplify work and create rigid patterns in work behaviour which reduce the creative urges of employees.

Applications of BMod in industry have been criticised because they seem to work best when applied to highly routine tasks which are learned in a short period of time. As tasks become more complex and require more creativity, BMod has less application. BMod is also less useful if the work under study is machine paced rather than employee determined. This makes sense because, for BMod to work, employees must be able to select from a number of voluntary task behaviours. Machine-paced work dictates a specific behaviour in most cases.

When BMod programmes are designed with the sustained involvement of employees (a Theory Y pathway), criticisms of manipulation and subliminal control subside. Participation in setting goals, altering schedules of reinforcement and designing performance feedback systems inject informed consent into a BMod motivation system. Employees and managers can usually agree on effective, observable performance behaviours. When they work as a team to solve performance problems with BMod principles, improved trust develops. Also, such systems are more equitable because rewards are made contingent on observable performance behaviours. BMod programmes which are acceptable to employees influence substantially expectancy, instrumentality and valences for both first-level and second-level outcomes. Thus, the motivational gains achieved through BMod programmes clearly resemble expectancy theory principles.

#### 3.4.4 Understanding the Role of Punishment in Management Practices

So far we have emphasised the central role of positive reinforcement in BMod. Organisations also must eliminate or control undesirable employee behaviours because there are times when employees simply misbehave: they purposefully do the wrong thing at times. Therefore, the use of punishment is not in question here, rather we are interested in how to use it effectively (*see* Table 3.3). Managers do not like to talk about punishment because it implies that 1) they have hired the wrong employees, 2) the work environment they help create is less than ideal and 3) they

and their organisations treat their employees badly. Nonetheless, punishment is an everyday occurrence in organisations.

Punishment is an unpleasant consequence following a behaviour (*see* Table 3.3). Managers do not like to talk about punishment because it implies that 1) they have hired the wrong employees, 2) the work environment they help create is less than ideal and 3) they and their organisations treat their employees badly. In spite of these concerns, punishment is an everyday occurrence in organisations.

### Why Punishment Receives so Little Attention in Management Circles

The connotations of punishment make people uncomfortable because it's defined as 'imposing a penalty on a criminal or wrongdoer for an offence'. What manager wants to view his employees as criminals or himself as their arresting officer, judge, jury and parole officer? Let's consider an example that shows how hard it is to control the process (and byproducts) of punishment.

Sheila is an irritating and troublesome employee. Her performance has been highly erratic and her attendance has deteriorated to unacceptable levels. She has a history of accusing supervisors of sexual harassment and all of her claims have proven to be groundless. Nonetheless, she makes managers uncomfortable and her work history is checkered and filled with transfers. When Sheila acts up, a transfer can't be far off! Sheila currently works in Phillip's department where she oversees the firm's software inventory. Poor Phillip has no knowledge of her habit of accusing supervisors of sexual harassment.

Phillip approached Sheila to confront her about her erratic performance and attendance. He began to reprimand her for those problems. In a loud voice, Sheila accused Phillip of making 'insulting sexual remarks'. Several employees overheard their heated conversation. Phillip lost his composure and retreated to his office. Sheila triumphantly surveyed the work area and decided to take the afternoon off.

### What Has Happened in this Episode?

At first glance, you may conclude that Sheila was punished for her poor performance and attendance. Wrong! Phillip was punished and Sheila was negatively reinforced! The strength of Phillip's reprimanding behaviour has been weakened because he was publicly punished by Sheila. Sheila's accusatory behaviour was strengthened because she was able to stop an unpleasant consequence (Phillip's reprimand) in its tracks. This analysis illustrates one of the central difficulties of using punishment at work. Managers cannot always be sure if it has taken place.

To understand punishment, we must focus on behaviour and its consequences. Remember, punishment always weakens behaviour. Because unpleasant consequences are subjective and emotion laden, what one person perceives as punishment may turn out to be positive or negative reinforcement from another's point of view. For instance, some employees with hidden agendas may misbehave on purpose to provoke punishment: perhaps they want to settle a grudge against an

employer and one of its managers by suing all of them for sexual harassment. Now, let us consider the effective way to use punishment in the workplace.

### Why Is Punishment so Common?

As you may have experienced, control in organisations is often achieved through liberal use of punishment. Indeed, many cyclical work features of organisations can be viewed as unpleasant consequences waiting to happen. Budgets, production quotas, deadlines, performance goals and performance reviews, all occur regularly in the course of work. Successful performance removes the veiled threat in these requirements. Often employees define successful job performance in terms of escaping punishing consequences: after all, they are being negatively reinforced! Professor Solomon and others have these objections to the use of punishment in organisations:

1. To make it effective managers must closely monitor employees (create a Theory X work culture).
2. Punishment never eliminates undesirable behaviour, it only temporarily suppresses it (When the mice are away . . .).
3. Employees become anxious, fearful, less creative, hostile, and may reject delegated responsibility (Perhaps they tire of the surveillance common in 'X' firms).

Given these problems, opponents suggest alternatives to punishment. These are shown with an example in Table 3.6.

**Table 3.6 Alternatives to the use of punishment**

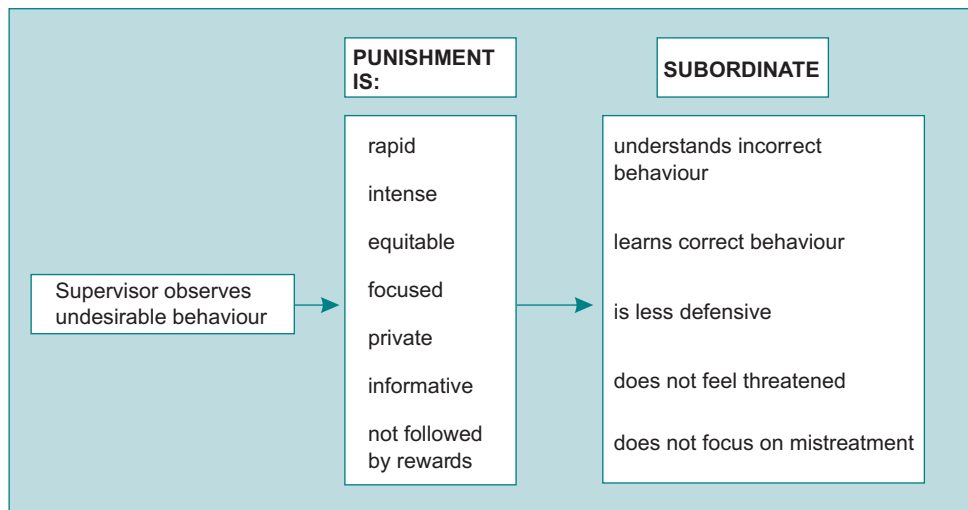
| Alternative  | Description   |
|--|---|
| Extinction   | Since much undesirable employee behaviour is intended to gain co-worker attention and to show off, supervisors and co-workers should ignore it. In this way they remove the positive consequence of attention and eventually the employee ceases the unruly behaviour |
| Re-engineer the work environment so undesirable behaviour cannot occur       | If employees waste time in the break area, install a window so the supervisor can easily observe employee activity in the area  |
| Reward behaviour which is physically incompatible with undesirable behaviour | Rather than discipline employees for untidy work areas, reward them for cleaning their workplaces   |
| Be patient and allow time for undesirable behaviour to disappear             | When a manager states 'It's OK to make a few mistakes because we learn from them' we are observing this amiable philosophy  |

### The Positive Side of Punishment in Organisations

We learn much of our behaviour from the occurrence of naturally occurring punishers. Mother Nature punishes us quickly if we stay too long in the sun or if we try to swim after a big meal. Thus, our natural environment teaches us new behaviour which we learn without permanent emotional damage. Organisations

contain natural punishers and employees learn to avoid them without permanent emotional scarring.

A second reason for the use of punishment in organisations is the fact that often there is no logical alternative. Many employees pursue activities for their own pleasure and selfish interests. Employee drug and alcohol abuse are examples. The amiable suggestions made in Table 3.6 will be ineffective in eliminating these addictive and self-reinforcing behaviours. Figure 3.5 sums up the central aspects of effective administration of punishment or discipline by a manager. The reactions and behaviours that a manager would hope to see in a subordinate who has been disciplined are shown on the right in the figure.



**Figure 3.5** Effective use of punishment

### How Can Punishment Be Used Effectively?

Now we can consider some of Professor Solomon's rules for the effective use of discipline in firms:

1. **Prevent undesirable behaviours from becoming bad employee habits.** Take corrective action before employees become accustomed to working incorrectly because you gain nothing by waiting and hoping that employees will correct their own behaviour. Losing patience after observing numerous infractions is just as bad since your punishment will be out of proportion to the infraction in most cases.
2. **Punishment must be intense and immediate.** There should be no mistake about the undesirable behaviour. The punisher should be of sufficient intensity to weaken the behaviour. Incremental disciplinary programmes are not as effective as intense and immediate punishment because employees can build up resistance to the punishers.



3. **Punishment must be equitable across people and infractions.** Match the punishment to the infraction. Also, senior employees should not be exempt from discipline nor should hard-to-replace employees be exempt. In short, no exceptions!
4. **Punishment must have information value.** After a reprimand, the employee should 1) receive an explanation as to why the behaviour is undesirable, 2) be told how to correct the behaviour and 3) be told the consequence of further infractions.
5. **After corrective action has been taken, the employee's value to the organisation must be reaffirmed.** Leave the self-esteem of the employee intact so he can concentrate on improvement rather than the emotional aspects of his bad treatment. In other words, minimise the emotional aspects of punishment so no permanent resentment sets in.
6. **Punishment should not be followed by non-contingent rewards.** This means that a supervisor should not invite an employee to lunch to alleviate his guilt about reprimanding the employee for being slow in completing a project.

### 3.4.5 Setting up a BMod Programme

Hundreds of firms have used BMod successfully in their operations. These programmes are important parts of total quality improvement programmes designed to improve accuracy, lower costs and to reduce product defects. For this reason, there is a place for BMod in improving the competitiveness of the firm. Below you will find the common, general steps followed by firms that have successfully implemented a BMod programme.

1. **Conduct a job analysis to ensure understanding of job responsibilities.** This usually entails the updating of job descriptions (*see* Module 4) to ensure that all employees (and their managers too) understand their basic job requirements.
2. **Define performance behaviours and set performance goals.** Managers and employees, as a team define performance in terms of observable behaviours and they set reasonable and measurable goals for performance improvement. Don't forget to look at goals like attendance, safety, time cycles and customer satisfaction.
3. **Conduct a baseline audit to identify the rate of correct performance behaviour.** For example, clerical accuracy rates may be 54 per cent and a reasonable target might be 94 per cent (established in step 2). A deficiency of 40 per cent would thus be identified through the baseline audit. A baseline audit is nothing more than an 'empirical place to start'.
4. **Select powerful and abundant reinforcers to reward excellent performance.** When employees hit the programme's performance goals, they should receive the rewards that they value. Managers should also be sure of the punishments they will be using to eliminate undesirable behaviour.
5. **Use continuous reinforcement to encourage new performance behaviours.** Have managers thank employees with personalised e-mails and simple rewards.



like CD players, movie tickets, free car washes gift certificates, or a more personal gift like an hour's worth of child care. These are called peer recognition programmes and many employees like them because earning the rewards makes them feel good about their work and performance.

6. **Practise behavioural shaping to obtain closer and closer approximations to the desired performance behaviour.** Performance slippage should be corrected jointly by the employees and their superiors. If employees experience a performance problem, they should not be criticised. Use teamwork and coaching to solve the problem.
7. **Lock in desired behaviours by adding new rewards that are valued by employees.** Merit points, team rewards, one-time bonuses are all appropriate. Try using these rewards on a variable ratio or variable interval schedule. This will motivate more employees to achieve the performance targets set down in step 2.
8. **Stretch the ratio or interval to move employees to a sustained level of performance.**

### Some Reminders about Initiating a Behaviour Modification Programme

The steps noted above are not complex, expensive nor time consuming. Before a BMod programme is launched, management should consider the receptiveness of the work-force to this new form of employee self-control on the job. Here are a few things to consider in this regard:

1. **Moderate to high trust must exist** between employees who will be affected by the programme and their supervisors.
2. **Employees must believe good workplace hygiene exists.** In other words, they must perceive 1) adequate pay, 2) likeable co-workers, 3) safe and comfortable working conditions, 4) good supervision and 5) fair company policies.
3. **Employees must have control over the pace of their work.** BMod does not work well in machine-paced systems.
4. **Employee ability cannot be a cause of the problem.**
5. Employees must have complete understanding of successful performance behaviours that they can **measure and record**.
6. Employees must get **regular feedback** about their progress towards performance goals. They should be able to control the feedback generation process, i.e., they should keep their own performance records.
7. **Supervisors must be trained and committed to the BMod programme.** This means they must understand how to use the principles underlying BMod.

### Summary Points

- Motives initiate, sustain and channel behaviour.
- Maslow's hierarchy consists of two general levels: physiological needs and psychological needs. These levels are also referred to as lower and higher-order

needs. Individuals can progress up the hierarchy as their careers advance or as they grow older or both. Employees naturally become increasingly concerned with higher-order needs as their careers lengthen.

- Herzberg's two-factor theory states that one set of factors cause motivation and satisfaction (content factors) and another set are responsible for dissatisfaction and low motivation (hygiene factors).
- Expectancy theory is a useful managerial tool for understanding employee behaviour. It specifies the relationships between effort, performance and rewards. The theory articulates the significance of expectancy, instrumentality and valence. These concepts can be applied to work to help employees understand the crucial relationship between performance and rewards. The components of expectancy theory are sensitive to individual differences and organisational factors.
- BMod is a process theory of motivation and learning which specifies the crucial role of the environment in shaping behaviour. It states that behaviour is a function of its consequences.
- Positive and negative reinforcement increase the strength of a behaviour. Punishment and extinction reduce behaviour strength.
- A contingency of reinforcement can be adapted to continuous or partial reinforcement schedules. Partial reinforcement schedules have powerful effects on behaviour.
- Behavioural shaping induces closer and closer approximations to a desired behaviour. Behaviours which deviate from the improvements are not reinforced.
- Stretching the ratio or interval of reinforcement strengthens behaviour and makes it permanent.
- Critics of behaviour modification suggest that the application of its principles to work dehumanises employees. BMod programmes which are based on employee participation improve employee work attitudes and performance.
- Punishment has unintended consequences because managers use it impulsively or indiscriminately. It can be effective if it is: quick, intense, fair, focused, private, informative and not followed by rewards.

## Review Questions

### True/False Questions

- 3.1 According to Maslow's hierarchy, employees are motivated by more than one need at a time. T or F?
- 3.2 Self-actualisation is always a more important need than physiological or security needs. T or F?
- 3.3 Safety needs are not strongly related to physiological needs. T or F?

- 3.4 The self-esteem need has two components. T or F?
- 3.5 Motivator or job content factors are easily habituated by employees, so these factors soon lose their motivational impact. T or F?
- 3.6 Motivator factors are necessary and sufficient for sustaining levels of employee motivation. T or F?
- 3.7 Content theories of motivation address the how and why of motivated behaviour. T or F?
- 3.8 Instrumentality is the belief that effort will lead to performance. T or F?
- 3.9 Locus of control is an individual difference which systematically affects components of the expectancy model. T or F?
- 3.10 The organisational reward system has minimal influence on the high performer's instrumentalities about the relationship between performance and reward. T or F?
- 3.11 Before a BMod programme can be put into operation, the manager should determine the current level of employee performance by conducting a baseline audit. T or F?
- 3.12 In the long run, praise and recognition are most effective when administered on a continuous reinforcement schedule. T or F?
- 3.13 BMod is a cognitive content theory of motivation. T or F?
- 3.14 The connection between a behaviour and its consequence is called a contingency of reinforcement. T or F?
- 3.15 A year-end bonus is an example of a variable interval reinforcement schedule. T or F?
- 3.16 BMod programmes tend to be most effective when managers design the programme and then train supervisors and employees to use it. T or F?
- 3.17 It is safe to say that employees are usually hurt emotionally when they are affected by naturally occurring punishment. T or F?
- 3.18 Punishment can still be used effectively when it is not applied equally to all offending employees. T or F?
- 3.19 BMod programmes can be criticised because they manipulate employees towards managerially self-serving ends. T or F?

### Multiple Choice Questions

- 3.20 You own and operate a small desk top publishing and photocopying business that employs 25 people. Increasing health-care costs have forced you to consider cancelling health and hospitalisation coverage for your staff. Your decision will cause your employees to become concerned with:
  - A. self-esteem needs.
  - B. self-actualisation needs.
  - C. safety and security needs.

- D. affiliation needs.
- E. growth needs.

- 3.21** A major difference between motivator and hygiene factors is:
- A. motivators are controlled by supervisors and hygienes are content factors in the job.
  - B. hygiene factors create self-actualisation when present while motivation is triggered by the availability of acceptable pay and benefits.
  - C. motivators are most concerned with negative factors in the external job environment and hygienes relate to personal appearance and physical health.
  - D. motivators deal with job content factors that are intrinsic to the job and hygiene factors deal with characteristics of the work environment or factors extrinsic to the job.
  - E. hygiene factors can create job satisfaction and motivating factors can be associated with job dissatisfaction.
- 3.22** Linking \_\_\_\_\_ and performance under expectancy theory is necessary to enhance motivation.
- A. knowledge and abilities
  - B. rewards
  - C. probability
  - D. equity
  - E. job dissatisfaction
- 3.23** In expectancy theory applications to job behaviour, the employee can most easily manipulate:
- A. the reward, or second-level outcomes.
  - B. expectancy, or the probability that effort will yield high performance.
  - C. reward distribution.
  - D. effort.
- 3.24** \_\_\_\_\_ is useful to shape the behaviour of employees through the use of reinforcers on the job.
- A. Horizontal job enlargement
  - B. Expectancy theory
  - C. Employee training and development
  - D. Organisational behaviour modification
  - E. Vertical job loading
- 3.25** The schedule of reinforcement which is least effective at strengthening employee behaviour is the \_\_\_\_\_ schedule.
- A. fixed ratio
  - B. variable ratio
  - C. fixed interval
  - D. variable interval
  - E. All of the schedules produce equal strengthening effects.
- 3.26** One of your staff members fails to ensure the protection of sensitive company documents by leaving his computer password on an e-mail message. Instead of disciplining the employee, you decide to employ extinction to eliminate the irresponsible behaviour. Therefore you:
- A. reassign the worker to a less desirable job.
  - B. ignore the oversight and pretend it did not happen.

- C. change the passwords for all staff members in the office.
- D. ignore the staff member in question.
- E. take the whole matter to your supervisor and ask her what to do.

- 3.27** The best action to take against an employee who endangers his co-workers is:
- A. no discipline, instead let his co-workers be mad at him.
  - B. termination or give him the sack.
  - C. discipline him using a fixed interval schedule.
  - D. ignore the problem and hope that it goes away.
  - E. take the matter up with your supervisor.

### Short Essay Questions

- 3.28** Given the basic relationships between the constructs in the expectancy theory model, what practical motivational suggestions can managers extract from it?
- 3.29** Explain the similarities between Maslow's hierarchy and Herzberg's two-factor theory.
- 3.30** How similar are BMod and the expectancy theory? Identify at least three similarities between these two theories.
- 3.31** Industrial applications of BMod have generally yielded improvements in employee performance, work quality and levels of job satisfaction. Briefly discuss the caveats which managers must consider before they install a BMod programme.
- 3.32** Two employees working at comparable jobs perceive these conditions:
1. Employee one earns £50 000 annually, is a chartered accountant, works 47 hours per week and has received excellent performance reviews.
  2. Employee two earns £51 000 annually, is a chartered accountant, works 44 hours per week and has received good performance reviews.
- What should happen here?

### Case Study 3.1: Promoting Employee Productivity

The accounting employees of Lanchaster Corporation Limited are increasingly harried and pressured by their work. The boss schedules more meetings, the phones are ringing off the hooks, employees from other departments are asking procedural questions, and it is getting hard to concentrate on the work which is piling up on desks. All of the accountants believe that their productivity suffers as a result. At the corporate office, accounting employees now have a 'quiet hour' that lasts from 8 a.m. to 9 a.m. each working day. During this time they are supposed to work on long-term projects, research reports and analyses or other conceptual work that requires few disturbances and high concentration. The hour has a corporate label: Achieving Maximum Potential (AMP). It was started because the accounting employees work in a large, public open area and those conditions were thought to prevent them from concentrating on anything but the most routine work.

'It's like an invisible barrier that we have created to allow us one hour of quiet time early morning. We don't have offices with doors that can be closed', says Nigel Andrews, staff manager for general accounting.

Employees in Lanchaster's offices and regional divisions are getting used to the fact that they can't phone accounting between 8 a.m. and 9 a.m. each day. Initially, there was

considerable confusion about accounting's responsibilities to other corporate divisions and departments. It seemed that the policy was not widely understood nor accepted. During the AMP hour, employees aren't involved in meetings, processing data, running accounting errands, debugging programs or any other distracting activities. Nigel maintains that so far accounting employees are in unanimous agreement: AMP works. He notes that 'Most people outside the department are not fully supportive of the AMP hour. Some feel it is an inconvenience, but now most are 'tentatively positive' about the programme. The accounting staff is flexible. If there is an emergency during the hour, we will respond'.

Diane Rigsby, who processes the corporate payroll, said she had received just one emergency call during the first month into AMP. 'We just informed Human Resources that this hour each day is not a time to contact us. And most people think this is a good idea and they wish they could have a similar programme'.

- 1 What kinds of needs is Lanchester trying to satisfy for its accounting personnel?
- 2 How might the AMP programme influence motivation and job satisfaction of employees in other departments?

### Case Study 3.2: Motivating Employees at Cypress Semiconductor<sup>1</sup>

T. J. Rodgers, CEO, says: 'Most companies don't fail for lack of talent or strategic vision. They fail for lack of execution – the mundane blocking and tackling that the great companies consistently do well and strive to do better. At Cypress, our management systems track corporate, departmental and individual performance so regularly and in such detail that no manager, including me, can plausibly claim to be in the dark about critical problems.

'All of Cypress's 1400 employees have goals, which, in theory, makes them no different from employees at most other companies. What does make our people different is that every week they set their own goals, commit to achieving them by a specific date, enter them into a database, and report whether or not they completed prior goals. Cypress's computerised goal system is an important part of our managerial infrastructure. It is a detailed guide to the future and an objective record of the past. In any given week, some 6000 goals in the database come due. Our ability to meet these goals ultimately determines our success or failure.

'Most of the work in our company is organised by project rather than along strict functional lines. Members of a project team may be (and usually are) from different parts of the organisation. Project managers need not be (and often aren't) the highest ranking member of the group. Likewise, the goal system is organised by project and function. In Monday project meetings, employees set short-term goals and rank them in priority order. Short-term goals take from one to six weeks to complete, and different employees have different numbers of goals. At the beginning of a work week, for example, a member of our production-control staff initiated seven new goals in connection with three different projects. He said he would report on progress with certain mini-computer problems (two weeks), monitor and report on quality rejection rates for certain products (three weeks), update killer software for the assembly department (two weeks) and assist a marketing executive with a forecasting software enhancement

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<sup>1</sup> Reprinted by permission of *Harvard Business Review*, 'No Excuses Management', by T. J. Rodgers, July–August 1990, 84–98. Copyright by the President and Fellows of Harvard College, all rights reserved.

(four weeks). On Monday night the project goals are fed back into a central computer. On Tuesday mornings, functional managers receive a printout of their direct reports' new and pending project goals. These printouts are the basis of Tuesday afternoon meetings in which managers work with their people to anticipate overload and conflicting goals, sort out priorities, organise work and make mutual commitments about what's going to get done. This is a critical step. The failure mode in our company (and I suspect in most growing companies) is that people over-commit themselves rather than establish unchallenging goals. By 5 p.m. Tuesday, the revised schedule is fed back into the central database.

'This "two-pass system" generates the work program that coordinates the mostly self-imposed activities of every Cypress employee. It allows the organisation to be project driven, which helps us emphasise speed and agility, as well as being functionally accurate, which works against burnout and failure to execute. On Wednesday morning, our eight vice presidents receive goal printouts for their people and the people below them – another conflict resolution mechanism.

'On Wednesday afternoons at my weekly staff meeting, I review various database reports with my vice presidents. We talk about what's going wrong and how to help managers who are running into problems. The following reports typically serve as the basis for discussion: progress with goals on critical projects; percentage of delinquent goals sorted by managers (their goals plus those of their subordinates); percentage of delinquent goals sorted by vice president (the percentage of pending goals that are delinquent for all people reporting up the chain of command to each vice president); all employees without goals (something I do not tolerate); and all employees with two or more delinquent goals, sorted by manager.

'As we've refined the goal system and used it more extensively, I've developed some general principles. First, people are going to have goals they don't achieve on time; the key is to sense when a vice president or a manager is losing control of the operation. My rule of thumb is that vice presidents should not have delinquency rates above 20 per cent, and managers should not let more than 30 per cent of their goals become delinquent. When managers do have a delinquency problem, I usually intervene with a short note: "Your delinquency rate is running at 35 per cent, what can I do to help?" I often get back requests for specific assistance. Part of my role is to hold people accountable. But it is also to identify problems before they become crises and to provide help in getting them fixed.

'Second, people need positive feedback. Every month we issue a Completed Goal Report for every person in the company. The report lists all goals completed over the past four weeks as well as those that have yet to come due. "Individual Monthly Goal Report", an excerpt from a monthly report for a production-control staffer, lists all goals completed in work week 45 of last year. The entire report consists of 49 goals, 28 of which were completed on time, 4 of which were completed late, and 17 of which were pending – an outstanding record.

'The completed goal report is also a valuable tool for performance evaluation. At Cypress, the completed goal report triggers a performance mini-review; each month managers read through their people's printouts and prepare brief, factual evaluations. At year end, managers have a dozen such objective reviews to refresh their memories and fight the proximity effect. Managers shouldn't expect outstanding performance unless they're prepared to reward outstanding performers. Yet evaluation and reward systems remain an organisational black hole for three reasons. First, managers aren't very scientific about rating their people. They may be able to identify the real stars and the worst laggards, the vast majority of people (who must still be ranked) get lost

somewhere in the middle. Second, even if they evaluate people correctly, managers like to spread raises around evenly to keep the troops happy. This is a deadly policy that saps the morale of standouts who deserve more and sends the wrong signal to weak performers. Third, managers are totally incapable of distinguishing between “merit” and “equity” when awarding increases. Merit refers to that portion of a raise awarded for the quality of past performance. Equity refers to adjustments in that raise to more closely align salaries of equally ranked peers. Merit and equity both have a place in the incentive mix, but confusing the two makes for mushy logic, counter-productive results and dissatisfied people.

‘As with all our resource-allocation systems, the focal-review system starts with policies at the top and forces middle management decisions to be consistent with that thinking. Senior management and the board of directors review our annual revenue forecasts, survey compensation trends among our competitors, and settle on a total corporate allowance for raises. The “raise budget” is not negotiable, and it drives raises throughout the company. If the corporate budget is 8 per cent, then every department must meet a weighted-average salary increase of 8 per cent. It’s up to managers to distribute the 8 per cent pool, which is where the focal-review system comes in.

‘Only after they have awarded percentage increases based strictly on merit can managers make adjustments for salary inequities created by personal circumstances and historical accidents’.

- 1 Does Cypress treat all of its employees in an equitable manner?
- 2 To what extent does the Cypress system utilise principles of expectancy theory?

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# Organisational Control and Reward Systems

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### Learning Objectives

By the end of this module you will be able to:

- Explain why organisations must evaluate employee performance.
- Describe what threatens the reliability of performance appraisal systems.
- Describe appraisal methods and discuss their characteristics.
- Explain why goals have motivating properties.
- Understand management by objective (MBO) systems.
- Distinguish among intrinsic, extrinsic, financial and non-financial rewards.
- Describe the significance of distributive and procedural justice in performance appraisal and reward systems.
- Explain the ways in which companies reward performance.
- Describe the value of group-based reward systems.
- Explain why group-based incentive plans cannot be installed in a firm that is in the middle of downsizing or outsourcing process.
- Describe how empowerment and the employment relationship can be strengthened by using group-based incentives.
- Describe the pros and cons of individual stock option plans.

## 4.1 Why Organisations Need to Assess Employees' Performance

An organisation's performance appraisal (PA) system is supposed to generate valid, quantitative information about the quality and quantity of employees' work. Over time, this data is then used to make informed, objective decisions about promotions, pay rises, training and other human resources decisions. Organisations must evaluate employee performance to ensure that employees:

1. understand their job requirements.
2. contributions to company goals are evaluated.
3. know where they stand in relation to company performance standards.
4. continue to work hard because they think the system is fair and objective.
5. agree that their performance fairly and objectively determines their pay rises and bonuses: what is called merit-based pay.

A good PA system makes all organisational processes more effective because managers can use it as a motivational tool. Effective appraisal work performed by managers naturally creates many opportunities for them to interact with their subordinates about team performance measures, service quality, cycle times, company goals, and employees' career aspirations. If there is no formal and objective performance appraisal system, employees rightly conclude that the firm is unconcerned with treating them fairly. Table 4.1 summarises some of the more important effects of performance appraisal from both the firm's and the employee viewpoint. summarises some of the more important

**Table 4.1** Effects of performance appraisal

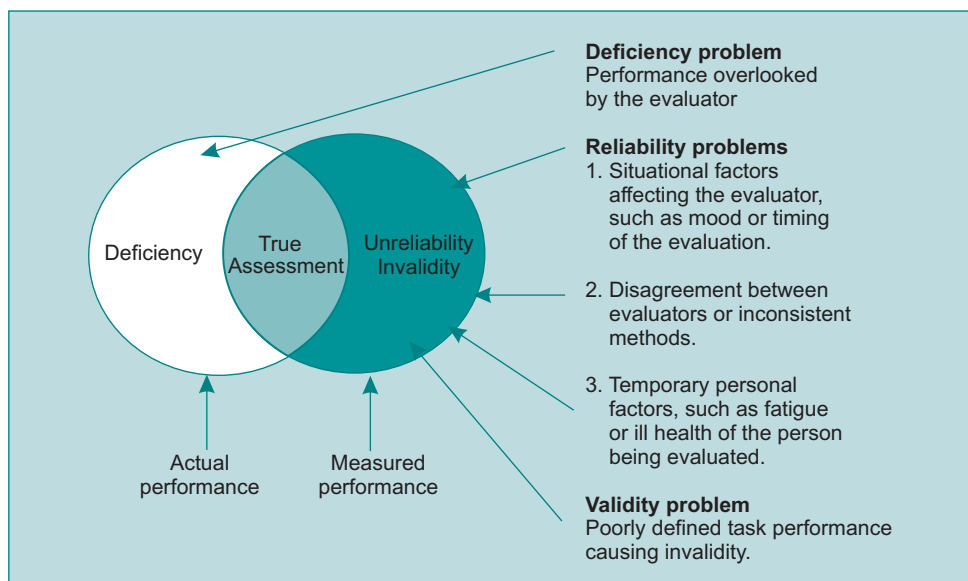
| For the organisation                  | For the employee                                |
|---------------------------------------|---|
| Performance improvement               | Need fulfilment (security, social, self-esteem) |
| Validation of the selection system    | Job satisfaction                                |
| Employee counselling                  | Organisational commitment                       |
| Training and development              | Job involvement                                 |
| Clarification of job expectations     | Satisfaction with supervisors                   |
| Help in goal-setting                  | Satisfaction with pay                           |
| Development of employee potential     | Achievement of promotions                       |
| Manpower planning                     | Greater responsibility                          |
| Documentation of existing performance | Personal career goals                           |
| Improved customer service             | Improved self-efficacy                          |
| Product and process improvement       |   |

### 4.1.1 Performance Appraisal Issues and Practices

Few managers would question the firm's need – and right – to assess the performance of its employees. The process of assessment must produce results which are fair, timely and accurate. Managements try to ensure that actual performance and measured performance are substantially equal and stay that way over time. When output consists of countable units, actual and measured performance correspond. As actual performance becomes qualitative as it must in service delivery, it is more

difficult to create suitable (valid) measurement tools. This is the basic problem in any PA system: finding the right measurement tools that accurately capture and record the work performed by employees.

Good PA systems try to improve the congruence of measured and actual performance. Figure 4.1 shows the performance measurement problems that result from low congruence between the two. It highlights three major measurement problems that crop up in performance appraisal systems. They include deficiency, unreliability and invalidity. Deficiency occurs when meaningful performance is ignored because the evaluation system fails to capture it. An example of deficiency is evident in a PA system that tracks the time and frequency of calls handled by service representatives while it fails to capture the quality of the service or the satisfaction of the customer.



**Figure 4.1** Actual and measured performance

Reliability refers to the constancy and stability of PA results under the same evaluators and similar circumstances of administration. Unreliability stems from numerous origins, many of which are related to the perception problems and PA skills of the evaluator(s). When a PA system is poorly documented and managers are untrained in PA work, reliability problems multiply.

**Validity** is the meaningfulness of the measuring components in a PA system: do they measure what they are supposed to measure? Additional types of validity important in PA are shown in Table 4.3. PA systems should have two other properties: **consistency**, two or more ways of gathering performance data producing results which agree, and **stability**, the property of dependability of results over time. Stability means that performance measuring items should yield the same scores at various evaluation periods if the performance characteristic or work

requirement has not changed. Consistency and stability are important contributors to employees' expectancies and instrumentalities (see expectancy theory in section 3.3.3).

### What Kinds of Errors do Managers Make in their PA Work?

Table 4.2 shows some of the common threats to the reliability of PA systems. All of the errors noted in the table are created by managers who are: 1) improperly trained in PA work; 2) sceptical about the importance of PA in general; or 3) not objective and fair-minded.

**Table 4.2 Errors in PA**

| Type of error                              | Definition  |
|--|---|
| Personal bias                              | A stereotype or bias which influences a superior's rating upward or downward.   |
| Halo effect                                | Rating an employee on one trait based on their evaluation on other traits.  |
| Recency error                              | The emphasis on recent performance examples in making performance assessments.  |
| Central tendency error                     | Assigning average ratings to all employees resulting in little variation among ratings.   |
| Strictness or leniency errors              | Supervisor ratings based on the belief that employees do not measure up, or that all employees measure up.                        |
| Similarity error                           | The supervisor has a performance quality in himself which he looks for in subordinates.   |
| Forcing the rating to match other criteria | Deciding on an overall rating first and then going back to adjust ratings on individual dimensions to justify the overall rating. |

**Table 4.3 Forms of validity**

| Type of validity      | Definition and example  |
|-----------------------|---|
| Content validity      | The PA measure and its administration are logically related to the aspects of performance being measured. Supervisors and employees agree that the dimensions of performance measured are related to actual job behaviours. |
| Empirical validity    | Performance measures are statistically related to other important work outcomes. An analysis shows that scores on the performance dimensions are related to quantitative measures of output.                                |
| Construct validity    | The PA system logically derives from a model or theory of performance behaviour and motivation. A firm develops its appraisal programme from the expectancy theory of motivation.   |
| Convergent validity   | Multiple measures of the same performance dimension yield equivalent scores. Observation methods correlate highly with paper and pencil measures of performance.  |
| Discriminant validity | Measures of performance using the same method produce different scores for different aspects of performance.  |

Table 4.2's problems occur because top management does not value the performance appraisal system and the data it produces. When firms do a poor job of

evaluating work performance they also tend to do a poor job of evaluating corporate performance and competitive advantage suffers in both cases. The converse is also very true: effectively tracking the results of corporate strategy assumes that employee performance is tracked too.

#### 4.1.2 Overcoming Reliability Errors in PA

Methods to overcome the rating problems noted in Table 4.2 are described below. When they are used in combinations they can reduce the number and effect of raters' errors on the results of PA work.

**Use multiple criteria.** No job is so specialised that it can be captured accurately by one performance measure alone. PA systems should rely on several performance dimensions or criteria. The more complex the job being evaluated the greater the need for multiple assessment criteria. Not all job behaviours need to be assessed: capture the 'core job behaviours' and measure them.

**Emphasise behaviours rather than traits.** Employees have all sorts of traits, many of which are unrelated to performance. For instance, seniority, company loyalty (organisational commitment), reliability, and friendliness may be desirable attributes in employees but they may have little bearing on job performance. Further, they may be useless for separating employees by performance levels. Appraisal systems that are heavily weighted with trait measures also create the problem of interrater unreliability: multiple raters will have different personal meanings for traits such as loyalty, honour, friendliness and dependability. Their disagreements about the meanings of these traits injects unreliability into the system.

**Use several raters.** Using several raters improves the accuracy of performance measurement. Since rater errors are normally distributed, the use of more raters will increase the frequency of ratings near the distribution's mean. This is the principle behind the use of multiple judges in sports competitions. Often the highest and lowest scores are dropped and the competitor's score is determined by the average of the scores remaining. The use of **360 degree performance appraisal** creates many of the strengths of multiple raters in performance appraisal work. These programmes consist of three compatible measurements: 1) employees evaluate themselves (self-appraisal); 2) peers evaluate each other; 3) the team leader appraises team members; and 4) team members appraise their team leader.

**Train the raters.** There is quite a bit of agreement among experts that systematic training of evaluators can reduce the frequency of reliability errors. In very short order, problems of halo and leniency can be virtually eliminated. With extended training of about two days, all of the reliability errors shown in Table 4.2 can be dramatically reduced.

#### 4.1.3 Improving Performance Measures with Job Analysis

Job analysis focuses on the content of what employees actually do at work as a basis for extracting dependable performance measures. Properly done, a job analysis

isolates key performance behaviours and sets the employee's primary duties in the form of a job description. A job analysis also specifies the skills knowledge and education required for the job in question. Once job descriptions are prepared it is then possible to develop the performance measures that make up the PA system.

The most difficult aspect of job analysis is isolating the core tasks in a given job. For instance, where does the job of computer programmer stop and computer operator begin? Should part of the programmer's job be the repair or replacement of computer hard drives? Such 'territorial' questions must be answered to define the content of a job. To resolve such issues, the job analyst can:

1. determine the common skills and qualifications required to do the job;
2. isolate the work tasks which occur at the same place and time because of task coordination required by the technology;
3. use externally accepted qualities to cluster tasks based on professional definitions (accountant or engineer), union demands, and licensing examinations;
4. use the traditions of the firm: how the work has always been done.

Actions 1–4 are important to employees because they influence employees' line of sight and their perceptions of the validity of the PA system. When management designs the PA system it must: 1) select the most appropriate method to measure performance; 2) develop a system which focuses on defined, core aspects of performance; and 3) train raters and establish a training manual for appraisal. Maintaining high standards in these three areas will definitely raise – and sustain – employees' expectancies and instrumentalities.

#### 4.1.4 PA Methods

No system of appraisal can deliver perfect reliability and validity because the design and implementation of a PA system is part 'empirical' and part 'art'. And, we also know that competitive advantage tries to hit a moving target (customer expectations) that is also being nudged by our corporate rivals. Thus, we need a PA system that is dependable yet flexible and changeable too. If the PA system is static, changes in the firm's business model will soon render it obsolete. With that in mind, we will turn our attention to some of the common methods of appraisal that are used by firms.

##### Absolute Standards

This method judges each employee against a fixed and inflexible set of performance criteria. That certainly doesn't sound good in relation to the above admonition! Students who take a course in which the instructor issues percentage grades are under an absolute standards system. The absolute standard system often results in upward biased ratings (leniency error), because instructors (and supervisors) prefer to give positive rather than negative feedback. Figure 4.2 shows an example of an absolute standards rating instrument which requires the supervisor to respond with a 'yes' or 'no' answer for each performance dimension.



The performance dimensions on the rating form in Figure 4.2 have an 'all or nothing' feature. The dimensions are largely personality-based and do not assess actual job behaviours. This quality often forces the supervisor to make highly subjective judgments about employee traits. This can lead to very serious reliability errors because the measures are too subjective. Absolute standard systems may also ignore important 'actual' performance behaviours because there is absolutely no way of knowing if personality traits are good proxies for performance behaviours; e.g. they may be highly invalid!

|   |  |  |                          |  |                          |                     |  |  |
|---|--|--|--------------------------|--|--------------------------|---------------------|--|--|
| NAME .....  |  |  | SUPERVISOR.....          |  |                          | DATE OF HIRING..... |  |  |
| TIME IN POSITION .....  |  |  |                          |  |                          |                     |  |  |
| Please tick the YES or NO box beside each performance dimension |  |  |                          |  |                          |                     |  |  |
|   |  |  | YES                      |  | NO                       |                     |  |  |
| Exhibits good manners (is polite and tactful).....              |  |  | <input type="checkbox"/> |  | <input type="checkbox"/> |                     |  |  |
| Has intelligence and good judgement.....                        |  |  | <input type="checkbox"/> |  | <input type="checkbox"/> |                     |  |  |
| Demonstrates stamina and resilience.....                        |  |  | <input type="checkbox"/> |  | <input type="checkbox"/> |                     |  |  |
| Is committed to the company.....                                |  |  | <input type="checkbox"/> |  | <input type="checkbox"/> |                     |  |  |
| Shows self-confidence.....                                      |  |  | <input type="checkbox"/> |  | <input type="checkbox"/> |                     |  |  |
| Exhibits leadership qualities.....                              |  |  | <input type="checkbox"/> |  | <input type="checkbox"/> |                     |  |  |
| Is enthusiastic.....  |  |  | <input type="checkbox"/> |  | <input type="checkbox"/> |                     |  |  |
| Co-operates with other employees.....                           |  |  | <input type="checkbox"/> |  | <input type="checkbox"/> |                     |  |  |
| Demonstrates initiative.....                                    |  |  | <input type="checkbox"/> |  | <input type="checkbox"/> |                     |  |  |
| Persists until the job is done.....                             |  |  | <input type="checkbox"/> |  | <input type="checkbox"/> |                     |  |  |

**Figure 4.2** Absolute standards rating form

### Graphic Scales Rating System

Graphic rating scales remain the most popular systems in use today. Current corporate surveys indicate that more than 60 per cent of firms use some type of graphic rating scale system. The typical system isolates several aspects of personality and behaviour and ties them to criteria which are meaningful to both the supervisor and employee. In other words, the criteria possess content validity. Using a numerical rating scale, the supervisor assigns a number to each criterion. Figure 4.3 shows four employee characteristics which are thought to be related to performance on the job. The scale to the right is used to indicate the degree to which an employee demonstrates a given performance characteristic.

This method of rating employees tends to spread employees along a set of numerical scales: it highlights differences. Aggregate employee scores make it possible to rank employees from 'best to worst' and such 'ranking ladders' are then used to assign merit-based pay rises. The 'merit-based' idea refers to the rung of the performance ladder occupied by a given employee. Graphic rating scales were developed because they lead to rankings followed by compensation decisions. Finally, the aggregated empirical results from the graphic rating scale system make

|   |  |  |  |  |  |                 |  |  |  |  |  |                        |  |      |  |         |  |               |  |      |  |  |  |
|---|--|--|--|--|--|-----------------|--|--|--|--|--|------------------------|--|------|--|---------|--|---------------|--|------|--|--|--|
| NAME .....  |  |  |  |  |  | DEPARTMENT..... |  |  |  |  |  | JOB TITLE.....         |  |      |  |         |  |               |  |      |  |  |  |
| PERFORMANCE PERIOD .....  |  |  |  |  |  |                 |  |  |  |  |  | SUPERVISOR'S NAME..... |  |      |  |         |  |               |  |      |  |  |  |
| INSTRUCTIONS: circle a number which best describes the employee |  |  |  |  |  |                 |  |  |  |  |  |                        |  |      |  |         |  |               |  |      |  |  |  |
| Employee Characteristic   |  |  |  |  |  |                 |  |  |  |  |  | Excellent              |  | Good |  | Average |  | Below average |  | Poor |  |  |  |
| 1. Dependability  |  |  |  |  |  |                 |  |  |  |  |  | 5                      |  | 4    |  | 3       |  | 2             |  | 1    |  |  |  |
| 2. Co-operativeness   |  |  |  |  |  |                 |  |  |  |  |  | 5                      |  | 4    |  | 3       |  | 2             |  | 1    |  |  |  |
| 3. Customer courtesy  |  |  |  |  |  |                 |  |  |  |  |  | 5                      |  | 4    |  | 3       |  | 2             |  | 1    |  |  |  |
| 4. Willingness to accept responsibility                         |  |  |  |  |  |                 |  |  |  |  |  | 5                      |  | 4    |  | 3       |  | 2             |  | 1    |  |  |  |

**Figure 4.3** Graphic rating scale form

it easier for supervisors to construct 'feedback profiles' used in the always-stressful 'performance review' session.

The graphic rating scale does not eliminate threats to validity discussed earlier. Often supervisors have a subconscious tendency to use only part of the rating scale. This leads to the problems of strictness, leniency, or similarity. Some organisations try to avoid this problem by requiring supervisors to generate a fixed distribution of performance levels (10 per cent of employees must be rated either excellent or poor, with the remaining 80 per cent situated between the two extremes). This is referred to as a forced distribution and employees can easily conclude that it is unfair (biased).

### Behaviour Anchored Rating Scale (BARS)

This system provides concrete examples of behaviours for different levels of performance. Employees often complain that they do not really understand what they are supposed to do on the job. Also, many employees say that little relationship exists between what they do on the job and how their work is evaluated: the problem of correspondence between actual and measured performance. BARS tackle these problems as they ignore personality traits (generally a good thing). BARS originated in BMod: they emphasise behaviours that can be: observed, learned and measured.

Employees and managers often work as a team to design and implement a BARS system: those who labour under it should have a hand in its design – a thoroughly Theory Y perspective! Let's face facts: employees do the work and they know which behaviours lead to success and failure on the job. When designing a BARS system, other groups of employees are used as 'quality control' checks to ensure content validity through two cycles of 'design and check'. The benefit of this cycle is the elimination of 'controversial work behaviours' that cause disagreement among the BARS designers. At this point the teams are left with a pool of highly meaningful items describing effective and ineffective job behaviours. These behaviours are tied to a core performance dimension and they are sorted relative to their effectiveness (or its absence) as shown in Table 4.4.

**Table 4.4 Behaviour Anchored Rating Scale for a sales assistant**

*Inventory control and management:* includes all those behaviours the assistant demonstrates when working with store inventory

- 7 If the manager asks this assistant about the level of stocking for a product, the assistant can immediately pinpoint the item on the computerised inventory report.
- 6 You could expect this assistant to ask another employee how to use the computerised inventory report.
- 5 This assistant would be unaware of reordering dates for items in inventory.
- 4 When asked by the manager, this assistant could be expected not to know which products are: currently out of stock.
- 3 This assistant can be expected not to know the names of products in the store's inventory.
- 2 This assistant does not know where the store's inventory is located.
- 1 This assistant does not ask where the store's inventory is located.

In Table 4.4 each numerical level of performance is discrete (and defined) behaviour: a behavioural anchor. They provide concrete, observable examples of behaviours related to a performance dimension. The behaviours are clear, observable, and employees can learn to exhibit the good ones and avoid the bad ones. If the design process has been participative, and the BARS merge actual and measured performance, the employees will accept the system – it's valid – and it will produce useful feedback that improves performance.

### How BARS Systems Differ from Other Performance Appraisal Methods

First, BARS emphasise how the work is performed: after all, it springs from principles of BMod. The strong behavioural emphasis reduces the chances for extraneous employee traits or peripheral job requirements to corrupt the employee's evaluation. Thus, BARS push together actual and measured performance. BARS work best for closely grouped jobs or a set of related tasks. In large firms with many job groupings it may be necessary to develop multiple BARS systems.

The quality of performance feedback from BARS may exceed the quality of feedback from other systems since the emphasis is on job behaviour and not on whether the individual is a 'good or bad' employee. The latter point reduces 'emotion' and lowers the employee's need for 'self-defense' in the performance review session. A less anxious and defensive employee is more apt to focus on how to improve his performance.

On the negative side, BARS take time to develop and they do not work very well if the jobs in question require creativity, intellectual curiosity, innovation, and complex problem-solving. Thus, it would be difficult indeed to develop BARS for the jobs of scientists, professors, lawyers, or physicians.

## 4.2 Goal-Setting and Management by Objectives (MBO)

Management experts like the impact of goals because they channel employee behaviour towards outcomes that are valued by the firm. Goals are defined as those end states which reduce the intensity of needs and motives. Locke proposes that

clearly specified, difficult goals result in greater performance improvement than easy goals stated in general terms. It is now widely accepted that goal setting systems: 1) increase work motivation and employee job performance; 2) reduce the stress of conflicting or confusing work expectations for employees; and 3) improve the accuracy and validity of the firm's PA system.

Table 4.5 shows the elements which make up a theory of goal-setting. The sequence begins by raising the issues of focus (specify results) and incentives (which ones matter). The second component of the model highlights the importance of the goal-setting process. Goals can be mutually determined (through team work), employer-centred (assigned), or generalised ('do your best'). Clearly, the one chosen by a manager reflects his management style. Mutually determined reflects Theory Y; assigned reflects Theory X and 'do your best' reflects 'I don't care!'

**Table 4.5 Aspects of the goal-setting process**

| Environmental issues                | →Goal-setting process →                         | Goal attributes  | →Employee intentions → | Outcomes                           |
|-------------------------------------|---|--|------------------------|------------------------------------|
| Specify results expected            | Mutually established                            | Specific   | Accept the goals       | Work performance                   |
| Explain rewards which are available | Employer-centred<br>Or framed as 'do your best' | Measurable<br>Achievable<br>Resource-based<br>Time-specific<br>'SMART' | Commit to the goals    | Job satisfaction<br>Job motivation |

The third element in Table 4.5 highlights key goal attributes. Goals should have the **SMART** qualities noted in the table. When goals lack these properties, they have less motivational impact because employees lose interest in them. The fourth element (intentions) is composed of acceptance and commitment. Employee intentions are deepened by the clear specification of the relationship between intrinsic and extrinsic rewards and the goals in question (line of sight). The fifth element (outcomes) represents the payoff for employees and the firm. The occurrence of all three outcomes always produces stronger motivation through a deepening confidence and involvement in the goal setting process.

#### 4.2.1 How Does Goal-Setting Work from the Employee's Perspective?

Consider the effect of an economisation drive to reduce costs in an insurance company by 10 percent. The manager is told that this is his goal for the next year and he and his sales staff will be eligible for an 8 percent bonus if it is achieved. He organises an employee task force to develop the office plan for achieving the goal. He urges his staffers to come up with likely sub-goals and he develops an incentive plan to encourage employees to accomplish them. The task force applies the SMART principle and the programme is launched. The process yields high employee commitment and acceptance because the goals are 'smart' and the rewards are specified. In addition, high acceptance increases the probability that the goal will be achieved and the predicted outcomes will occur.

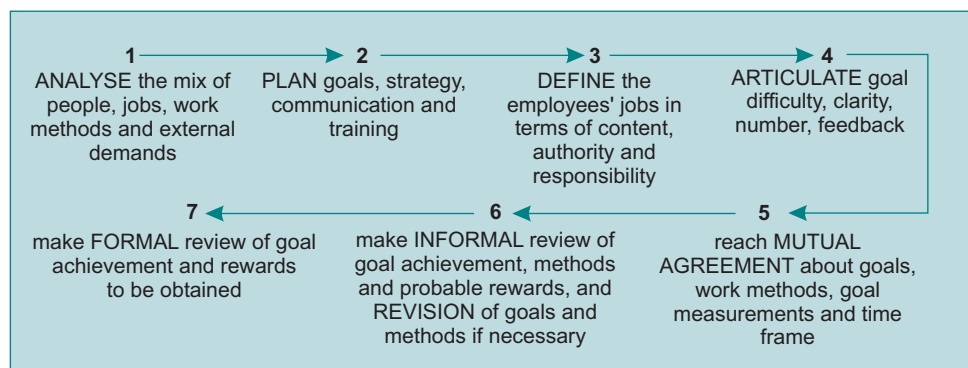
The model in Table 4.5 implies that goal feedback is necessary to sustain employee effort and commitment. Organisations must carefully incorporate well-timed

formal and informal feedback that keeps managers and employees apprised of their progress toward the specified goal. Feedback itself is a highly important intrinsic reward for many employees and without it the desired goal accomplishment is less likely to occur.

Management by objectives (MBO) is simply an organisational application of goal-setting theory. The late Peter Drucker coined the term and he championed goal setting for decades. He, and the thousands of managers he influenced, are convinced that MBO develops competent workers with self-control (a Theory Y tenet). Professor Drucker was a tireless cheerleader for MBO because he was convinced that it improved the self-efficacy of employees and it led the firm to greater competitive advantage.

The MBO cycle shown in Figure 4.4 is Professor Drucker's vision of how MBO works (see Table 4.5). The firm's concern for competitive advantage and the employee's interest in personal growth (self-actualisation) are both embedded in MBO. This makes a well-designed and implemented MBO programme an indispensable feature of the Theory Y organisation. Here are the pillars that support an effective MBO system.

1. Employees perform better when they know what is expected of them and how they contribute to the effectiveness of the organisation (line of sight).
2. Most employees prefer self-determination at work (higher-order need fulfillment)
3. Skilled employees can be motivated further by well-timed formal and informal feedback about their work methods and results (knowledge of results boosts performance).
4. Employees prefer intrinsic and extrinsic rewards that are consistent with their performance levels (perceived equity and low cognitive dissonance).



**Figure 4.4** The MBO cycle

Firms may use more than the seven steps noted in the MBO cycle shown in Figure 4.4. The generic elements in most programmes are shown below.

**Step 1.** Analyse the mix of people, jobs, work methods and external demands. The key element here is blending people, work design and technology to match the features of the firm's business model (strategy).

**Step 2.** Plan goals, strategy, communication and training. This is the production of an MBO 'blueprint' which details organisational goals and how they will 'cascade' down the chain of command. The blueprint should cover all aspects of training in MBO methods.

**Step 3.** Define the employees' jobs in terms of content, authority and responsibility to avoid duplication of effort and resources. From the employee perspective, this step clarifies job duties so that employees can see how their goals interlock.

**Step 4.** Articulate goal difficulty, clarity, number and the nature and timing of feedback in a frank superior-subordinate dialogue. Subordinates and superiors must be thoroughly trained in the application of the SMART principle.

**Step 5.** Agree on goals, work methods, measurement, and time frame. This step sets down the 'MBO rules' which govern the behaviour of employees as they strive for goal achievement. This step also formalises the role of the superior in the MBO cycle.

**Step 6.** Conduct informal reviews of progress, obstacles, methods and possible revisions. The MBO cycle must be flexible so that it can be adjusted to meet unanticipated events. For instance, poor economic conditions may force the downward revision of sales goals.

**Step 7.** Conduct a formal review and distribute rewards. This step completes the cyclical MBO process. It represents the firm's formal acknowledgement of employees' success and it closes the learning loop and sets the stage for a more ambitious follow-up cycle.

#### 4.2.2 Observing Caution in the Use of MBO Systems

MBO, like any other control system, must be managed and refined over time. The integrity and relevance of a firm's MBO system can be sustained by following the 'best practices' noted below.

1. Top management is involved, committed, and interested in MBO.
2. Keep MBO tied to routine management activities. The MBO system must support the firm's technology, products, and services – its sources of competitive advantage.
3. Blend in personal development goals. Any good MBO system must encourage employee achievement and growth.
4. Train, train, train to keep MBO on its tracks. MBO raises competitive advantage because it is an investment in people. Failure awaits the firm that implements MBO without the knowledge and cooperation of the work-force.
5. Customise MBO to meet the needs of departments which have different technologies and products. Failure to do this undermines the firm's business model (strategy).
6. Follow the '80-20 rule': '20 percent of the goals represent 80 percent of the work that needs to be done'. Stick to it so that employees are not buried under a mountain of goals.

7. Feedback should be split between discussion and evaluation so that employees do not think that learning is being replaced by control or manipulation (Don't let Theory X patterns develop!).
8. Stay flexible: unforeseen obstacles lie ahead! Be prepared to re-invent and listen to your subordinates!

### 4.3 Rewards and Reward Systems

Rewards strongly influence employee effort and performance levels. Employees at all levels compare their efforts and rewards to the efforts and rewards of other employees. The perceived equity of these comparisons leads to experienced levels of job satisfaction and motivation. How the rewards are perceived can easily outweigh the actual rewards distributed by the firm. The reward system itself channels and guides employees' expectancies and instrumentalities (clears or clouds their line of sight). The expectancy theory of motivation makes it clear that if employees perceive a weak connection between performance and reward, then the rewards will not function as motivators. Employees who think the reward system is unfair will respond with lower satisfaction, commitment and job involvement. Before we can talk about reward system designs, we have to take a look at how rewards are classified.

#### 4.3.1 Classifying Rewards in the Work Setting

Rewards fall into two general categories: extrinsic and intrinsic. Intrinsic rewards are defined as those rewards which employees associate with performing tasks or the job itself. These include being personally responsible for a meaningful portion of work: doing work which leads to personal development and competence; being included in the distribution channel for important organisational information: and doing work which requires a number of skills and activities. Examples of jobs or occupations with substantial intrinsic rewards include physician, politician, judge, research scientist, design engineer and architect. These occupations involve a set of varied and significant work skills and activities. The contrast in available intrinsic rewards is noticeable indeed when you compare these professions with the work done by employees in a car factory. Car assembly work has little potential for employee development because its work cycles are repetitive, short and unchallenging. These work features can also lead to health problems like chronic repetitive motion injuries that show up in employees' backs, shoulders, elbows and wrists. Another byproduct of these jobs is a kind of 'psychological isolation': workers never obtain the gratification that comes with seeing a product completely assembled or produced. This effect of assembly line work also leads to low organisational commitment and minimal job involvement.

Extrinsic rewards are given to the employee by the firm and they do not occur as the work unfolds. Extrinsic rewards (recognition and status) are provided by supervisors, peers and work groups. Also, professional associations, unions and community groups provide recognition and status. Extrinsic rewards can be further



broken down into direct compensation, indirect compensation and non-financial rewards. Direct compensation includes base salary or wages, performance bonuses, overtime and holiday pay, share options and pensions: these last two are deferred compensation. Indirect compensation is given to an employee because of his job level and not because of his performance. Examples are top executive personal protection programmes, loans at low interest rates, personal services (which can be quite excessive and extreme) and perquisites.

Non-financial compensation is rewards that are also not performance contingent; e.g., they are not earned. In this realm we see the full measure of executive creativity – especially in countries with very high income tax rates. If we open the door just a little we might see: chauffeurs, personal aides, beautifully appointed offices, top-of-the-line communications gear, access to company-owned retreats in exotic locations, the company jet, catered parties: well, you get the picture.

### Are Intrinsic Rewards More or Less Important than Extrinsic Rewards?

A few behavioural scientists such as Herzberg have chosen to ignore human nature by proposing that intrinsic rewards are more important than extrinsic rewards in influencing motivation and performance. For 30 years socialistic social scientists have been trying to show that work systems utilising intrinsic rewards are superior to those that rely on the power of crass and grimy extrinsic rewards. Some studies have found that too many financial incentives tied to performance *discourage employees who once willingly devoted free (uncompensated) time to their work* (they show less intrinsic motivation). Other research has found a stronger positive correlation between intrinsic rewards and aspects of employees' personal growth on the job than between financial incentives and the same personal growth elements.

Corporations are competitive entities and employees compete in this atmosphere for their share of the compensation pie. That said, there are sound reasons for recognising the power and benefits of both types of rewards. First, they have to be separated and managers have to recognise that employees experience them differently. For instance, a manager uses promotion as a tool to motivate and sustain employee performance. Excellent performers expect to be promoted and sometimes they request promotions. The manager then stumbles by telling an ambitious employee why he needs to stay where he is. Result: no promotion, no more ambition. Or, the manager announces a promotion opportunity when he already has the candidate for it in mind. Result: passed over employees are distrustful and they conclude that the system can be gamed or manipulated by insiders. These examples show how easy it is for a manager to destroy the power of both intrinsic and extrinsic rewards.

A final reason for separating intrinsic and extrinsic rewards lies in the fact that firms have much more control over extrinsic rewards. The company can publish and distribute its compensation policies and managers can discuss it regularly with employees. Intrinsic rewards are more 'local and ephemeral' in nature: individual managers either use them creatively or destructively as noted above. the point is this: the firm needs to be clear about extrinsic rewards and managers must consider the implications of their decisions and behaviour regarding the distribution of



intrinsic rewards. Table 4.6 shows common intrinsic and extrinsic rewards that are available to employees.

**Table 4.6** Intrinsic and extrinsic rewards in organisations

| Intrinsic rewards                 | Extrinsic rewards        |                           |                             |
|-----------------------------------|--------------------------|---------------------------|-----------------------------|
|                                   | Direct compensation      | Indirect compensation     | Non-financial rewards       |
| Participation in decision-making  | Basic salary or wage     | Job protection programmes | Preferred office locations  |
| More responsibility               | Performance bonuses      | Time off with pay         | Choice parking spaces       |
| Opportunities for personal growth | Stock options            |                           | Impressive titles           |
| More interesting work             | Overtime and holiday pay |                           | Preferred lunch hours       |
| Variety of job activities         |                          |                           | Own secretary               |
|                                   |                          |                           | Cellular phone, fax machine |

### 4.3.2 Distributing Rewards in Organisations

Firms that fail to distribute meaningful rewards fairly are putting their business models at risk. If employees think the reward system is rigged: e.g., run for the benefit of insiders, they will withhold their effort and they will doubt every other management initiative that infiltrates their work unit. Disillusioned employees view work as a game of 'cat and mouse'. Managers sense this and they sink deeper into their Theory X methods! Firms try to avoid these threats by using accepted correlates of performance to develop guidelines for direct compensation. The accepted correlates are discussed below

#### Performance

The top vote-getter is measured performance. In any firm, everyone agrees that it is important, it's supposed to be related to the firm's strategy, and it shows the employee's value to the firm. Such 'pay-for-performance' systems are called 'merit-based'. The name itself suggests fairness, objectivity and seriousness. Performance-based rewards are to the employees like profits are to owners (or shareholders). Measurement fairness must be insured in each.

#### Effort

In the interest of minimising turnover and hiring costs, firms unwisely choose to reward effort. Initially the motive for this might be to prevent new employees from becoming discouraged or to prevent experienced employees from quitting because they have fewer promotion opportunities. Frequently managers reward effort in the hope that, with time, it will become performance. Sadly, this can often be 'wishful' thinking! Overall, it is a poor practice because it does nothing to reward actual performance and it undermines the validity of the performance appraisal system. The link between employee performance and strategic success will deteriorate if effort becomes a substitute for performance.

## Seniority

Length of service or tenure has long been used by firms to determine levels of fringe benefits (length of holidays, earned retirement pay) eligibility for job transfers and layoff immunity. Over time and during the height of union power; seniority was a substitute for performance. Governments and public organisations that have unionised work forces – teachers, for instance – still rely on seniority as a basis for determining pay levels. Regardless of where and how seniority is applied, employees rightly conclude that the ‘seniority-pay game’ is all about endurance instead of achievement. This erodes the equity of high performers and some of them leave the firm. This drives up the concentration of mediocre performers and, consequently, the firm’s competitive advantage suffers. A seniority-based reward system has the same effect on competitiveness as an effort-based one; and it’s not good.

At this writing, outsourcing, downsizing globalisation and re-engineering are rapidly marginalising the role of seniority in reward distribution schemes. The economic drivers prompt the use of contract or temporary workers. These workers might be in Bangalore or Singapore, but they are not permanent employees. In many industrialised nations these trends portend the decline of union power and their insistence that seniority should be the only basis for employment and pay decisions. Weakened unions are less likely to strike; and when they do, they are often forced to return to work without winning an improved pay package.

## Equality

‘Equal pay for equal work’ means that employees at given organisational levels and in similar positions receive the same base pay and pay rises. Such arrangements are common in partnerships where the managing partners agree to equal salaries. To some extent, companies that value highly collaboration and cooperation also extol the virtues of equality in compensation decisions. The belief is that giving everyone the same pay rise will cause employees to support and advance teamwork. Government agencies, school systems, and universities frequently use across-the-board pay rises. Clearly such systems are easy to administer and, to no one’s surprise, pay rises trend upward with inflation and the cost of living. Over time, these systems slowly break the connection between pay and performance. Employees’ performance equalises and everyone hopes their pay package keeps up with inflation; hardly a firm basis for a high-energy, high-performance atmosphere.

## Power and Influence

CEO pay in America rises and rises and . . . This theme repeats itself behind closed doors as corporate boards boost the pay packets of their C-class executives. A few loud and angry shareholders complain at annual meetings but their shouting seems to fall on deaf ears. Less than stellar performance is no brake either. Boards of firms with share price declines of 20 per cent (or more) have, on average, raised their CEOs’ pay by 16 per cent during the past two years. The argument in America

and in Britain for these outsized gains: a big jump in executives' pay packets is good for the economy! Sixty-five per cent of board members now believe that rising pay for CEOs contributes to the performance of both countries' economies. Of course, the same question was put to share holders and only 22 per cent agree with the directors' viewpoint. And, 91 per cent of those investors believe that CEOs are 'dramatically' overpaid. Why do boards continue raising C-class executives' pay? The short answer is: most board members are current or recently retired C-class executives themselves. And their views align with their executive peers rather than the shareholders that they are supposed to represent.

CEO's set directors' compensation and choose their friends to serve on the firm's board. Directors return the favour by going along with the CEO's initiatives and they advise the executive compensation committee to 'be generous with our man!' What we have here is a circular game of power and influence laced with 'sweet-heart deals' that benefit the C-class executives and the directors. Only substantial changes to corporate governance will address this problem of power and influence. Shareholders have to gain the power to directly nominate candidates for directors' seats. That is possible now, but only if dissident shareholders wage a costly and often acrimonious proxy fight to get their man on the board.

### How do Firms Determine the Value of Jobs?

Before the firm can design an effective reward system, it has to classify and group its jobs by function and value. This process (job classification) ranks jobs against each other based on compensatable factors. A compensatable factor is an element of a job that, in the broadest possible sense, is related to competitive advantage. It is an aspect of a job that adds value to the firm's ability to earn a profit. Below are several examples of standard compensatable factors. and they are used to determine starting salaries, pay grades and the levels in given pay grades.

1. **Skill requirements** are the types of training, professional certifications, and education an employee needs, to be technically qualified for a position.
2. **Mental requirements** are the intellectual and emotional demands of a job. They include complex and abstract problem-solving skills; decision-making aptitude; and the ability to respond under extreme pressure.
3. **Physical requirements** include health, strength, stamina, height and weight. Although some of these requirements have been dropped for certain jobs, many jobs specify minimum physical abilities.
4. **Responsibility** refers to elements such as the number of people supervised, size of budgets, and value of equipment managed.
5. **Working conditions** are environmental factors such as temperature, noise, lighting, vibration and humidity.

A typical job classification system rates and then clusters jobs on the compensatable factors. Usually a panel of experts assigns points to each factor. The factor points are totalled to create a job's 'value score'. The value scores are then used to rank the jobs from highest to lowest value score. This scheme reflects the value of each job in terms of the firm's business model (strategy). At this point, by sharing

salary information with comparable firms in what is called a salary survey, it is possible to create pay brackets that are market-determined. Many complications can upset a salary or pay-bracketing system. Layoffs (downsizing) and outsourcing (off shoring) can destabilise the pay-bracket system. Likewise, high unemployment may cause people to accept jobs well below their pay grade. Labour shortages and/or enhanced skill requirements due to technological progress may force starting salaries above the tops of established brackets in high growth industries.

### 4.3.3 Employees' Perceptions of Pay Rises

When researchers address the reasons why firms give pay rises, they find remarkable consistency over time and down the chain of command. In Table 4.7 the numbers under each column represent how the individuals designated in the name/rank column ordered their organisation's reasons for giving pay rises. Executives believe their compensation is based on company profits and the firm's total market capitalisation. Salaried workers believe that their salaries reflect primarily company performance, and cost-of-living adjustments. Hourly employees disagree about the influence of unions depending on whether or not they belong to one (note the nearly reversed ranking by the two groups). Discounting union membership for a moment, these two groups agree on one thing: they think company performance and profit have little or nothing to do with their pay rises.

**Table 4.7** How employees rank reasons for pay rises in their firms

| Factors believed to cause pay rises       | Top management | Exempt salaried* | Non-exempt salaried** | Hourly non-union | Hourly union |
|---|----------------|------------------|-----------------------|------------------|--------------|
| Worker productivity                       | 4              | 7                | 5                     | 3                | 9            |
| Company's profits                         | 1              | 2                | 3                     | 5                | 7            |
| Company's potential profits               | 2              | 3                | 4                     | 4                | 5            |
| Fairness of pay among employee groups     | 6              | 5                | 6                     | 6                | 8            |
| Pay increases by top industry competitors | 5              | 6                | 8                     | 7                | 4            |
| Salary surveys                            | 3              | 1                | 1                     | 1                | 6            |
| Difficulty in filling position            | 7              | 8                | 7                     | 10               | 10           |
| Union agreements                          | 9              | 10               | 10                    | 8                | 2            |
| Union demands                             | 10             | 9                | 9                     | 9                | 1            |
| Cost-of-living index                      | 8              | 4                | 3                     | 2                | 3            |

\* Not paid for overtime. \*\* Paid for overtime.

Source: Adapted from D. A. Weeks, 1997. *Compensating Employees: Lessons of the 1990s*, Report No. 310: New York: The Conference Board.

The greatest variability in beliefs about pay rises occurs with few exceptions (see, for example, the hourly non-union view of worker productivity) at the extremes of the hierarchy (job level). Company executives rank items in nearly opposite order from the rankings assigned by hourly-paid union employees. Top executives focus on external gauges of company success while union employees focus on bargained contracts and union demands. In all cases, employee productivity fails

to be number one. Researchers Ungson and Steers find that even though executives say their compensation is based on company performance, it is seldom the case. And so a few red-faced executives have to admit that profits, market share, cost effectiveness, and company productivity are seldom used as a basis for determining their pay rises.

#### 4.4 Components of Executive Compensation

Executives make up about three percent of any work-force but they capture about 24 per cent of total compensation. The widely accepted myth is that executive pay is merit-based: it reflects rising total market capitalisation (the total value of all shares outstanding) In addition to being large, executive pay packets are also highly structured and complex. Pay packet complexity is often intentional because it makes their effects on company profits opaque to shareholders. Boards justify huge and complex pay packets by saying they are good for the economy and by saying that they are quite necessary to attract and retain competent, hard-driving executives. Most experts on executive compensation agree that executive compensation packages are not based on internal job evaluations like those that apply to lower level employees. Instead, these pay packages reflect industry practices: 'We can't pay our man less than they pay their man!' A second less apparent, but equally powerful motive behind huge pay packets is the leverage on the board's executive compensation committee that is exercised by the C-class executives.

Fairly stable differences in executive compensation exist among top executives across industries. Table 4.8 shows the relationship between pay and executive position across six industries. It shows that, with the exception of the pay level for the second highest-paid executive in the construction industry, a pattern of uniformity exists among the industries in terms of executive pay. This gives support to the argument that boards of directors do look at executive pay practices within the industry and among industries to make decisions about high-level executive compensation.

**Table 4.8 Comparing the numbers: Executive pay in selected industries**

|  | Retail | Manufacturing | Commercial<br>banking | Construction | Gas &<br>Electric | Finance &<br>Insurance |
|--|--------|---------------|-----------------------|--------------|-------------------|------------------------|
| CEO's salary                                   | 1.0    | 1.0           | 1.0                   | 1.0          | 1.0               | 1.0                    |
| Chief operating officer<br>(second in command) | .60    | .70           | .60                   | .70          | .65               | .70                    |
| Chief financial officer<br>(third in command)  | .55    | .50           | .50                   | .60          | .55               | .50                    |

Professors Milkovich and Newman identify four basic and time-stable components of executive compensation: 1) base salary, 2) benefits and perks, 3) long-term incentives (stock options) and 4) annual bonus. The four factors are set by an executive compensation committee and then voted on by the entire corporate board.

The compensation committee is supposed to *independently review* pay packets for C-class executives of comparable firms. Sometimes this happens; sometimes not.

Annual bonuses are supposed to motivate executives to maximise the firm's annual net income. They are used widely in the for-profit sector but they are less common in the not-for-profit sector. The absence of bonuses usually indicates: 1) the company tightly controls stock ownership such as a firm owned by its employees; 2) the corporation is a not-for-profit (hospital, charitable foundation) or 3) the industry and its firms are government regulated (power generation, water distribution, some types of communications). For instance, in the US financial industry, CEOs earned bonuses in 2005 that were 345 per cent of their base pay. Their counterparts in not-for-profit charities received no bonuses.

The third component of executive compensation is long-term incentives. These incentives are individual stock options (ISOs) and they are wildly popular with executives for reasons you will soon discover. In ISO plans corporate board's compensation committee grants the executive – or any employee for that matter – the right to buy shares later at the price of the stock on the date of the grant (the strike price). Then the executive waits for a year or more – the vesting period – to cash out the option if the current market share price exceeds its strike price. The thinking goes that this mechanism aligns the interests of executives who run companies with the interests of shareholders.

ISO plans have become a significant portion of executive compensation during the past 15 years. According to the compensation and benefits firm Towers-Perrin, executive stock ownership reached a worth of eight times annual base salary in 90s. By 2006 it had risen to fifteen times annual base salary. The question before shareholders in relation to this dramatic rise is whether or not a firm has a higher market value if its top executives have substantial personal wealth tied up in company stock. Research indicates that the answer is 'yes'. In both Europe and America, for the past ten years, greater stock ownership by CEOs is associated with higher market capitalisations.

Fringe benefits, the fourth compensation component, are typically tied to executives' base pay. These benefits include forms of insurance, office staff and maintenance, security systems, and travel payments. They rise in value as base pay rises.

#### 4.4.1 What Are the Current Trends in Executive Compensation?

**Trend 1:** Strengthening the link between executive compensation and the market value of firms; e.g., debunking the myth noted earlier! Aggravated shareholders grill CEOs and board members about ever-rising pay packets and flat or declining share prices. Influential hedge fund investors also point to the weak link between executive salaries and long-term company market value. Investment and finance experts seem to agree why there's a weak link between executive compensation and market capitalisation.

1. CEOs favour acquisitions and diversification when the business model grows tired and weak. Buying other firms can be used to cover-up the defects in

products, services, manufacturing and marketing. CEOs convince their boards to back acquisitions as a form of 'risk reduction'. The firm grows larger and so does the CEO's compensation.

2. Board members on the compensation committee conclude that 'we cannot pay our CEO less than his peers in the industry'. Therefore, pay for all executives trends upward.
3. Shareholders are too willing to accept executive salaries as a legitimate drain on earnings. This view is rapidly changing due to new disclosure requirements which make obvious the effects of executive pay on profits.
4. Profitability is a good predictor of executive compensation, but only when the executive owns the business.

**Trend 2:** Executive compensation is taking an expanding slice of net income. Lucian Bebchuk, a Harvard Law scholar of executive pay practices, found that from the late 90s to the middle of the next decade, the top five executives at each of 1500 American firms took in \$122bn; or twice what they earned during the previous 10 years. For the latter period, executive earnings accounted for 10 per cent of the firms' net income. Executive pay is also rising much faster than employee pay. According to the *Wall Street Journal's* 2006 analysis of executive compensation, the heads of 30 major US corporations received compensation that was 414 times higher than the pay of the average American employee. In the 60s the multiple was 44. In its review of the proxy statements of 350 large American firms, William Mercer, Inc., a salary and benefits consulting firm, found that the median salary for CEOs was \$2.2m in during the earlier part of this decade, up from \$1.3m in the late 90s. During the same period, workers' wages only climbed 4.5 per cent in real terms.

**Trend 3:** The pay gap between American and British executives is growing, but at a slower pace. Professor Ossinger has found that the typical British CEO earns about one-half of his American counterpart. In addition, the bonuses of British CEOs averages about 35 per cent of total compensation while that percentage jumps to 62 per cent for the Americans. The explanations for this gap include a larger market in the US for CEOs and cultural differences between the two countries. Shareholders in Britain think their CEOs are less deserving than American shareholders think their CEOs are. This conservative attitude translates into real regulatory pressures that suppress the growth in pay packages in the UK. For instance, in the UK, shareholders vote on executive pay and they can also dismiss board members who are thought to be too generous. In a nut shell, corporate governance in the UK is superior to American practices.

In the UK CEOs are held to higher performance standards than their American counterparts when it comes to annual bonuses. It is a widely practiced rule that a British company's shares have to perform above the median share performance for its industry in order for the C-class executives' options to be 'in the money'. No such requirement slows the rise of executive compensation in America. Instead, American CEOs get rewarded simply for staying on the job. The just-retired CEO of Exxon Mobil launched his retirement with a \$385m 'thank you for your service' from the board!



Throughout Europe social and economic conditions are not as favourable as they are in the UK for executive compensation. In Germany public outrage can trigger government restrictions on executive pay that include limiting the number of stock options that can be included in an executive pay package and using high tax rates to limit executive pay in the form of bonuses. The Italian government has used pension reforms to block how much money executives can contribute to retirement plans. These trends widen the pay gap for American and British CEOs and 'everybody else'. The 2004 breakdown in median pay for these CEOs was: 1) USA: \$6.0m, 2) Britain: \$4.9m, 3) Germany: \$1.6m, 4) France: \$1.3m and 5) Italy: \$1.0m.

**Trend 4:** More emphasis on the firm's net income. Corporate boards are placing more emphasis on the firm's earnings, which accents the executive's annual bonus versus his annual base salary. This change indicates the importance that stockholders attach to earnings per share and the stock price-to-earnings ratio (PE ratio). Stockholders believe that their interests are best served by executive pay programmes that make an ever-greater proportion of executive pay dependent on the firm's rising net income. (Now if we can only get corporate boards to believe it!). Table 4.9 shows this effect in America over time.

**Table 4.9 Elements of executive pay in America for a 12-year bracket**

|                     | Proportion of compensation |      |      |      |
|---------------------|----------------------------|------|------|------|
|                     | 1988                       | 1994 | 1999 | 2000 |
| Annual salary       | .4                         | .4   | .2   | .2   |
| Annual bonus        | .2                         | .3   | .3   | .3   |
| Long-term incentive | .4                         | .3   | .5   | .5   |

In the twenty-five years covered by the table, the annual salary component of compensation for the top three executives profiled in Table 4.9 has declined by a remarkable 67 percent and the annual bonus for executives has stayed relatively flat percentage-wise. Of importance is the recent rise in long-term incentives as a proportion of executive pay since the mid-90s (216 percent). With some justification, boards are now emphasising growth in market capitalisation as a basis for executives' annual bonuses.

**Trend 5:** ISO plans are now the problem rather than the solution due to the growing scandal of 'back dating': which threatens the legitimate and valuable practice of issuing stock options to executives. Backdating is nothing more than looting. It occurs when the board's compensation committee deliberately moves the options date grant to an earlier date, to a time when the share price was lower. This gives the recipient of the options an instant profit on paper. Clearly this practice can undermine the 'incentive' aspect of options as it was described earlier. It also appears in the form of 'timing' or granting large blocks of options to executives just before a very favourable business announcement. Again, the effect is to immediately place the options 'in the money'. These gaming behaviours often are not disclosed to investors and these practices can run afoul of various disclosure requirements in America and in Europe.



Stock option programmes may be waning a bit in popularity for other reasons. Shareholders began to turn against the practice during the late 90's because they learned how options motivated executives to pursue short-term actions that pumped up share price at the expense of sound, long term improvements to competitive advantage. To no one's surprise including *The Economist's*, total options grants in the US dwindled to \$25bn from their peak level of \$75bn in the early part of this decade.

#### 4.4.2 How are Compensation Plans Changing for Non-executive Employees?

Companies carefully tinker with their employment relationships to increase competitive advantage without discouraging their work-forces. One 'stealth' method used to reduce labour costs is substituting bonuses for merit-pay increases. Compensation experts like Professor Vaitkus think about 50 per cent of American firms indicate that they are holding merit-pay increases to levels that existed during the late 90s. Going forward from now, reductions in merit-pay increases were contemplated by: 1) 35 percent of large firms with more than 1500 workers; 2) 27 percent of mid-sized firms with 500–1499 employees and 3) 43 percent of small firms with fewer than 500 employees. In effect, merit-pay for performance is being replaced by bonus-pay for performance.

Reduction of merit increases and greater reliance on the use of bonuses across companies and industries has the effect of slowing the growth in costs of benefits programmes. Bonus payments do not drive up the company's contributions to their employees' pension plans. If employees fail to meet goals in the following year, the annual bonus disappears, unlike merit pay increases which become a permanent component of base pay.

Further fuelling the popularity of bonuses is their widespread use by firms that have downsized. To economise further, these firms often toss out automatic, or cost of living rises in pay (COLs). By doing so they embed more of their employees' pay rises in bonuses. This makes some economic sense in the growing service component of Western economies. Service company executives want the freedom to reward excellent service workers, Widespread COLs undermine that freedom.

Downsized firms also favour substituting bonuses for merit-based pay. Annual bonuses are making their way down the chain of command as more managers and employees find themselves participating in them. Managers and their employees working in self-directed teams receive smaller increases in base pay in exchange for heftier bonuses that are tied to specific performance goals. If the goals are achieved, everybody reaps gains in their direct compensation. These programmes have excellent line-of-sight and they can be used to replace less-focused profit-sharing programmes. Firms using bonuses usually guarantee to employees that their total annual compensation cannot fall below a 'floor' level. Increases in pay are closely tied to the achievement of pre-established goals in the firm's strategic plan. Firms recognise that the use of the annual bonus makes its compensation strategy more supportive of competitive advantage.

Finally, downsized firms rely more on part-time employees and temporary workers: contract employees. Many companies report that they are able to avoid payment of benefits and better match their work-force requirements to business conditions. In America, this approach is more highly favoured by firms with less than 500 employees: about 95 per cent of all employers. At first glance it may appear that the temporary employee is at a substantial disadvantage in this circumstance. However, many firms report that they only use temporary employees for low-pay, high-turnover positions or to get through periods of high seasonal demand. Furthermore, after six months, many temporary positions are converted to full-time slots. Thus, companies use this practice to reduce recruiting, selection and training costs. The temporary worker senses these actions and he may be highly motivated to add value quickly in the hope that his position 'will go permanent'.

## 4.5 A Comparison of Company Pay Practices

Firms are constantly experimenting with various pay systems; some which rest on solid principles of motivation while others are untested and quirky. One thing is certain; the pay system must fully support the firm's competitive strategy and long term growth prospects. We begin our discussion of these systems by starting with the newer ones that are gaining popularity and we'll finish with a review of more established systems.

### Cafeteria-Style Fringe Benefits

Flexible benefits systems aren't exactly compensation systems *per se*. However, these systems are very important to workers of all ages because they allow them to tailor a bundle of fringe benefits to their individual and family needs. Once each year there is an enrolment period during which employees can re-adjust the composition of their benefits plan. Generally these programmes provide benefits that mirror the needs of the work-force. Sometimes firms conduct surveys to find out what benefits employees want to see offered. In most cafeteria-style benefits plans the company sets an upper financial limit for each employee. The limit is based on the salary for the position in question. Younger employees usually choose the 'cash' option that accompanies cafeteria plans and older employees maximise their health care and retirement options.

### Lump-Sum Pay Systems

Lump-sum plans let employees 'time' their pay to match the demands on their income. Plans range from weekly pay cheques to one large cheque at the beginning of the year. In the latter case mentioned, the firm treats the lump sum as an advance that the employee 'earns' throughout the year with his labour. When an employee leaves the job before year's end (and has received a lump sum payment), he must repay the unearned portion to his employer. These programmes can disturb cash flow and their administrative costs may be higher. These disadvantages have to be offset by benefits that accrue to the work-force.

### Skill-Based Compensation

A number of companies pay employees more when they learn new job-related skills. These payments can come in the form of direct or indirect compensation. In general, skill-based compensation leads to a more versatile and more highly cross-trained work-force: workers are more interchangeable. Some firms use this approach with merit-based pay. Other firms package tuition reimbursement with skill-based compensation to encourage employees to complete their educations and raise their value to the firm. Skill-based compensation creates more intrinsic rewards for workers who come to find their work to be more challenging and meaningful. Companies that use self-directed teams are strong proponents of skill-based compensation because these teams must have cross-trained members to be effective.

### Accumulating Time Off

The time-off feature is attractive to most employees; especially those with substantial family responsibilities; e.g., aging parents, disabled child, etc. Like earned holidays, accumulated time off with pay often reflects years of experience and job level. Firms sometimes modify the programme to link time off with pay to performance. They give their employees the choice to swap a pay rise or bonus for a set number of days off. Employees who have an ailing family member or an aged parent really appreciate the chance to accumulate time off that they can use to care for family members. These programmes greatly improve the quality of life and work for employees and they respond with increased loyalty and commitment. In fact, employees who are covered by such plans often deliver superior customer service.

### The All-Salaried Team

Most firms pay salaries to their executives, managers and staff and they pay hourly wages to everyone else. Firms that decide to pay everyone a salary are hoping to improve employees' loyalty, commitment and dedication to superior customer service. Team work (cooperation) and perceptions of equality generally rises when the work-force is salaried. And, it is a sensible alternative for the firm that hopes to improve its level of customer service. When a firm goes 'all-salaried' it does away with time clocks (punching in and out of work) and work scheduling that is used to monitor the hours of wage earners. Over time, other status symbols denoting rank disappear. Segregated lunch rooms, separate meeting facilities for executives, privileges for some and not all tend to disappear over time in the all-salaried firm. Critics of the all-salaried concept claim that covered employees de-emphasise creativity and they become complacent.

### Open-Salary Information

Pay secrecy can obscure the actual relationships between performance and rewards. This effect was noted in Module 3 in our discussion of the managerial implications

of equity theory. Employees must understand why they receive (or don't receive) pay raises or they will come to believe that the pay system is biased and unfair. This reaction is called perceived distributive injustice and it is greatly aggravated under conditions of pay secrecy. At the same time he over-estimates his efforts as he systematically under-estimates the efforts of his co-workers. Asking managers about pay policies is taboo and so his feeling of being exploited rises in lock step with his job dissatisfaction. Effort and performance on the job are replaced by resentment and envy all because everyone is afraid to ask about pay. Over time this condition hardens into a preoccupation – a kind of obsession – among employees who try all sorts of covert means to discover information about the firm's pay system.

Managers may have reasons not to publicise information about employees' pay, bonuses and benefits: perhaps they do not want competitors or customers to know these costs. However, they should not lose sight of the motivating benefits of open-salary information. For instance, managers can put 'secrecy problems' to rest by publishing 1) ranges for pay rises, 2) the number of pay grades, 3) organisational guidelines on the meaning of performance levels, and 4) policies on bonuses and fringe benefits. This information can align employees' perceptions of pay fairness with accepted relationships between performance and rewards. And this benefits everyone because it maintains accurate employee perceptions of distributive justice.

Managers who bend the truth or fail to disclose key details of the compensation system invite distrust and employee scepticism: perceptions of procedural injustice. Employees come to doubt the fairness of compensation methods. When these methods are performance-based, widely publicised and well-understood by employees, their perceptions of 'the fairness of methods' generally rise. Further, the periodic use of job analyses and salary surveys demonstrates to employees that the company is serious about objectivity to ensure fairness in pay decisions in relation to the value of the job in the organisation. Objectivity should be a goal of all human resources systems. It should apply to hiring, selection, training, promotion, performance appraisal and termination practices.

Table 4.10 summarises the pay systems discussed. Some problems and strengths associated with each pay practice are summarised in the table.

#### 4.5.1 Making Intelligent Choices about Company Pay Plans

Trying to decide what type of pay plan will produce the greatest levels of employee performance and motivation is a tough job. Professor Greenhaus and the research team of Perry *et. al.*, have tried to answer this question asking employers about the types of pay plans they were using and their level of satisfaction with those plans. By a wide margin, employers like skill-based compensation. In some industries, rates of use of this plan approach 90 per cent. Also quite popular are gain sharing plans, small-work group incentives, all-salaried work force and accumulating time off with pay. Regardless of the plan or plans selected, certain major guidelines should be followed in the administration of any creative pay plan in an organisation. Following these pay recommendations can help a company create a competitive advantage that is based on a highly motivated work-force.

**Table 4.10** Examining reward practices in firms

| Reward practice                 | Employee perspective   | Implementation issues  |
|---------------------------------|--|--|
| Cafeteria-style fringe benefits | Creates balance between family needs and benefits package  | Installation costs and administration are increasingly outsourced to other providers   |
| Lump-sum pay                    | Nice to receive a large bonus, but it may not be clear to the employee what he or she did to earn it                       | Likely to be abandoned during business downturns. Can upset shareholders   |
| Skill-based compensation        | A good incentive for learning new job-related skills. It shows that the firm values a skilled and cross-trained work force | Works best if skill gains are measurable, documented and verified. Do not tie this compensation to external educational or management training programme achievement |
| Accumulating time off           | Helps balance family, work, child and elder care demands on employees  | Strengthens organisational commitment and loyalty. More difficult to implement in self-directed teams  |
| The all-salaried team           | A workable plan if team performance is fairly measured and teams are empowered   | Easier to implement as union influence declines. Validity of the team appraisal system must be high. Can reinforce 360-degree PA                                     |
| Open-salary information         | Greater perceived pay equity and job satisfaction with work and with supervision   | Computer-based and outsourced control system make implementation easy. Requires stable pay brackets and market-based, fair starting salaries                         |

1. **Does the plan capture the attention of the employees?** Employees should discuss it, and the firm should publicise its efforts to try it out.
2. **Do employees understand the elements of the plan?** Employees should be able to explain to new employees how the plan works and how it affects their earning power.
3. **Does the plan improve communication?** An effective pay plan should help employees to understand how their effort and performance support the firm's competitive advantage.
4. **Does the plan make payments to employees when it should?** Incentives should be paid when employees achieve documented (measured) results: no delays!
5. **Is the company performing better as a result of the plan?** The compensation plan should produce measured gains in the firm's strategic and financial performance. Likewise, customer service, market share and cost control should also improve.

Probably no compensation plan can consistently satisfy all five criteria over time. Company units change, competitive conditions vary, and new employees come on board. And incentive plans have to change too. Are there any basic or solid principles of compensation that do not change? Well, yes, there are.

1. **Tie rewards to performance so employees have line of sight.** As you know, line of sight aligns employee effort, performance and satisfaction. When it's present

the employees are also aware of how their efforts support the company's goals. This alignment fosters competitive advantage.

2. **Customise the rewards and benefits to meet employee's personal needs.** Flex-time, parental leave, child care and elder care programmes and educational benefits are greatly valued by employees. Workers want to configure their benefits to meet their personal needs.
3. **Align the reward system with the firm's methods and structure.** A firm that uses small work teams to delivery customer service ought to set up a team-based reward system to foster collaboration and team work. This basic decision highlights the fact that competitive advantage, business methods and reward system design must be in balance.
4. **The pay system should match the firm's culture.** A profitable firm that uses a piece rate pay system should not decide to install a team-based reward system. Employees who are used to matching their performance to challenging individual performance goals would think management has lost its mind!

## 4.6 Group-Based Reward Systems

The focus thus far has been on individual-based reward systems. Many firms rely on team work and managers who know how to facilitate team work to accomplish goals. The challenge for managers is to sustain collaboration and teamwork without losing individual creativity and enthusiasm: socialism versus self-interest. We'll now look at two group-based reward systems that try to walk this tightrope: 1) cost-savings plans, and 2) profit-sharing plans.

### What Are Group-Based Reward Systems?

Firms can comfortably overlay group-based rewards on their merit-based compensation system. The group-based portion motivates teamwork and collaboration and the merit-based portion rewards employee initiative and performance excellence. The group-based portion can be either a cost-savings or a profit-sharing programme.

#### 4.6.1 Cost-Savings Plans

The first systematic cost-savings, group-based reward system was the Scanlon Plan, developed by Professor Scanlon in 1937. He had seen the effects of the Great Depression in America and he took up the cause of improved labour-management harmony as his goal. His plan targets labour costs and tries to reduce them in relation to a historical average or base level. Work groups that succeed at this receive bonuses that reflect a substantial portion of the labour cost savings. In addition to using group incentives, the Scanlon plan also promotes an improved work climate that is based on labour-management problem solving. Here's an example of the Scanlon Plan.

Historically, labour costs at Townsend Ltd. have been 50 per cent of output value. Last month, the value of total output was £2m, and labour costs were £900 000 or 10 per cent below the 50 per cent base rate. Townsend has earmarked the £100 000 savings for the 'incentive fund' 30 per cent of which is retained as a reserve to cover costs during performance periods when costs exceed the 50 per cent historical average. Twenty-five percent of the total is set aside for company profit and the remaining 45 per cent (£45 000) is distributed to team members as a bonus.

Scanlon Plans are called gainsharing plans because the gains associated with cost savings are shared between the owners of the company and labour. Gainsharing programmes can be powerful motivational systems if they are lashed to organise and controlled management-labour problem solving. This is accomplished by using interlocking committees across levels in the chain of command. One type of committee is called a production committee and it is composed of supervisors and their subordinates. A company may have several hundred production committees and they all are charged with finding ways to improve productivity in their areas of work responsibility. The productivity suggestions made by these committees are then reviewed by a screening committee composed of managers, higher-level executives, and skilled labourers. The screening committee approves cost savings suggestions and work teams down the line implement them. The outcomes of the suggestions are tracked and all groups covered by the plan benefit by receiving bonuses that average about 45–60 per cent of the documented savings.

Gainsharing is an extremely powerful Theory Y tool for lowering costs and building 'bottom-up' innovation into the company. Gainsharing programmes also raise employee satisfaction, add intrinsic rewards, reduce turnover and improve line-of-sight. Not all firms are fertile grounds for gainsharing; many are not ready for a variety of reasons. So, interested executives and managers should consider the following 'pre-requisites' before they leap.

1. Gainsharing programmes require a dependable history of labour costs in the firm. The firm with good cost accounting data has the capability to establish the formulae which determine when bonuses have been earned through cost savings.
2. Seasonal product demand destabilises a gainsharing programme because it causes monthly or quarterly labour costs to vary for reasons beyond the control of the covered employees.
3. The firm must evaluate market share to ensure that extra output can be sold at profitable margins.
4. The company should have a history of labour–management cooperation so that labour and management judge the cost formulae to be valid and reliable (Theory Y communications and management).
5. The company should have a history of labour–management cooperation so that labour and management judge the cost formulae to be valid and reliable (Theory Y communications and management).
6. Top management must demonstrate its commitment to cost savings by supporting employee education, cross-training and participation.



#### 4.6.2 The Rucker Plan: an Incentive System that Works in the Self-Directed Team Environment

Improvements in competitive advantage can certainly be achieved by pursuing the goals of cost savings; especially if a portion of the savings is shared with employees. These programmes improve trust between labour and management and the firm also may enjoy lower turnover and better customer service. Firms that wish to explore the power of cost savings or gainsharing programmes have to think carefully about the features of their reward systems. The four questions noted below tend to crop up when managers get serious about cost savings in a business model that relies on teamwork.

1. How do you measure the value added by self-directed teams?
2. How do you create a clear pathway between team performance and rewards?
3. How do you reward departments that provide service and support?
4. How do you guarantee that teams will stay involved in finding systems improvements?

While there are no perfect answers to these questions, the Rucker Plan does show promise as a team-based labour cost control strategy for firms that rely on teamwork after they have re-engineered and downsized. The Rucker plan measures the difference between the sales income from goods produced and the cost of the materials, supplies, and outside services consumed in the production and delivery of that output. Payroll costs are all employment costs paid to, because of, or on behalf of, the employee group participating in the Rucker Plan.

Comparable to the Scanlon Plan, the Rucker Plan sets a labour cost standard in a base period. During the accumulation of this cost data the firm should avoid disturbances, one-off charges (liability claims for product defects) and disputes with customers or suppliers. The data gathered and tracked during the base period consists of: 1) the sales value of production; 2) the cost of materials; and 3) the full cost of labour. Once these costs are determined to be accurate the firm calculates the value added by labour in relation to the expected value of production. When labour costs decline in relation to the expected value of production the firm declares a team-based bonus.

According to Professor Henderson, in a Rucker Plan, 75 percent of the bonus is paid monthly to employees and the remaining 25 percent is held in an escrow account until year's end. This reserve provides a cushion for periods when self-directed teams fail to meet the standard. After a year-end audit, all reserve funds are distributed to employees. Rucker Plan benefits are described below: compare them to our discussion of the Scanlon Plan.

1. The Rucker Plan stresses sound economic thinking because it links profit to the value added by labour (productivity). The Rucker Plan determines labour's contribution to economic surplus.
2. Once a company's employees understand and accept the Rucker Plan they will have ideas for raising the value added by labour. Productivity problem solving



- spreads through the firm because everybody wants to pull their own weight: nobody wants to be called a freeboarder.
3. The Rucker Plan is less formal because it does not rely on any committee structure. The firm is more free to customise a system of team-based participation to generate value-added suggestions.
  4. The absence of a committee structure shortens the cycle time for evaluating and installing productivity improvement suggestions.

### Why Do Self-Directed Teams Participate in a Rucker Plan?

Rucker Plan teams have a strong incentive to increase their productivity because they have line of sight for several prominent plan features. Teams can raise the sales value of production by improving product designs and process effectiveness (fewer defects and fewer warranty claims). They can use concurrent product development to synchronise marketing, production, financial control, product engineering and R&D to shorten product development cycles. When teams use these cost-control tools they can push the firm ahead of its rivals in the battle for market share, higher gross margins and lower unit costs.

The firm's cost of materials can be lowered by self-directed teams. All expenditures on materials, supplies and outside services are subject to review and control. Productivity innovations made by specialists in purchasing, distribution, warehousing, inventory control, and accounts control (payables and receivables) all raise the economic value added by lowering the cost of materials. The firm therefore competes on price more effectively than its rivals and this increases market share.

#### 4.6.3 Design and Timing Issues for the Installation of a Rucker Plan in a Delayed Firm Using Self-directed Teams

Elsewhere we have discussed that delaying and downsizing do not necessarily increase competitive advantage in the long term. More often than not, these are stop-gap remedies for the accumulated effects of bad management decisions that have plundered competitive advantage. The installation of a Rucker Plan is a serious move by management to make the incentive system a major feature of the firm's renewed (and redesigned) competitive advantage. To be successful, a Rucker Plan needs to be established in a firm that values its work-force and wants to apply Theory Y management practises. The lingering effects of downsizing and delaying may traumatise a company's work-force in several significant ways and postpone or foil entirely the introduction of such a plan.

Delaying and downsizing decrease employees' job security and erode their work-based social support systems. Heightened economic insecurity and increased workloads can dramatically raise the level of job stress experienced by employees (see Module 2). Table 4.11 shows some of the effects of downsizing and delaying throughout a company.

**Table 4.11** Consequences of downsizing and delayering

| Delayering and company downsizing  | Team/employee consequence  | Feature consequence  |
|--|--|--|
| Reduction in number of middle managers   | More responsibility for work process control   | Fewer candidates for senior management positions, less systems know how  |
| Changes in job rankings (value of the job to the firm)   | Employees must: 1) accept lower pay; 2) 're-apply' for a position 3) consider or accept a job transfer                 | Work-force with low morale and commitment. Undone projects, drop in customer satisfaction  |
| Automation and computerisation of routine jobs   | Job termination with modest severance package. Wider span of control for remaining managers                            | Short term problems in system integration and lower customer satisfaction  |
| Reduced slack resources throughout firm  | Longer work hours and pressure to raise output with constant or declining costs  | Lowered ability to ramp up production and service  |
| Management becomes addicted to 'cost reduction band aids' instead of the strategic repositioning of the firm | Successive downsizing schemes result in chronic work overload and job stress. Repeated reorganisation triggers burnout | Declines in customer satisfaction may lead to lowered marketshare. Coordination problems reduce the rate of product improvements |

Table 4.11 shows how downsizing and delayering destroy hygiene factors (*see* modules Module 2 and Module 5). Downsizing and delayering disrupt employees' ability to attain lower-order need satisfaction and they become more insecure and pre-occupied with their economic security. Job stress, job burnout, low morale, depression and feelings of worthlessness abound among employees and they distrust management as a result. Adding to this toxic brew is the fact that after downsizing episodes firms often freeze promotions and pay rises. These conditions need not be permanent but they surely are not conducive to supporting something as ambitious as a Rucker Plan!

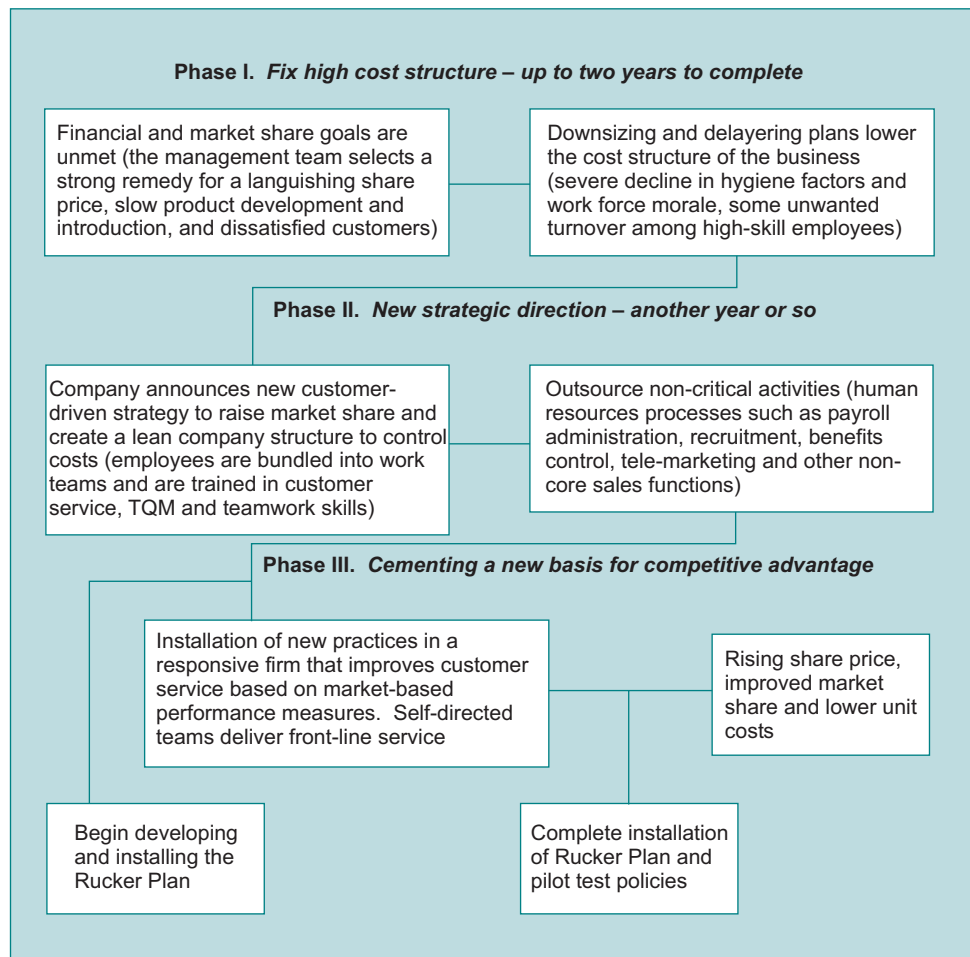
If a firm has downsized and delayered, the following conditions should be met before a Rucker or gainsharing plan is installed.

1. The firm has become profitable and pay freezes are lifted;
2. The management team is stable;
3. Self-directed teams are working and members are cross-trained;
4. The company is not being positioned for sale or spinoff;
5. Outsourcing of non-essential functions has been completed;
6. The firm has adopted market-based measures of customer satisfaction.

From these recommendations you would be right if you concluded that installing a Rucker Plan is an end-stage activity in a firm's effort to build a new competitive advantage. Figure 4.5 traces a typical turn-around scenario and it ends with installation of a Rucker Plan.

An ideal situation for installing a cost savings programme is in a 'greenfield' or 'start-up' operation. If a company decides to add to its production capacity by building a new facility, it has a unique opportunity to make a cost savings plan a

basic feature of its employment relationship. All personnel and operating decisions can be guided by the use of self-directed teams, employee empowerment, some measure of employment security, a lean organisational structure and a service-driven business model. The wrenching effects of downsizing and delayering are avoided and the work-force never experiences the chronic deficits in hygiene factors noted in Table 4.11.



**Figure 4.5** How the Rucker Plan fits in a plan to strengthen competitive advantage in the firm

Building a Rucker Plan into a new facility can help to create a strong organisational culture (see Module 9) that fits the service-driven basis for competitive advantage suggested in Figure 4.5.

#### 4.6.4 Profit-Sharing Plans

The rationale for the profit-sharing approach is that all employees contribute to the success of the firm, so all should share in any profit increases. The popularity of profit-sharing plans varies in direct proportion to the health of the economy. When sales are strong and costs are stable, organisations do well financially. Net income rises and profit sharing programmes sprout! Just as quickly the programmes wither if inventory accumulates, margins shrink and net income dries up.

There are thousands of profit sharing programmes out there. However, there is only one company that has a 74 year-old profit sharing plan. It's the Lincoln Electric Company and now is the time to take a look at this seriously successful company!

Lincoln Electric was founded in 1896, and it is the largest manufacturer of electrodes and arc welding equipment in the United States. The company has never tinkered with the plan and it is still based on the principles that were crafted in 1934: 1) overall company profits, 2) supervisor merit ratings, and 3) cost savings suggestions. An even more startling fact is that its 2800 employees have never missed a profit sharing bonus since the plan was installed!

The company hires employees who are intelligent and have competed in athletics. Management encourages competition for higher positions and the firm has a strict policy of promotion from within. Through a company-wide network, employees sit on committees designed to solve production problems and to control costs. A 'Suggestion System Board' gathers these cost control and quality improvement suggestions each week and reviews them.

Now consider the company itself. Its headquarters is a spartan building that is functional rather than glitzy. There are no visible symbols of status or executive rank – all employees park their cars in the same lot and they eat together in the cafeteria. Newly hired engineers work on the assembly-line for six months so that they fully understand all aspects of production.

The company has an interesting system to ensure product quality. All production employees mark the components they produce or assemble with their initials and work area. If a welding unit is found to be defective, the purchaser ships it back to Lincoln and the employee or employees responsible for the defective components fix it in their own time. This means that while they are repairing the defective unit, they cannot earn incentive bonuses for production output above established base rates. This programme results in a unit failure rate of less than one half of one per cent each year and it is directly responsible for the firm's reputation for superior product quality. Employees prefer to work under the piece rate pay system – many of them earn over \$120k per year – and so they 'build the welder right the first time'. All employees carefully inspect their own work and Lincoln's profits reflect it because the firm does not employ a single product inspector!

Many firms have successfully overlaid gainsharing or profit-sharing plans on their compensation systems. When they are well-managed, these plans can improve labour-management relations; raise employee job satisfaction, and spark employee innovation. In every case, organisations which have been successful with such plans

have strong, Theory Y practices which place employees at the centre of organisational concern. Top managers are responsible for the successful implementation of strategy and they will stumble if they fail to properly design and implement a reward system that complements strategy. We end our discussion of reward systems by considering the growing use and central importance of team-based rewards.

#### 4.6.5 Strengthening Competitive Advantage by Using Team-based Rewards

Analyses of robust competitive advantage stress the importance of service-driven strategies that are linked to timely product development and customer service. Often these initiatives unfold after the firm has delayed, downsized and emerged from a re-engineering change programme. These popular improvement strategies share a common dependence on effective self-directed teams to perform work once reserved for middle managers. These revitalised firms have to figure out how to merge self-directed teams with: 1) superior customer service; 2) enhanced employee empowerment; 3) reduced cycle time (quicker turn around) and 4) employee skill building and cross training. Management must wrestle with these sometimes opposing forces and design an effective reward system that works in the self-directed team work environment. This segment takes up this issue.

**No firm can afford to overlook the crucial role of team-based incentives.** Levels of team member motivation, job performance and job satisfaction change dramatically when the firm alters its competitive strategy. Theory Y managers know that the firm's reward system can make or break a sound competitive strategy. According to Ed Lawler, an expert in organisational behaviour, a well-designed team-based reward system can strengthen competitive advantage in several ways.

1. **Attraction and retention.** Firms with excellent incentives attract and hold the best people. In addition, these firms become known as 'excellent employers' and they can pick employees who are the 'cream of the crop'.
2. **Motivation and performance.** Employees who report that their incentives are meaningful and timely are also more motivated and effective at work (they have improved line of sight). Timely and attractive incentives increase employees' beliefs that they can perform well and they believe that meaningful rewards will follow.
3. **Skill development.** Tie rewards to skill-building and cross-training. Employees will then gain the teamwork skills that they need and the work-force will be more versatile. This is a Theory Y practice because training and development is an investment in future earnings streams. Executives who invest in work-force skill building believe that competitive advantage rests on a trained, flexible and adaptable work-force.
4. **Organisational culture.** Linking incentives to key company values can create a source of competitive advantage that is hard for rivals to copy. A firm might value customer service based on team problem solving. It follows that this firm would add team bonuses to back up its value statement.
5. **Cost.** Incentives can account for up to 50 percent of the cost of goods sold. In service-driven firms, this percentage can go much higher. The cost of the

incentive system must be factored into the firm's strategy. We noted earlier how executive pay packets capture about 10 per cent of the firm's net income. That's a big chunk and it clearly matters to investors. Incentive system costs should reflect the company's strategic and competitive successes. The pay-at-risk concept reflects this principle because bonuses for individuals and their teams are a function of their level of achievement of strategic goals. The more they exceed pre-established targets, the bigger their bonuses or stock options.

## Summary Points

- PA systems monitor progress towards meeting organisational goals, communicate performance expectations to employees, and create informed data for making human resource decisions.
- Validity and reliability are the two most important properties of a PA system. Performance appraisal content and empirical validity increase the correspondence of actual and measured performance. Reliability is generally a function of the number of dimensions in a PA system, uniform administration procedures and the level of understanding and training of managers who use the system. Reliability can be enhanced by using multiple raters to judge the performance of employees.
- Threats to PA system reliability include personal bias, halo effect, recency error, similar-to-me error, forcing the rating, central tendency, leniency error and strictness.
- Graphic scales is the most popular assessment tool and it overcomes some of the limitations of the absolute standard method.
- BARS are designed with the help of employees, and can generate useful behavioural data which employees perceive as relevant to successful job performance. BARS are more expensive to design, but they can be extremely useful for jobs with specific behavioural requirements. As job clusters multiply, additional BARS may have to be built.
- Goal-setting theory supports MBO. MBO works best when it is participative, when ample formal and informal feedback is provided to employees, and when provisions for goal revision are built in to the system. When creating goals for employees, the SMART principle should prevail.
- MBO systems fail without sustained top management support. They must also be anchored to routine managerial activities, personal development, training, and departmental needs.
- Rewards are classified as extrinsic or intrinsic. Intrinsic rewards occur as the work unfolds, and employees experience them as challenge, personal growth, work meaningfulness and work significance. Extrinsic rewards are environmentally based and they can be further classified as direct, indirect or non-financial compensation.
- Extrinsic rewards can be distributed to employees based on their: 1) performance (merit-based), 2) effort, 3) seniority, or 4) difficulty of replacement. Firms sometimes slip into a policy of 'equal pay for equal work' and their boards

sometimes allow executives to 'game the stock options system' to reap huge pay packages.

- Pay systems should be built on the basis of a job analysis which ranks jobs based on the extent of their value adding factors.
- New pay practices include cafeteria-style fringe benefits, lump-sum pay, skill-based compensation, accumulating time off, the all-salaried team and open-salary information.
- Group-based reward systems can improve productivity when labour and management view themselves in a performance partnership. Examples of cost savings performance partnerships are the Scanlon Plan, the Rucker Plan and Lincoln Electric's profit-sharing plan.
- Delayed firms cannot expect to sustain improvements in service quality nor keep highly trained personnel unless they adopt group-based incentives. As a basis for excellent service delivery, group-based incentives have better line of sight than company-wide ISO plans.
- New guidelines for altering pay systems stress: 1) matching the pay system to the organisation's strategic goals so that competitive advantage is created or extended; 2) adjusting the pay plan to reflect the extent of diversity in the work force and 3) ensuring that the pay system fits with other firm characteristics that are strongly related to the company's sources of competitive advantage.
- The best way to motivate self-directed teams in a delayed firm is by making group-based rewards contingent on the groups' performance. To a considerable extent, such plans reinforce the pay-at-risk trend because the bonuses are not available unless productivity and service are improved by employees in a cost effective way.
- New guidelines for altering pay systems stress: 1) matching the pay system to the firm's strategic goals so that competitive advantage is created or extended; 2) adjusting the pay plan to reflect the extent of diversity in the work force and 3) ensuring that the pay system fits with other firm characteristics that are strongly related to the company's sources of competitive advantage.

## Review Questions

### True/False Questions

- 4.1 Organisations typically do not gather performance appraisal data to evaluate progress in achieving their goals. T or F?
- 4.2 Validity refers to the stability of PA results over time. T or F?
- 4.3 Standardising the administration of PA will improve the system's reliability. T or F?
- 4.4 Recency error affects PA system reliability. T or F?

- 4.5 Employees would naturally be most concerned about the content validity of the PA system. T or F?
- 4.6 One outcome of a systematic job analysis is job descriptions. T or F?
- 4.7 Absolute standards spread employees's performance out along a set of numerical appraisal scales. T or F?
- 4.8 BARS are developed through management input only. T or F?
- 4.9 BARS identify the employee traits most associated with performance. T or F?
- 4.10 MBO rests on principles of expectancy theory. T or F?
- 4.11 Employee development goals are always secondary to company goals in MBO. T or F?
- 4.12 Goals generally sustain the intensity of employee effort if they are easy and feedback is irregular. T or F?
- 4.13 Goals in MBO systems are set by the least senior employees and filtered upwards to top management. T or F?
- 4.14 Extrinsic rewards include recognition and status symbols. T or F?
- 4.15 One type of intrinsic reward is non-financial compensation. T or F?
- 4.16 Separation of extrinsic rewards and intrinsic rewards helps managers gain benefits from goal-setting. T or F?
- 4.17 The most useful basis for the administration of rewards is a combination of seniority and effort. T or F?
- 4.18 Compensatable factors are useful for determining performance dimensions in appraisal systems. T or F?
- 4.19 Pay secrecy influences perceptions about the reasons organisations give pay rises. T or F?
- 4.20 Skill-based compensation can lead to a more flexible work-force. T or F?
- 4.21 Employees covered by a Scanlon Plan could receive bonus cheques during periods of declining sales. T or F?
- 4.22 A Scanlon Plan would be easy to install in a unionised company. T or F?
- 4.23 Seasonal product demand influences a profit-sharing programme. T or F?
- 4.24 Group-based incentive programmes work in the long run because they emphasise intrinsic rewards over extrinsic rewards. T or F?
- 4.25 Reduction in the number of job classifications in a firm would have to occur prior to the design and installation of a successful group-based incentive system. T or F?



- 4.26 The successful installation of a group-based incentive system would eliminate the need for periodic salary surveys. T or F?
- 4.27 If a firm covers all employees by an individual stock ownership plan (ISOP) and the firm enjoys a rising share price, the number of shares outstanding will stay the same. T or F?
- 4.28 The use of contract workers (temporary employees) by a firm employing a Rucker Plan should have no effect on levels of employee motivation for personnel covered by the plan. T or F?
- 4.29 Employees expect that their good performance will lead to organisational goal attainment and in turn, their individual needs and goals will be met or satisfied. T or F?

### Multiple Choice Questions

- 4.30 Which of the following choices does not represent a use for performance appraisals?
- A. Evaluation of employee work behaviour.
  - B. Making promotion and other reward decisions.
  - C. Ascertaining staff development needs.
  - D. Making termination and demotion decisions.
  - E. Selection of likely candidates for a job from an applicant pool.
- 4.31 Two managers evaluate the same employee's performance using the same system and rating items but obtain different results. Which of the following choices applies to this appraisal system?
- A. unreliable.
  - B. biased.
  - C. invalid.
  - D. insufficient.
  - E. inaccurate.
- 4.32 Which of the following forms of performance feedback is most likely to improve employees' performance?
- A. The feedback is not recorded in some way.
  - B. The feedback is constructive and specific.
  - C. The feedback is threatening and coercive.
  - D. The feedback is put into writing.
  - E. The feedback precludes discussion or evaluation by the subordinate.
- 4.33 Which of the following choices does not apply to a BARS?
- A. Uses specific behavioural statements which are related to core performance areas in the job.
  - B. Uses bipolar forced rating scale items.
  - C. Has a clear definition of the performance dimension measured.
  - D. Uses input from employees in the system design process.
  - E. Emphasises job behaviours versus job attitudes.

- 4.34** Which of the following choices is not a feature of good practice in goal setting?
- A. More than 10 in number.
  - B. Challenging.
  - C. Related to personal development.
  - D. Goals are feedback-linked.
  - E. Difficult.
- 4.35** Which of the following choices is not a strength of group-based and participatory reward systems?
- A. Performance feedback can be channelled to individuals and to their groups.
  - B. Work group members become more competitive with each other.
  - C. Peer recognition.
  - D. Member commitment and performance increase.
  - E. Team members can be identified and prepared for leadership roles.
- 4.36** Which of the following choices represents why extrinsic rewards should be separated from intrinsic rewards?
- A. Extrinsic rewards are more important than intrinsic rewards.
  - B. Employees value them differently and they are influenced by job context and job content factors.
  - C. Employees do not believe that they have more control over intrinsic rewards than they do over extrinsic rewards.
  - D. Firms try harder to influence and control intrinsic rewards than they do extrinsic rewards.
  - E. None of the above.
- 4.37** Which of the following choices is a typical reason for giving pay raises in firms?
- A. Performance and effort.
  - B. Seniority or tenure on the job.
  - C. Equal treatment for groupings of employees.
  - D. The power and influence of groups in the organisation.
  - E. All of the above.
- 4.38** Which of the following choices represents a goal of a well designed company pay practice?
- A. Integrate improved productivity and quality of work life issues.
  - B. Provide rewards to the most senior employees.
  - C. Influence the number of and availability of extrinsic rewards only.
  - D. Generate data which can then be used in human resources decisions.
  - E. Involve employees in as many pay decisions as possible.
- 4.39** Which of the following choices would improve cost control and product quality through alterations in the reward system in a firm?
- A. Shorten the period between bonuses even if the size of the gainsharing bonus declines substantially.
  - B. Anchor gainsharing bonuses to tangible improvements in productivity and service quality delivered by self-directed teams.
  - C. Firmly connect the gainsharing bonuses to the firm's strategic goals.
  - D. Make all changes in the incentive system based on the results of salary surveys done in the industry.
  - E. None of the above.

- 4.40** Rosalie works for a manufacturer of hard drives. She is paid \$15 an hour for assembling 30 hard drives. She is paid \$.50 for each hard drive she produces over the first 30. Which choice below represents the compensation system being used?
- A. Piecework.
  - B. Pay-at-risk.
  - C. Commission.
  - D. Rucker Plan.
  - E. Individual Merit Plan.

### Short Essay Questions

- 4.41** Describe how halo effect, recency error and similarity error threaten effective PA practices.
- 4.42** What are the reasons for conducting a job analysis?
- 4.43** What are the major dimensions of the goal-setting process which enable managers to succeed in this process?
- 4.44** What is the value of trying to classify rewards as extrinsic and intrinsic?
- 4.45** What mistakes do organisations make in administering rewards?
- 4.46** Contrast a gainsharing and a profit-sharing plan. What are the key elements which must be considered when installing a gainsharing programme?
- 4.47** What are some advantages to creating and installing a Rucker Plan in a company as opposed to using a Scanlon Plan?
- 4.48** What are the typical organisational consequences of delayering and downsizing?

### Case Study 4.1: Performance Appraisal at Work

Synergistics Ltd is a large corporation which manages sports facilities and indoor convention facilities in Europe and the United States. The company is an autonomous division of a large international hotel conglomerate. Synergistics has recently taken over the management contract for a major sports facility in London. The facility specialises in a variety of sporting events such as soccer, tennis, gymnastics, and ice-skating competition. In addition, the company plans to make the facility more attractive to major product-oriented conventions for global firms.

The previous company managing the facility used a trait-based PA system and Synergistics intends to scrap it for one that uses more objective criteria. Redesign of the system was started with the formation of a nine-member steering committee composed of employees who were committed to changing the system. Its members ranged from senior managers to employees who were responsible for sports field and convention preparations. This group revised all of the job descriptions for the fifty employees to be covered by the new appraisal system. To complete this task, small groups of employees were interviewed by steering committee members who gathered employees' opinions about work dimensions which could be directly observed and assessed. The following dimensions were developed:

- Acceptance of responsibility.
- Productivity orientation.

- Working with others.
- Following safety procedures.
- Applying job knowledge.
- Planning time and work.

With the help of supervisors, the steering committee next developed at least six behaviours to support each of the work dimensions. A numerical rating scale for the dimensions was developed and approved by employees. The steering committee and the consultants produced a training manual to teach all supervisors how to use the new PA system. In one-day training sessions, supervisors were taught: 1) how to recognise appraisal errors, 2) how to conduct feedback sessions properly, 3) how to set objectives in the context of performance appraisal, and 4) how to handle employee disagreements about performance ratings. The PA system forms and administration procedures were then pilot-tested to determine their validity and reliability respectively.

The new system has been in place since the late 90s and has been well received by employees and managers. Several managers have been promoted to higher level positions, and two senior managers have taken positions managing facilities for the company in other major cities. Employees believe that the new appraisal system accurately represents their job activities and they value the system's performance feedback. In follow-up surveys, employees always say that they would never go back to the old trait-based system. Supervisors are also pleased with the behaviour-oriented system because they find it to be more accurate and easier to use.

- 1 Why is it important that employees help to design a new PA system?
- 2 What other work did the steering committee perform besides helping to design the new PA system?

## Case Study 4.2: A Swedish-American Joint Venture<sup>1</sup>

General Electric's Mobile Communications Business was in trouble and the CEO directed MCBs general manager to fix the Lynchburg, Virginia division or close it. MCBs GM followed a predictable cost cutting scheme that laid off 700 workers and froze the pay of those who remained. Recognising that a layoff and cost cutting were only short-run moves, the GM fretted over ways to raise performance to simultaneously regain a portion of the subsidiary's competitive advantage. Using a consultant named Tim Ross, a specialist in team-based reward systems, the GM authorised the 'Winshare' programme to improve GE Mobile Communications.

According to Ross, now director of Ross Gainsharing Institute in Chapel Hill, North Carolina, there are three ways to configure a gainsharing programme. It can stress the gainsharing bonus which is the cash received by employees when the company or division exceeds a pre-established profitability goal. This approach need not stress employee involvement or a managed suggestion system. A second alternative could stress the team bonus and include some form of employee involvement. A third way is to pitch gainsharing as a fundamental change in how a company relates to its workforce. This Theory Y option opens up management control systems in such a way that employees become deeply involved in cost savings decisions.

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<sup>1</sup> Source: Excerpted from B. Filipczak, (1993) 'Ericsson General Electric: The Evolution of Empowerment', *Training*, September, 21–7. Reprinted with permission of *Training*. Copyright 1993. Lakewood Publications, Minneapolis, MN. All rights reserved. Not for resale.

At the Lynchburg plant, top managers were reluctant to adopt the 'third way' described above. Ross had to attack managers Theory X assumptions. After countless meetings, management adopted the more substantial third way. The gainsharing programme created a quarterly bonus for employees if they lowered labour costs in relation to an established standard developed by management. The employee-involvement portion of the programme was based on the idea that production line employees had the most first-hand knowledge about the utility of cost improvement suggestions. Since the average tenure for production personnel was 22 years, this assumption was reasonable. Reluctantly, managers agreed that production personnel were certainly qualified to make quality improvement and cost reduction suggestions.

Soon, a system was created which gave production personnel the opportunity to make suggestions to improve production, reduce waste, streamline processes, improve vendor relations, and simplify jobs. The Winshare programme was unique in its urgency to adopt quickly useful suggestions made by production personnel. Instead of the traditional suggestion system which pumped suggestions into the 'blackhole of management indecision', employees on 'Win Teams' were given the power and the budgets to implement the ideas themselves.

With voluntary membership, the Win Teams quickly reached 50 and they controlled budgets for production improvements which grew from a modest \$250 to over \$20k per team. Led by an elected employee, each team has the authority to discuss, modify and accept ideas. Further, without management approval, teams could implement any idea that they decided was feasible. Managers and other exempt employees (staff specialists) belonged to Win Teams, but their contributions were confined to research and idea facilitation. Only the production Win Team and its leader authorised final approval to implement an idea.

What started out as a suggestion system with a twist has evolved into a serious employee empowerment programme that's altered the subsidiary's control system: it has moved from Theory X to Theory Y.

The company's re-emphasis on its core business (i.e., making mobile radios), the Winshare programme and earlier cost cutting schemes has returned it to profitability. This positive outcome attracted the attention of Ericsson, a Swedish maker of mobile communications equipment. Ericson made GE an outstanding offer and GE's CEO sold 60 percent of GE Mobile and the new joint venture was renamed Ericsson GE. The benefit to Ericsson was a cost effective way to enter the lucrative US market with a widely recognise partner. The profitable joint venture now employees 3500 employees who remain committed to cost control despite the fact that GE sold another 20 per cent of the company to its Swedish partner. Jimmy Howerton, an associate on the production line sums up the attitude of the Ericsson GE Lynchburg employees: 'It doesn't matter what name is on the gate because this is my company'.

- 1 What factors seem to account for the success of the Winshare programme at Ericsson GE?
- 2 What principles of effective reward system management are working in the Lynchburg facility?
- 3 Discuss the impact that gainsharing bonuses have on Ericsson GE employee motivation and performance. What principles of effective reward system management seem to be at work in the Lynchburg facility?
- 4 Based on this example, what are five or six ways that managers can improve cost control and product quality through alterations in reward systems?

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# Job Design and Employee Reactions to Work

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### Learning Objectives

By the end of this module you will be able to:

- Show how employee motivation and performance are related to job design.
- Describe the difference between jobs which fulfil higher-order needs and those which do not.
- Explain job design at the individual employee level.
- Explain why managers must understand and apply job design principles.
- Explain how job design and participation reduce employee job stress.
- Discuss interaction between job design and employee personality.
- Explain how employee participation supports competitive advantage.
- Describe new developments in team-based employee participation.

## 5.1 Understanding Job Design

Job design is the inclusion of specific work behaviours in a given job. It also covers work techniques, equipment and control procedures and employee participation in decision making. In recent years social pressures and employee dissatisfaction with traditional methods of work design have prompted firms to adopt 'quality of work life' (QWL) designs that give employees more opportunities to satisfy important personal needs through their work experiences. QWL programmes also seek to improve employees' performance by constructing jobs that are more meaningful, challenging and interesting. In essence, QWL programmes try to balance employee life needs and the demands of work.

QWL issues continue to be top issues in the minds of employees. For instance, employees want 'down time' that allows them to escape from the demands of '24/7' communications. Family time is important to employees because they need it to assist their parents and to raise their children. QWL programmes embrace these outcomes, sometimes stressing them more than productivity and competitive advantage. During the last decade QWL programmes have given way to re-engineering and Total Quality Management. QWL programmes are still important programmes, but they now carefully monitored for positive effects on various aspects of competitive advantage. No more QWL 'just for the fun of it!'

### 5.1.1 How Jobs Were Designed before QWL

Traditionally, managers used the principles of scientific management (SM) to simplify, standardise, monitor and control employees' work activities (very Theory X in intent and outcomes). This deterministic view of work posits that all improvements in workers' productivity come from two sources: time and motion. And so, SM experts (industrial engineers) break down all production jobs into discrete work elements which are analysed by number, complexity, cycle time, and relevance. Extraneous and unnecessary elements are removed, slowly performed elements are sped up, and complexity of job elements (and the job itself) is removed. The analysed, timed and simplified job is then re-assembled into a job that is the 'one best way' to accomplish the given task. This ideal job design minimises wasted time (and motion); it cuts employee fatigue; it eliminates or greatly reduces training time; it does not interfere with the designs of other jobs; it matches employee effort to the speed (pacing) of machinery; and it seeks to maximise productivity per hour of labour.

The primary SM tools of job design are time and motion studies, differential piece-rate pay systems and the scientific selection of workers. This last point refers to hiring systems that find new employees with physical and mental traits that closely correlate with the performance requirements of 'engineered' jobs in the SM scheme. The effects of scientific management on employees and the design of work systems are noted below. Please make note of the potential for Theory X organisational practices.

1. **Limited social interaction.** Due to speed requirements, noise and arrangements of equipment, workers may find it hard to talk or interact during work.
2. **Low skill requirements.** SM jobs are simplified and specialised to keep training costs low.
3. **Work standard.** A work standard is established and it is set to an expected hourly wage. The work standard itself represents a given number of units produced per hour. When employees exceed the expected number for a day's work, they earn a piece rate bonus that is granted in the form of a higher hourly wage. Employees who consistently 'under-achieve' are in danger of being fired.
4. **Job activity repetition.** The same tasks are performed over and over sometimes reaching 2000 repetitions per shift.



5. **Task specialisation.** All jobs have only a few steps and work is then moved to the next production step.
6. **Low employee creativity and ingenuity are required.**
7. **Tools and methods are pre-specified.** SM experts seek the one best way!

While SM has led to the development of the modern-day production methods, its long-term use can create profound work adjustment problems for employees. Many firms use aspects of SM and over time these firms become dependent on work rules, rigid work standards (that may no longer match product and service characteristics) formal and slow decision making and rigid control and oversight structures (all Theory X implications). To no one's surprise, management and employees lose trust in each other and job satisfaction declines. Product quality deteriorates, labour costs rise, absenteeism occurs and customer complaints (and defections) increase. Add up these effects and you can see how competitive advantage disappears.

### 5.1.2 Is SM Declining as a Job Design Philosophy?

With time, managers have realised that SM job designs will not sustain profit growth nor will such designs create challenging work for today's highly mobile knowledge workers. When applied in a simplistic and universal way, SM leads to 'creeping Theory X designs' that undermine competitive advantage, alienate employees and drive creativity out the door. Work-forces have changed demographically in the last 30 years and their workers have different expectations about the meaning of work. Work systems designers must now emphasise the balance between employees' higher-order needs and the requirements of the technical subsystem to produce high quality goods at competitive prices. Therefore, scientific management is no longer viewed as a universally applicable method for rationalising all production systems. It still has its advocates and its benefits but it is definitely on the wane in service-dominated economies. The rigid organisational assumptions of SM are being replaced by a model that emphasises global competition; customer satisfaction; employee involvement in decision making; teamwork; and ever-rising product quality. These driving forces require Theory Y job designs. SM still has both feet stuck in the Theory X model!

### 5.1.3 Horizontal Increases: The Roles of Job Enlargement, Job Rotation and Cross-Training

Job enlargement increases the number of work activities in a job to counteract employee boredom and the monotony that comes from over-specialisation. Job rotation exposes workers to a variety of often-related and specialised jobs over time. These two principles are popular ways to reverse some of the advanced negative effects of SM job designs. The thinking in each practice is that if jobs have more variety, employees will be more stimulated, interested and motivated by their work. When the principle is enlargement, variety in work is increased by adding to the number of work activities performed by the employee. In the case of rotation the principle in motion is shifting the employee through different jobs over

time. Cross-training is another popular variation on the anti-monotony theme. It is used in work teams to make members totally 'interchangeable'. All three activities horizontally enlarge jobs.

#### 5.1.4 Job Design and Herzberg's Two-Factor Theory

The frontal assault on scientific management job design systems has been led by Professor Frederick Herzberg and his colleagues. He calls his approach the Two-Factor Theory of job design and he refers to it as job enrichment. Job enrichment is really a philosophy that proposes that jobs should include hygienes (to prevent dissatisfaction) and motivators (to encourage performance and satisfaction). In his studies, he found that employees respond favourably to challenge, responsibility, pride in work, recognition, promotion and timely feedback about performance. Herzberg goes on to say that the absence of these motivators leads to a loss of employee initiative, increased work apathy and the cessation of job involvement. However, this does not imply that employees are dissatisfied by their work. Rather, Herzberg says that employees are simply not motivated because they have no reason to form positive work expectations (line of sight atrophies). Because the motivators are associated with the content of work, they are sometimes called content factors or intrinsic factors. (See Module 3.)

Serious erosion of job satisfaction occurs if motivators and hygienes are both absent. Hygienes are those conditions which must exist in the context of work to maintain a condition of 'no dissatisfaction'. They include: salary, job security, working conditions, status, company procedures, quality of supervision and the quality of interpersonal relations with superiors, peers and subordinates.

Herzberg's theory stands in direct contrast to principles of SM: in many ways it repudiates SM principles that ignore Maslow's higher-order needs. Herzberg has advanced a number of 'principles of job design/job enrichment' which are briefly noted in Table 5.1.

**Table 5.1 Herzberg's principles of job design**

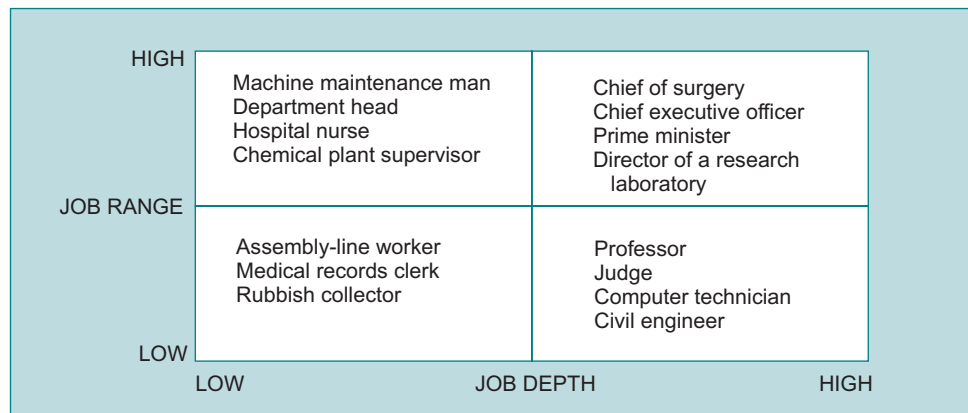
| Principles   | Examples   |
|--|--|
| 1 Give employees as much control over the mechanisms of task completion as possible. | A manager allows repairmen to order parts and maintain inventories.                                      |
| 2 Hold employees accountable for their performance.                                  | A manager conducts semi-annual, formal feedback sessions with subordinates concerning goal achievements. |
| 3 Within limits, let employees set their own work pace.                              | The company installs a flexible hours work policy.   |
| 4 Design jobs so employees experience accomplishment.                                | A manager gives employees the authority to handle customer complaints personally.                        |
| 5 Design jobs so employees learn new skills and work procedures.                     | A company offers a seminar to teach managers approaches to quality control.                              |

Herzberg argues that reducing hygiene factors is unproductive – he would never go along with the downsizing aspect of re-engineering – if a firm needs increased motivation, performance and attention to customer service from its employees.

Managers must maintain an appropriate level of hygiene while improving the motivating aspects of the job. Let us look at an example of a job with deteriorating motivators.

Adrian is a supervisor in a department which processes accounts receivable transactions and maintains an up-to-the minute record of the purchase history of all the firm's clients. For the last five years Adrian has seen his responsibilities grow to include management briefings on the ageing of accounts receivable, overseeing a new data entry process, and formal authority for making promotion and salary recommendations. Recently his company was acquired by a larger firm. New management sent the ageing of accounts receivable to accounting and it sent Adrian's responsibilities for promotion and salary recommendations to human resources.

It is clear that Adrian has lost much of his managerial discretion. While hygienics remain intact for him, the motivators have been removed. Experts would say that the range and depth of Adrian's job have been curtailed. Job range refers to the number of tasks an employee performs. Job depth is his authority to select various job procedures to accomplish work. Figure 5.1 shows how various jobs might be characterised relative to these two dimensions.



**Figure 5.1** Job depth and job range

### Criticisms of Herzberg's Theory

Herzberg's work broke new ground for addressing the psychological flaws of SM job designs. However, his work has been questioned repeatedly on methodological and psychological grounds. For instance, researchers Dunnette, Campbell and Hakel questioned Herzberg's use of the critical incident method which he used to ask respondents to describe those factors that they connected to being either satisfied or dissatisfied with their jobs. In this regard, experts claim that humans tend to blame external factors when they experience dissatisfaction and they credit themselves (cite internal or personal factors) when they experience job satisfaction. In simpler terms: 'I get the credit when I'm satisfied and you get the blame when I'm not!' Indeed, this is human nature speaking.

Herzberg must have been a bit of a management elitist because he believed that only certain jobs should be enriched and that many workers preferred simple jobs. He thought that management should make all decisions about job enrichment and that employees should not participate in the enrichment process *per se*. Nowadays Herzberg's position would irritate proponents of greater employee participation. Some of the empirical and philosophical defects in Herzberg's job enrichment have spurred work that gives a fuller picture of the interaction of employees and their jobs.

### 5.1.5 The Psychology of Employee–Job Interactions

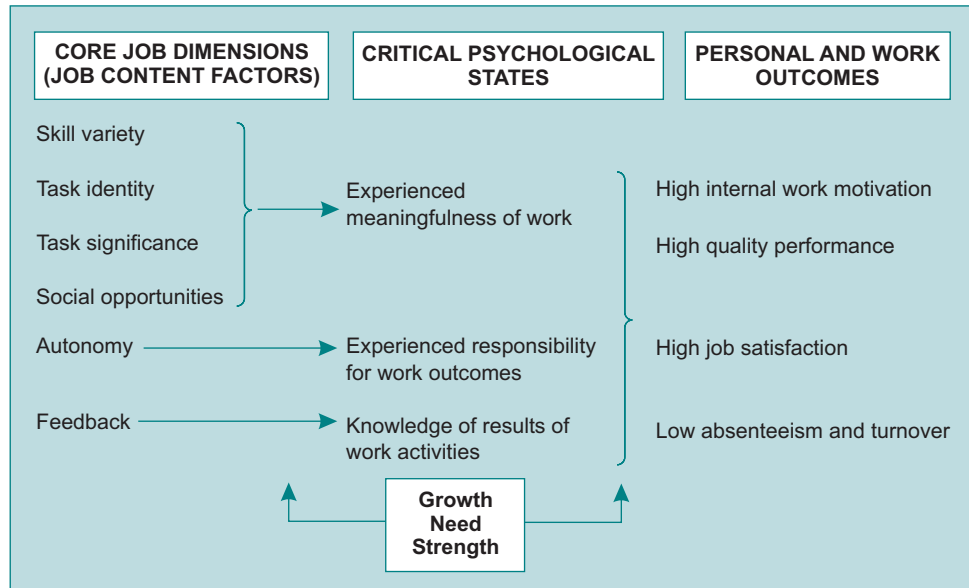
Employees' psychological reactions to work are important to managers because the firm's competitive advantage rests on the extent to which employees are motivated to not only work hard but to also come up with innovations and process improvements. Scientific management concerned itself with the physical aspects of work. The latest developments in job design focus on the mental challenges of work that is performed in Theory Y leaning organisations. The psychological content of the job determines employees' emotional and intellectual reactions to it. Content factors also extend to the social setting in which the job is performed. It is now an accepted principle that employees' perceptions of job content precede their motivation and performance. Low or inadequate job content predicts low motivation and performance. Down the line these conditions lead to turnover, absenteeism, eroding customer service and weakened competitive advantage.

### The Components of Job Content

According to Professors Hackman and Oldham, six job content factors exist and they are called core job dimensions (*see* Figure 5.2). Table 5.2 provides the definitions of each core job dimension. Skill variety, task identity and task significance represent job range and they are active in job enlargement, job rotation and cross training. Autonomy, feedback and social opportunities make up elements of job depth and they are active in principles of job enrichment. From Figure 5.2 it is apparent that the job content factors determine employees' three critical psychological states.

### Critical Psychological States

Skill variety, task identity, task significance and social opportunities influence the experienced meaningfulness of work. This psychological state is best thought of as 'having a job that matters to me, my family and my firm'. Autonomy is the authority to make decisions on a job's methods and goals. An employee experiences autonomy as: 'I'm the boss; I make my own decisions; and I'm responsible for the results I achieve'. Feedback about performance creates knowledge of results. Employees experience it as line of sight: 'I know what I have to do to achieve results in this job'.



**Figure 5.2** The job characteristics model (JCM)

**Table 5.2** Job content factors

**Skill variety:** The extent to which the job requires a number of different skills, talents and abilities to accomplish task activities. Jobs which require both technical and interpersonal skills possess high skill variety (lawyer, social worker, etc.).

**Task identity:** The degree to which the job requires doing a complete task from beginning to end and experiencing a visible and identifiable outcome (e.g., being responsible for all steps of product assembly).

**Task significance:** The degree to which the job has a substantial and lasting influence on the lives of employees and other people, both in the immediate organisation and in society.

**Autonomy:** The degree to which the job gives the employee personal freedom and discretion to control work activities and schedules.

**Feedback from the work itself:** The degree to which the job itself provides direct and complete information on the effectiveness of employee work behaviour.

**Social opportunities:** The extent to which the job allows the employee to have social contact with friends and requires interaction with others to complete the work.

The critical psychological states are employee reactions to the job content factors. They represent the employee's readiness to become physically and mentally involved in his work. When all of the states occur for employees, they prefer to do a good job and are disappointed when they are not successful at various task activities. When all three states are operating, employees are guided by their personal standards of performance excellence and they are fully involved in their jobs.

The JCM model in Figure 5.2 indicates that the employee's growth need strength has a moderating influence on the relationship between the employee's job and his experienced work outcomes (and those valued by the organisation). This individual quality refers to a cluster of higher-order needs including 1) achievement, 2) power,

3) independence and 4) personal control. It influences the basic relationships in the model.

### How Does Growth Need Strength Work for Employees?

Consider an employee with high growth need strength (a person who is highly motivated by challenging work (high  $nAch$ ) and who prefers to make independent job decisions which he hopes will lead to a promotion) whose job has low growth potential. He will exhibit low internal work motivation, erratic or low performance, job dissatisfaction and perhaps absenteeism (*see* Figure 5.2). This individual's job is a definite candidate for enrichment because his orientation to achievement and challenge makes changing the core job dimensions highly worth while. In effect, the job has little intellectual content and the employee knows it. An employee may possess low growth need strength and his job may be impoverished in core job dimension terms. This situation would preclude enrichment because the employee is probably not interested in satisfying growth needs at work. Perhaps he has found some way to satisfy these needs outside the work setting. This situation is really an example of a poor employee selection system and a poor job design system: such jobs ought to be removed or outsourced.

The above discussion indicates the importance of individual differences in job design. Employees with low growth need strength do not want to be bothered with jobs that are loaded down with content factors. Enriching their jobs will not do much to motivate or inspire them. Job enrichment works best for workers who have a high growth need strength and they believe they are stuck in routine and monotonous jobs.

## 5.2 Making Use of Job Design for Individual Employees

Designing jobs to be consistent with the JCM can produce positive gains for the firm and for its employees. It is a good diagnostic tool because it pinpoints job content factors that need to be changed. And, when it is applied, it reveals which employees want enriched jobs. It also suggests a set of job design principles that boost and stabilise the employees' critical psychological states. These principles are taken up in the next section.

### 5.2.1 Job Design Principles

Basic job design principles can improve employee motivation and performance through horizontal job loading: the expansion of a job's range. However, the motivation and performance gains may not be permanent because horizontal job loading does not deeply affect the employee's higher-order growth needs: it does not profoundly affect self-actualisation. So, its beneficial effects are noticeable but temporary. Here's another problem with horizontal job loading: It may appear to be 'more work for the same pay' to some employees. For example, restaurant employees may not be more motivated in the long run whether they are given the opportunity to wait on tables, clean toilets or wash dishes.

Job enlargement may have more sustainable benefits than job rotation because it changes the nature of work by reducing job specialisation. Jobs are expanded to include those tasks related to the core work activity performed by an employee. Instead of being rotated from one task to another, the employees are given jobs that they complete from beginning to end; e.g., jobs with greater task identity. An example of job enlargement could be the replacement of machine control of work pace with employee-determined work pacing. Job enlargement makes greater demands on employees than job rotation because it requires them to learn new skills as their jobs are expanded. This relationship makes it possible to use skill-based compensation to deepen and lengthen the motivation and performance benefits associated with job enlargement.

Cross-training is an essential activity in team-based work systems. It must be accomplished or the teams will be unprepared to accept more responsibility for methods and outcomes. Cross-training will proceed apace if employees are able to earn bonuses for learning new skills (see skill-based compensation in Module 4). A company that believes its work-force is the key to competitive advantage does not balk at paying for versatility. Nor does it worry about short-term rises in incentive pay. The firm is making an investment in its people: an investment that returns greater profits in the future.

After 30 years of JCM applications in hundreds of firms a number of dependable principles to improve job designs have emerged. The most sustained improvements seem to emerge from principles loosely described as vertical job-loading. This expression refers to those changes which influence the planning and doing components of work. When an employee experiences more control, autonomy, challenge and direct responsibility over work outcomes, then the job has been vertically loaded: it has increased depth. Here are the principles that deepen employees' critical psychological states through vertical job loading:

1. **Employees should get direct feedback on their performance.** Let employees inspect their own work (as we saw in the Lincoln Electric profit sharing programme). Formal performance reviews should be scheduled and informal feedback should be frequent.
2. **Give employees the chance to learn new skills.** The employees need to have an opportunity to expand their work aptitudes and competencies.
3. **Let employees schedule their own work.** An example is a flextime programme that requires all employees to work the core hours of 10 a.m. to 2 p.m. However, based on individual needs, they can vary work arrival and departure times as long as they work the required number of hours each week. Or, let employees work from home.
4. **Each job should reflect the personality of its holder.** Let the employee customise his approach to his work.
5. **Give employees control of the resources that they need to do their jobs.** For example, let field repairmen service their equipment and manage their parts inventories.
6. **Use MBO to increase personal accountability for results.** Another useful tool is delegation of authority: emphasising results instead of methods. The



manager gets out of the way and lets employees get on with their work (a Theory Y principle in all respects).

While all of these changes can greatly improve motivation, job satisfaction and performance of employees, they also require managers to thoroughly trust employees. For instance, a job design programme might eliminate time clocks, install flex-time and home-based work, and give employees the authority to reorder inventory components. Some of these new responsibilities for employees are the old responsibilities of managers. In other words, the programme has forced more delegation of authority into the work system. What do managers have to do? Well, they have to go along with it! They have to turn their attention from close supervision to being real managers who facilitate the work of their subordinates.

### Other Approaches to Job Design

There are a few other trends in job design and we'll mention them below. They invoke some of the principles of job enrichment but they are not large scale, company-wide programmes intended to fundamentally alter the employment relationship. In many respects, they are focused examples of QWL programmes.

**Four-Day Work Week.** Many organisations allow employees to work four 10-hour days to create a three-day weekend. While some productivity gains can occur in these programmes, the more frequent effects include higher accident rates and greater employee fatigue partly because many employees who work under this arrangement decide to add a second job to supplement their incomes.

**Job-sharing.** In job-sharing, two employees fill one job. The concept allows mothers to work as they raise their families. Shared jobs are often less stressful, less boring and probably less tiring. The firm may reap some benefits of job sharing too: greater output from two employees sharing a job than from a single employee filling the position. Fringe benefits do not rise with job sharing and the firm's reputation as a 'supportive place to work' may be enhanced.

**Telecommuting.** Telecommuting or home-based work is widely accepted and very popular with employees. Millions of people in America work from home and a good percentage of them are making money through EBay! Nurses consult with patients, salesmen arrange presentations, professors deliver lectures; and they all work from their homes. This trend is far bigger than outsourcing or 'offshoring'. High-speed DSL connections and the Internet are making the world flat and everybody wants to work from home!

In 2000, Kenexa Research Institute, a recruitment and retention consulting firm, surveyed 10 000 workers and found that over 70 per cent of telecommuters (about 500 respondents of the 10 000 queried) were 'proud to tell people I work for my company', while only 54 per cent of office workers agreed with that statement. Jack Wiley, a senior spokesman for the institute, says 'When companies allow employees to work remotely or from home, they are explicitly communicating to them that 'I trust you to be dedicated to the accomplishment of the work, even if I'm not able to observe you doing it'. More striking still



is the fact that 64 per cent of telecommuters believe that 'open, honest two-way communications are valued in their company' versus 44 per cent of office workers who said that. Finally, the survey produced one more affirmation for trusting employees to work from home: 63 per cent of telecommuters said they were not considering leaving their jobs within the next 12 months while only 46 per cent of office workers said leaving their jobs was not a consideration.

Some home-based workers still fret about working in this way because they fear losing regular 'face time' with their bosses and office-bound colleagues. Some workers fear that they may lose promotion opportunities and that their salary rises may be less because they work from home. Well, not to worry. More firms are encouraging at-home work because it reduces overhead costs; some of which are handed over to the happy home workers! Firms no longer worry about home workers who slack off because there are so many web-based ways to track their performance.

**Flextime.** Why not let employees determine when they arrive at work and when they leave? After all, it's a fundamental autonomy issue and firms have reacted to it by setting up flextime systems. which set 10 a.m. to 2 p.m. as core work hours each day. Employees are then free to manage their arrival and departure times with the agreement being that they complete a full week's work. Flextime users claim that they have lower absenteeism, increased productivity, reduced overtime expenses, greater employee job satisfaction and fewer episodes of traffic congestion at work facilities. Employees like it because they gain autonomy: they choose when they come to work and when they leave. Most employees react to this change by becoming more loyal and committed to their jobs and companies. It's a clear Theory Y winner because it is based on trust. Flextime works well for jobs that are manufacturing based and do not require extensive customer interaction. It may work less well in service companies that require employees to be at designated service locations where they must wait to greet customers.

### 5.2.2 Assessing Managers' Interests in Job Design

Pressure to improve competitive advantage requires managers to keep their eyes on job designs. They don't have to be convinced that good ones contribute to customer service, market share, cost control and work-force satisfaction. A motivated and capable work-force is a solid and reliable basis for competitive advantage and job design makes it happen. Professor Richard Hackman, an expert in job design tells us why it is here to stay:

1. **Work design alters the relationship between people and their jobs.** Better designs offer more intrinsic rewards and employee productivity follows.
2. **Job design targets performance behaviours for change and this leads to improvements in employees critical psychological states.** This sort of change is more durable and it matches a performance-oriented work culture.

3. **Improving job design triggers other positive changes.** Labour-management trust rises and employees respond by showing more initiative and taking on more risk. The firm moves in a 'Y' direction.
4. **Better designs account for employee need satisfaction.** SM job designs ignore the importance of higher-order needs.

### What Problems Can Occur in Job Design Programmes?

Excellent job designs require creative maintenance and reformulation from time to time. They have to change along with the firm's strategy, structure and methods. Here are some 'red flags' that may signal that a job design scheme is wobbly or implementation of a new one is threatened in some way.

1. **Global competition.** Jobs that cannot be designed to eliminate machine pacing and repetitive motion should be automated or outsourced. More firms are pushing around knowledge instead of things and materials. Trying to preserve antiquated work systems in the face of low-cost, global competition is a loser's game. This is the story of the 115 year-old Maytag Corporation. It was swallowed by Whirlpool because it failed to close high cost plants and it was slow to build strategic alliances in China, Mexico and Korea.
2. **Shelving a programme due to declining profits.** Firms are filled with cost cutters who try to plump up earnings by curtailing investments in training and development. Just as a new work design takes hold they launch a downsizing programme! Two steps forward, three steps back... Downsizing and re-engineering programmes may quickly undo the benefits of a job design effort.
3. **Ignoring employee preferences.** It boils down to this: 'You can't do job enrichment in a Theory X firm'. There must be on-going labour-management collaboration for an enrichment programme to go forward. Ignoring employees during programme design and implementation is an insult in many ways. It is interpreted by employees as: 'Management thinks we don't know anything and we have to always be told what to do'.
4. **Managerial and union resistance.** Managers can feel threatened by job redesign and so can union officials. In the middle of this tug of war is the work-force. The people on both ends of the rope have to set aside their fears and support the redesign programme for the 'greater good' – the survival, growth and prosperity of the firm. In extreme cases (to avoid bankruptcy and liquidation) labour contracts must be renegotiated, benefits must be reduced, and compensation must be frozen. And, work systems must be redesigned.

## 5.3 The Team Approach to Job Design

Autonomous work groups (teams) and how to make them effective is one of the hottest issues in OB. Harnessing teamwork and collaboration to the firm's competitive business model is a core responsibility of top management. The theoretical groundwork (socio-technical systems theory: STS) for this urgent and contemporary trend was laid over 50 years ago by the Tavistock Institute of Human Relations

in London. The institute's focus: trying to understand the effects of technology on work systems in Britain's coal mining industry.

STS integrates the social and interpersonal aspects of work with the technical and knowledge demands of work. You might think of it as the effort to understand and harness the dynamic tension between team morale and technology-driven work methods. Professor Griffin notes that STS tries to reconcile two opposing forces: 1) team productivity based on work specialisation and 2) human needs for support and consideration.

Professors Trist and Bamforth, researchers at Tavistock, studied the effects of technological change in British coal-mining operations. In the early days, miners worked in self-governing teams that had freedom to set work pace and social interaction in the dangerous working conditions of deep shaft mines. In the early 50s technological improvement in the form of machine-paced, 'long-wall' methods of coal getting' turned the mining teams upside down. Their social structure fractured and their output plunged because the teams of miners could not adjust to new rigid, repetitive work routines and task specialisation. This study and others conducted by Tavistock staff experts led to the conclusion that the technical and social work systems are totally interdependent and team work designs must account for their interplay. The basic building block in such designs is the autonomous work group which, according to Professor Hackman, has these qualities:

1. The group is assigned a whole task, in which the mission of the group is to complete the task from beginning to end.
2. Each worker in the group is cross-trained to increase the group's ability to quickly respond to changing work conditions.
3. The group selects work methods, assigns team members to chores, schedules its activities and has a hand in the selection and training of new members.
4. Compensation is two-tiered: team bonuses and individual merit pay.

Once autonomous groups are up and running, changes become evident. The groups exhibit greater cohesiveness because the members are free to interact on any internal group matter (scheduling, work methods, training, etc.). Cross-training boosts line of sight among members. This dynamic sustains group productivity and boosts members' confidence concerning team bonuses and rewards. 'Interchangeability' builds the managerial and leadership capabilities of group members and new team leaders emerge naturally. Team performance goals and organisational performance goals correlate more highly and the firm's competitive advantage is strengthened. Since rewards, bonuses and pay rises are contingent on group performance, members rely more heavily on interdependence and collaboration in their work. They quickly learn that these are the work behaviours which make the group more successful in meeting its product quantity and quality challenges.

### 5.3.1 How Managers Design Self-Directed Teams

Profit-making firms have transformed the autonomous work group concept into the self-directed team initiative (SDTs). Self-directed teams are formal work groups

made up of members who are jointly responsible for team leadership and goal accomplishment. The 'best practices' in firms that use SDTs achieve the following outcomes: 1) high performance norms, 2) channelling group conflict to useful ends, 3) satisfying interpersonal relations and 4) integration of technical work and the team's social structure. These outcomes are attainable if management adheres to these principles:

1. The team should be relatively small (8–20 members) so that group membership may be psychologically meaningful.
2. Team-centred interventions (training and development) are confined to work skill areas or cross-training.
3. Develop a two-tiered pay system: team bonuses overlaid on merit-based pay.
4. The role of the supervisor should be changed from vertical liaison with higher management to horizontal integrator of other work teams.
5. The team plans, organises and controls a discrete unit of work. And the team is responsible for both the quality and quantity of its performance.

### 5.3.2 Companies which Have Used the Self-Managed Work Team Concept

Due to the popularity of SDTs, organisations are coining new names for their team-based efforts to organise work. They are called self-managed teams, semi-autonomous work groups, empowered teams or cross-functional teams. Names aside, these work configurations are a permanent part of the organisation's structure and they are essential ingredients in the firm's competitive advantage. In every case, SDTs assume responsibilities formerly handled by supervisors and middle managers. Their new responsibilities include: training and development, quality control, performance evaluation, personnel interviewing and selection for possible hiring, work scheduling and control and discipline. Established and performance-ready SDTs are composed of able members who evaluate each other's performance and provide on-the-job training and skill building. These individuals confer on work scheduling and they agree on task assignments. The SDT members perform all quality control functions and they are always on the lookout for ways to reduce both quality defects and work cycle times by applying principles of continuous improvement (TQM).

The principles noted above have been applied to the work arrangements at New United Motor Manufacturing (NUMMI) which is a joint venture between Toyota and General Motors in GM's Fremont, California plant. Before the strategic alliance was launched, the GM plant was crippled by labour and quality problems. It had high levels of absenteeism, alcohol and drug abuse among workers, and very poor productivity and product quality. When it reopened as NUMMI, 60 per cent of the original employees remained and this work-force consisted of 39 per cent white males, 26 per cent Hispanics, 20 per cent blacks and 15 per cent females. In collaboration with United Auto Workers Union (UAW) officials, 2200 new employees were added over a two-year period. Union conditions attached to re-opening the plant required the joint venture to offer 'compelling reasons' for rejecting a candidate and that an arbitration process be established to handle disputes over

selection. Professor Pfeffer of Stanford's business school gives us an over-view of the GM–Toyota venture:

1. Candidates are run through a three-day assessment process that includes individual and team interviews, exams and problem simulations.
2. New employees receive four days of training in team problem solving.
3. New employees sign a job security contract.
4. No exclusive dining rooms, parking facilities or special offices.
5. Management is committed to a labour-management relationship based on trust and collaboration (Theory Y design).
6. Rapid-fire feedback on improvement suggestions: 95 per cent are adopted for implementation and all result in team-based bonuses.
7. Minimise job specialisation to facilitate repairs and product quality.
8. Team leaders can earn only \$0.40 more per hour than team members.
9. Managers share performance, quality and safety information with SDTs.
10. Just-in-time inventory management, preventative maintenance, and TQM are the responsibilities of SDTs.

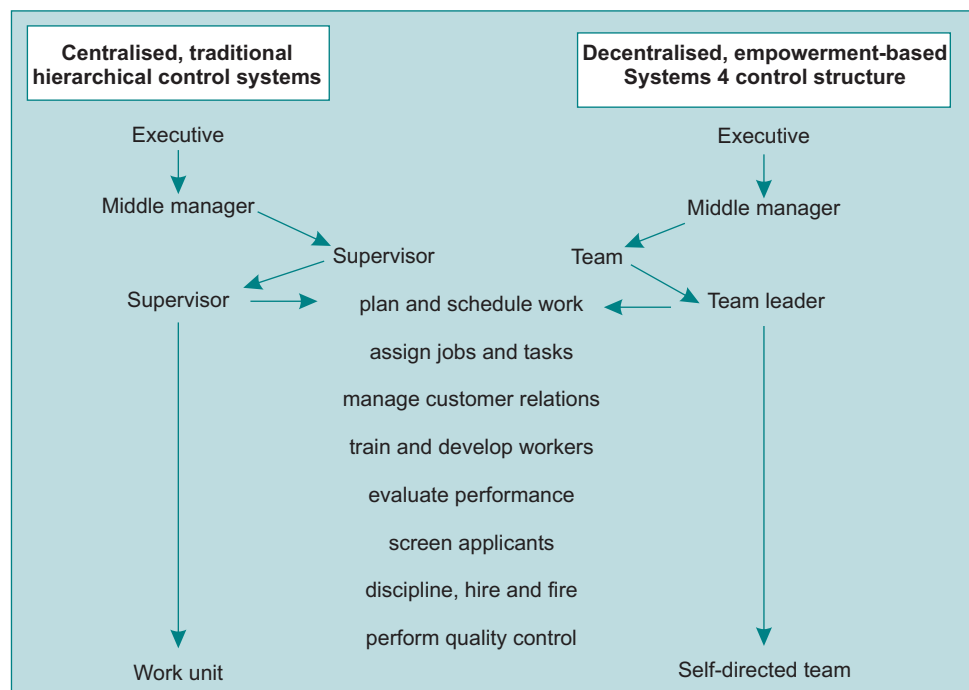
Application of these ten principles transformed the NUMMI plant. Absenteeism fell from 25 per cent to 4 per cent. Worker complaints fell from 5000–7000 per year to just 100 in an 18-month period after re-opening. The rate of employee participation in the suggestion system reached 85 per cent. Most importantly, quality and productivity levels rose dramatically. For instance, a *Consumer Reports* reliability survey found that the NUMMI facility produced cars with a reliability coefficient 37 per cent higher than comparable GM plants. Car owner surveys also found that NUMMI autos were about 10 per cent more reliable. Finally, hourly paid workers and salaried workers at NUMMI were on average 48.5 per cent more productive than their counterparts at other comparable GM plants.

According to Massachusetts Institute of Technology (MIT) researchers, NUMMI had succeeded in creating a 'lean production system'. The success of the NUMMI facility and other efforts to build team-based work systems in companies have helped spark interest in using SDTs in numerous manufacturing and service industries. Make no mistake, SDTs are embraced by management because their use controls costs and improves competitive advantage. For instance, SDTs eliminate high-cost slack resources like extra inventory and 'floater' employees who fill in for those who are absent. Production down-time during periods of factory floor reconfiguration are greatly reduced and fewer re-starting problems are encountered. Clearly, companies believe that SDTs contribute to the bottom line.

### 5.3.3 Merging Self-Directed Team and Empowerment (Engagement) Concepts

Figure 5.3 shows the nature of lean production systems and the basic responsibilities for controlling the work of SDTs which migrates from middle management to the team. This diminishes the need for first-line supervision because these oversight functions are absorbed by the team: fewer department heads, supervisors and unit managers and lower indirect labour costs.

Major re-engineering efforts to create lean production systems activate the process of employee engagement. Engagement (empowerment) works well in SDTs because members are cross-trained, leadership is rotated and management shares cost and performance information with SDTs. Over time we find that engaged employees gain skills, competence and satisfaction from their work. The foundations of employee engagement can be found in Likert's 'System 4' organisation (see Table 5.3). This is a 'Y design' and it lays the groundwork for a participative, supportive work environment: one that nurtures SDTs. Second, organisations which adopt a 'System 4' design have often just installed new production methods and technology and they find that such innovations create pressure to overturn old Theory X work systems based on specialisation and principles of scientific management. Inefficient job designs based on limited employee decision-making are simply swept away because they do not match new technologies nor do they provide a reliable base for competitive advantage. New technology may improve productivity in the short run, but its benefits will peter out unless the firm injects SDTs and employee engagement. Any rival can copy new technology: it's for sale after all! Effective engagement, training and SDTs matter just as much in the long run as rising capital intensity when it comes to competitive advantage.



**Figure 5.3** Self-directed teams are replacements for a traditional 'X' control structure

## Preconditions for Worker Empowerment

Team-based work systems are the only logical choice for organisations that adapt lean production systems and re-engineered designs. Experts at Harvard Business School caution that such improvements may fail if employees are not up to the challenges and demands of employee engagement. Employees have to be excited by the opportunity to be involved in decision making; they can't be alienated from their work or from management. Command and control structures (formal hierarchies) have to give way to decision making that spreads horizontally in the firm. Further, employees must be motivated to act autonomously: to be self-starters. Perhaps internalisers are more likely to be self-starters whereas externalisers are much more likely to approach supervisors for work guidance. A paradox is apparent here. Autonomy and initiative in an SDT member reflect engagement but when they are excessive they can also trample group decision making process and irritate members of SDTs. In productive SDTs there is always a dynamic tension between the autonomous member's needs for individuality and the team's needs for cooperation, compliance and consensus. Such teams are effective because they have found the proper balance between individuality and collective effort. Returning to line of sight for a moment, team members must see how their self-interests are advanced by their job engagement and they need the long view when it comes to skill development and competence building. Team members must believe management wants to invest. Management returns the favour by guaranteeing job security and by aligning a team-based reward system and merit-based pay.

### 5.3.4 Employee Engagement Spreads Participative Decision-Making in the Organisation

There's no doubt about it; employee participation in decision making is a core element of job design. From the employee's standpoint, participation has three facets that are noted below.

1. **Psychological involvement.** When employees engage in making work-related decisions, they become absorbed in what they are doing. They are mentally and physically stimulated by work challenges. Work excellence cannot be achieved by physical involvement alone. After all, coming to work is a form of physical involvement and it has little to do with excellent performance! There is a huge difference between psychological involvement and 'looking busy'. Busy looking employees may not be satisfying their higher-order needs through work. Looking busy is 'camouflage': it's a form of avoidance behaviour designed to evade the attention of supervisors.
2. **Motivation to contribute.** Engagement encourages employees to make personal contributions to their firms. In an effective (competitive) firm we see the integration of the employee's social needs (belonging) and the demands of the firm's technical work system. From this integration flows challenging and meaningful work that keeps him focused and productive.

In an 'X' firm we might see employees who are 'instructed' to participate. To no one's surprise employees only 'go through the motions': they comply but



they don't get excited. What are those employees doing? They are acquiescing to pressure exerted by managers. They experience job stress, resentment (towards management) and dissatisfaction with supervision and pay.

3. **Acceptance of authority.** Participation triggers delegation of authority and employees gain greater control over themselves and their work. When employees can decide how to get work done, they have more ownership of their jobs. Acceptance of authority is embedded in SDTs because members come to depend on their team members more. Rising employee self-control refines collaboration, deepens trust, and unleashes more innovation.

### The Qualities of an Organisation which Uses Participation Effectively

The qualities can be best identified by articulating the differences between Likert's 'System 1' and 'System 4' organisations. A System 1 organisation is an 'X' firm made up of managers who ignore the crucial role of teamwork in organisational effectiveness. The System 4 'Y' organisation makes teamwork the center piece of organisational design. Table 5.3 contrasts the differences between a '1' and a '4'.

**Table 5.3** Contrasting the participative and non-participative organisation

| The non-participative organisation<br>(System 1) has:   | The participative organisation<br>(System 4) has:  |
|---|--|
| 1 Leadership which does not value or instill confidence and trust. Superiors and subordinates do not solicit each other's opinions. | Leadership that instills confidence and trust. Superiors and subordinates freely discuss problems. |
| 2 Motivation systems which operate only on lower-order needs. Motivation may be based on threats of job loss.                       | Motivational systems which tap the full hierarchy of needs and their related rewards.              |
| 3 Communication which only flows downward and it is subject to distortion and inaccuracies.   | Communication which flows in all directions with clarity and accuracy.                             |
| 4 Subordinates who are not involved in goal-setting.  | Subordinates who are highly involved in goal-setting.  |
| 5 Decision-making which is concentrated at the top of the organisation.   | Decision-making which occurs at all levels.  |
| 6 Control processes which are centralised.  | Control processes which are dispersed and emphasise self-control.                                  |
| 7 Performance standards which are low and pursued passively.  | Performance standards which are ambitious and pursued with energy.                                 |

### Considerations for Managers who Want to Use Participation and Empowerment Effectively

Not all managers with 'Y' styles are going to be effective at democratising their firms. That's because they may be working in firms with 'X' values, cultures and climates. Let's suppose we are talking about 'Y' managers who are working in firms that prefer to shed their 'X' ways. Now we have a situation that can be improved for both the firm and its work-force. Here are a few 'cautions' or ideas to consider in such circumstances.



1. Train your employees and set up SDTs. However, don't try to do either one if the firm is in a crisis or its industry is in the process of crashing. An example would be a natural disaster or a 'supply side shock'; e.g., widespread terrorists attacks.
2. Shift your thinking to coaching employees and integrating the work of SDTs and stop thinking of yourself as an all-knowing source of decisions.
3. Believe that your employees want to grow and develop on the job.
4. Teach your employees that participation is a core value of the firm and that it is central to their professional orientation.
5. Teach your SDTs team-based methods of problem solving. The skills necessary for effective team problem solving are different from the intellectual and conceptual skills employed by individuals to solve problems.
6. Show your employees that the reward system reinforces team excellence and individual creativity. Show them how the two-tiered system works and don't forget to stress the importance of line of sight!

### 5.3.5 Limits to Participation in Organisations

Participation and empowerment do not fit the styles and cultures of all firms. There are many that are not prepared for or well-matched to these forms of democracy. Here are factors that might diminish the need for participation. A firm can remain 'X'-oriented and hierarchical if its industry has very high entry barriers (little competition) and its customers are loyal (perhaps they have few alternatives; e.g. little bargaining power like customers of public utilities) Firms that have excellent patent protection and are able to avoid the attention of global competitors might also de-emphasise participation. Firms that continue to extract large gains in employee productivity might also postpone the introduction of worker involvement. Work specialisation might still hold promise if employees do not complain about standard work rules and regulations. There's no point in shifting to participation if employees have low growth need strength or if the firm must contend with an argumentative and suspicious union. Finally the firm should not use participation unless it is prepared to link it to a well-articulated strategic plan.

Before we leave the related subjects of job design, empowerment and participation let's look at Schlumberger Ltd., an oil-field services company with 52 000 employees spread over 80 countries. Professor Wessel notes that Schlumberger had always found that its engineers, physicists and geologists worked well on individual projects, but that they were often clueless when it came to quickly forming project teams that could tackle service problems any where in the world. Executives decided to try an experiment: let every employee post his resume on the firm's website and then exchange information about their professional interests and successes. After a few months the response was overwhelming: 50 000 employees posted their CVs.

Schlumberger management took the next step and authorised the formation of 'communities of practice', groups of employees of similar professional or other interests that cross horizontal and vertical corporate boundaries. In a few months

11 500 employees had organised themselves into 23 communities with over 140 sub-groups; some with hundreds of members. These communities now govern themselves through formal elections. Their leaders press upper management on research agendas, exploration methods, and professional development. At this writing, over 275 employees have served as elected leaders of either communities or subgroups.

The Schlumberger CEO, Andrew Gould, believes the self-governing property of the communities is crucial because knowledge workers are motivated by professional recognition from their peers. He summarises the initiative by saying, 'The election of leaders ensures the integrity of peer judgments'.

Few firms go as far with participation as Schlumberger. Perhaps its communities of interest are a blueprint for service companies that must solve complex technical problems by quickly integrating the diverse experience of knowledge workers. Schlumberger's annual revenues exceed \$15bn: its experiment bears watching. . .

## Summary Points

- SM breaks jobs down into their elements; eliminates the unnecessary ones and recombines the remainder to create the most efficient job design. It produces jobs that are more specialised and simplified. It is often associated with employee alienation, turnover, absenteeism and lowered production quality.
- Herzberg's two-factor theory proposes that the absence of hygiene leads to job dissatisfaction while the presence of motivators leads to job satisfaction, motivation and performance, if hygienes are present. It was the first significant departure from scientific management as a method for job design.
- Job range refers to the number of tasks performed by an employee, while job depth is the amount of discretion the employee has to select various job procedures to accomplish work. Sometimes these two aspects of job design are called horizontal and vertical job loading respectively.
- Employee growth need strength is composed of achievement, interest in work, desire for independence and personal control over work. It is a moderating factor which must be considered prior to attempting changes in job design.
- Job rotation increases levels of employee skills by moving them from one job to a related one for a given period of time. Job enlargement adds related tasks to the employee's core work activity. Cross-training produces employees with inter-changeable skill sets.
- SDTs integrate the technical and social aspects of group work. Countless companies use SDTs to advance competitive advantage.
- Employee engagement is the sharing of decision-making power by the organisation with its employees. It is popular with Theory Y managers and their firms.
- Participation is composed of three elements: 1) psychological and physical job involvement, 2) motivation to contribute and 3) acceptance of responsibility.
- System 4 organisations use participation and engagement to raise individual and work team effectiveness. Their managers have to value participation and trust employees to achieve results without direct, day-to-day supervision.

## Review Questions

### True/False Questions

- 5.1 SM recognises the importance of individual differences in job design. T or F?
- 5.2 QWL refers to an organisational philosophy about the importance of satisfying employees' lower-order needs at work. T or F?
- 5.3 Task specialisation is generally reduced when scientific management is used as the basis for job design. T or F?
- 5.4 Herzberg's hygiene factors contribute to long-run job satisfaction, motivation and performance. T or F?
- 5.5 Job depth is significantly influenced by adding to a job's content. T or F?
- 5.6 Job range can be positively influenced by job rotation. T or F?
- 5.7 Generally, employees decide on a given level of performance before they evaluate their levels of experienced job content. T or F?
- 5.8 Employee growth need strength is an integral part of Herzberg's two-factor theory. T or F?
- 5.9 A job with poor job content factors occupied by an employee with high growth need strength could be redesigned successfully. T or F?
- 5.10 Critical psychological states refer to permanent features of the employee's personality. T or F?
- 5.11 Providing employees with more job-related feedback will increase their experienced job responsibility. T or F?
- 5.12 Flextime is not the same as a four-day, 40-hour work week. T or F?
- 5.13 Job design changes are most successful if they focus on behaviour rather than employee emotions. T or F?
- 5.14 SDT integrate the technical and social aspects of work. T or F?
- 5.15 Job range changes very little for members of a self-directed team. T or F?
- 5.16 There is no upper limit on the number of SDTs in a firm. T or F?
- 5.17 The Scanlon Plan is a form of group-based profit-sharing. T or F?
- 5.18 SM may be used more often in a System 1 organisation than in a System 4 organisation. T or F?

- 5.19** High internal organisational differentiation between departments is a barrier to spreading employee engagement. T or F?

### Multiple Choice Questions

- 5.20** All of the following are principles of SM except:
- A. time and motion studies.
  - B. decision-making responsibility assigned to empowered teams.
  - C. piece-rate pay or individual incentive systems.
  - D. simplification of work and training requirements.
  - E. using job-based performance skills to select job applicants.
- 5.21** A weakness of SM is that:
- A. it underestimates the significance of worker ingenuity and work creativity.
  - B. it gives too much authority to employees who may not be ready to handle it.
  - C. it doesn't pay enough attention to the problem of employee pay.
  - D. it only works in factory settings.
  - E. it over-emphasises employee training and development.
- 5.22** Assembly-line jobs:
- A. tend to be non-repetitive.
  - B. require minimal mental attention.
  - C. require the employee to set the pace of work.
  - D. impose high skill requirements on employees.
  - E. entail significant training and development costs.
- 5.23** Job enrichment is most closely associated with:
- A. Taylor's SM.
  - B. McClelland's socially acquired needs.
  - C. Herzberg's two-factor theory.
  - D. Maslow's need hierarchy.
  - E. Vroom's expectancy theory of motivation.
- 5.24** When an insurance claims processing clerk is given the responsibility and signature authority to handle certain types of claims work, her job has been:
- A. enlarged.
  - B. enriched.
  - C. horizontally loaded.
  - D. simplified.
  - E. re-engineered.
- 5.25** The degree to which an employee's job requires completing a whole task or a related sequence of tasks is called:
- A. autonomy.
  - B. skill variety.
  - C. task identity.
  - D. feedback from the work itself.
  - E. task significance.

- 5.26** Enlarging a job is most closely related to which of the following job content factors?
- A. skill variety.
  - B. autonomy.
  - C. task identity.
  - D. task significance.
  - E. feedback from the job itself.
- 5.27** The key moderating concept in the job characteristics model is:
- A. need for achievement.
  - B. locus of control.
  - C. growth need strength.
  - D. job involvement.
  - E. emotionality.
- 5.28** Which of the following is typically **not** a cause of problems in job redesign efforts?
- A. Reducing employee skill deficiencies through training and development.
  - B. Rapid changes in technology.
  - C. Failure to consider employee needs in the redesign effort.
  - D. Failure to consult with union membership prior to starting the redesign programme.
  - E. Redesign programme cutbacks caused by falling revenues.

### Short Essay Questions

- 5.29** What are the reasons for failure in job designs based on SM? Outline four elements which would correct some of the problems associated with job designs based on scientific management.
- 5.30** Why is it important to consider individual differences in job design?
- 5.31** How can job design be used to improve competitive advantage?
- 5.32** In what ways does flextime influence job depth? How might a flextime system improve organisation–employee relations?

## Case Study 5.1: Alton's Experiment with Changes in Job Range and Depth<sup>1</sup>

Alton Ltd. installs and services computer equipment in wholesaling businesses. Alton owns the equipment, and through a leasing arrangement the firm maintains it for its customers. The firm has 300 repairmen in the field and they are all graduates of its technical training programme. Lately, the repairmen have been complaining about many features of their job. The director of field services is concerned because he believes their complaints is the reason why the average number of monthly calls made by repairmen has been steadily dropping. Turnover has also increased and several key customers have cancelled leases in favour of new arrangements with Alton's competitors.

A job design expert was retained by Alton to study the problems in the repairmen's job. The director of field services told the expert that Alton's repairmen are the best in the industry because they undergo 40 hours of training each year to update them on the latest repair techniques. He also told the consultant about several conclusions he had reached concerning the repairmen and their jobs and they are noted below.

1. The company assigns each repairman weekend duty once every two months. Frequently the repairmen will not show up for weekend calls.
2. The salary level, fringe benefits and vacation benefits for repairmen are consistent with the industry.
3. The repairmen like each other and they communicate via e-mail despite the fact that they generally work alone.
4. Several instructors in the company's training programme have told him that some repairmen dislike their jobs because they have little freedom to make on-the-spot repair decisions.
5. Customer dissatisfaction is confined to elements of the firm's service contracts. No clients have said they dislike Alton's personnel.
6. The company is experiencing a decline in the number of applications to the training school.

The job design expert decided to interview some repairmen. He talked with 50 employees from all of the field territories. A summary of their comments follows.

- 'We can't order parts. Management does the ordering, and it's often too infrequent and the parts come too late'.
- 'We aren't able to carry non-routine parts. Management prefers to special-order these parts which further delays us in making repairs'.
- 'We have to go through management when we encounter a repair problem and we cannot contact engineering directly'.
- 'We don't set our own schedules; management does it for us'.
- 'All customer complaints must be routed through the sales manager. This delays our response further'.
- 'Management determines the maintenance schedule for our vans and equipment. Often these schedules do not match our equipment needs and the schedules become outdated as we get new repair equipment'.

The repairmen made several other points about their jobs. They enjoyed the training seminars because they were able to learn new repair methods. Most said they found their work to be challenging and full of variety. Yet many expressed frustration over their inability to provide timely customer service. They felt some of the company's work

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<sup>1</sup> Source: Adapted from R.C. Dailey, 1988. *Understanding People in Organizations*. St. Paul, MN: West Publishing.

rules prevented them from delivering the best service and they felt this reflected badly on them as individual employees. They felt satisfied with employee benefits and the pay system. Twenty experienced repairmen indicated to the consultant that they were looking for employment elsewhere.

The consultant organised a series of meetings attended in each instance by two supervisors and four repairmen. These 'job expert' groups were challenged to create changes for the repairman position. After each group generated a list of items that were screened for feasibility, specificity and applicability to the repairman job. Ten of these meetings were conducted in the London territory. Below is a partial list of the suggestions created by the groups.

1. Let repairmen order routine and non-routine parts.
2. Repairmen should go directly to engineering for technical assistance.
3. Repairmen should handle their own vehicle and equipment maintenance up to £500 in annual repair costs.
4. They should design their own territory coverage and be able to work from their homes. Each repairman would have a cell phone and wireless laptop to stay in touch with the office and with firms in his client group.
5. Repairmen should process customer accounts up to £1000 in repair work.
6. They should maintain their own quality control reports.
7. They should help select new applicants and take turns at instructing in the annual training seminars.

The consultant implemented the seven suggestions with the assistance of managers and their repairmen. Fifty repairmen and their supervisors from the London territory participated in an eight-month pilot programme that made the changes noted above and tracked the following outcomes: work attitudes (job satisfaction, job involvement), performance, job motivation, absenteeism, customer satisfaction, job cycle time, vehicle maintenance costs and error rates in paperwork. Similar measurements were made for 50 repairmen in Birmingham and Liverpool. However, no job changes were implemented in their jobs.

The measurements noted above were taken monthly in both groups of repairmen. The consultant and the director for field services were pleased by what they saw. Not much changed for the repairmen in Liverpool and Birmingham. However, the London repairmen (experimental group) showed significant progress in the areas noted below:

1. Absenteeism had dropped by 10 per cent.
2. Job satisfaction and job involvement were up 25 per cent.
3. Vehicle maintenance costs had not risen during the period, and repairmen reported less lost vehicle time.
4. Job response times had improved by eight per cent and customer satisfaction with service calls was up 18 per cent. Customer complaints showed a drop of 27 per cent.

- 1 Why were the repairmen so dissatisfied with their jobs?
- 2 Explain the role played by the repairmen's growth need strength in the job design programme.
- 3 How did employee participation play an important role in the success of the Alton job design programme?

## Case Study 5.2: Building Cross-Cultural Work Teams<sup>2</sup>

**Brussels.** Some people talk about cultural differences. Fons Trompenaars tries to make his students feel them. To do that, the Dutch leader of workshops on 'multicultural' management teaches his students (mostly executives) to play a game invented by one of his colleagues, L.P. Burg. The object: building towers made of paper.

Mr Trompenaars, a 39-year-old former Royal Dutch Shell executive, divides a group of several dozen Swedish managers into two groups. Four are designated as 'international experts' in building paper towers. Everyone else becomes a native of a make-believe village called Derdia. 'Your culture loves towers but doesn't know how to build them,' Mr Trompenaars tells the Derdians. 'It's a bit like the British car industry'.

The experts are sent out of the room to learn to make paper towers and prepare to pass that skill on to Derdians. Meanwhile, Mr Trompenaars initiates the Swedes into strange Derdian customs.

Derdian greetings involve kissing one another on the shoulder. Holding out a hand to someone means 'Please go away'. If they disagree, Derdians say 'Yes' and nod their heads vigorously.

What's more, Derdian women have a taboo against using paper or scissors in the presence of men, while men would never use a pencil or a ruler in front of women. The Swedes, reserved a moment ago, throw themselves into the task of acting like Derdians. They merrily tap one another, kiss shoulders and bray 'Yessssss!'

Soon, two 'experts' are allowed back into the room for a brief study of Derdian culture. The Derdians flock to the experts and gleefully kiss their shoulders. The experts turn red. They seem lost already.

'Would you please sit?' asks Hans Olav Friberg, a young 'expert' who, back in Sweden, works for a company that makes flooring.

'Yessssss!' the Derdians say in a chorus. But they don't sit down.

'Who is in charge here?', Mr Friberg inquires. 'Yessssss!', the Derdians reply.

Mr Friberg leaves the room to confer with his fellow experts. 'They didn't understand us' he tells them. But fellow expert Kakan Kalmerno isn't about to be deterred by strange habits. He is taking charge. As he briskly practises making a paper tower, Mr Kalmerno says firmly to the other experts: 'The target is to have them produce a tower'.

The four experts carry paper and other supplies to the adjoining room, now known as Derdia. They begin to explain the process to the Derdians very slowly, as if speaking to small children. When one of the Derdians shows he understands the workings of scissors, Mr Kalmerno exclaims 'Good boy!'

Although Mr Kalmerno works hard at making himself clear, the Derdians' customs and taboos obstruct progress. The men won't use rulers as long as women are around but don't explain this behaviour to the experts. The answer to every question seems to be 'yes'. At the end of 30 minutes, no tower has been constructed.

The game is over, now comes the self-criticism. 'They treated us like idiots,' protests one of the Derdians.

The lessons are clear, but Mr Trompenaars drives them home: If you don't figure out the basics of a foreign culture, you will not get much accomplished. And if your biases

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<sup>2</sup> Source: B. Hagerty, 'Learning to Turn the Other Shoulder', *Wall Street Journal*, 14 June, 1993, B1, B3. Reprinted by permission of *Wall Street Journal* 1993, Dow Jones & Company, Inc. All Rights Reserved Worldwide.



lead you to think of foreign ways as childish, the foreigners may respond by acting childish.

Still, Mr Kalmerno, the take charge expert, thinks his team was on the right track. 'If we'd had another hour,' he says, 'I think we would have had 15 towers built'.

- 1 What advice would you give to the 'tower experts' to make them more effective at teaching the 'Derdians' to construct towers made from paper?
- 2 How have many foreign businesses working in other countries dealt with the culture problems illustrated in this exercise?

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# Understanding Work Group Dynamics and Group-Based Problem-Solving

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### Learning Objectives

By the end of this module you will be able to:

- Differentiate clearly the types of work groups existing in organisations.
- Describe the factors that attract individuals to organisations and groups.
- Describe the work consequences of group cohesiveness.
- Untangle the relationship among work group cohesiveness, work group performance, and the intervening impact of goals and group norms.
- Recognise the symptoms of groupthink and take corrective actions to minimise its negative effects on group decision-making.
- Explain each stage of group development, and the managerial problems unique to each one.
- Explain how to use psychometric testing to hasten group performance.
- Recognise the problems that curtail group creativity.
- Follow guidelines to make group decision-making more effective.
- Recognise social loafing (freeboarding) and correct it.
- Adopt a useful managerial strategy for handling intergroup relationships.
- Diagnose inter-group conflict and manage it.

## 6.1 Describing Work Groups and their Characteristics

Some managers are flummoxed by groups and what it takes to make them effective. Perhaps they feel that way because they have had frustrating group experiences with time-wasting, petty bickering, and middle-of-the road, tedious hum-drum decision making. These dissatisfying experiences with groups does not stop employers from finding more ways to use employee engagement and SDTs. Why do they tinker so much with work groups and their methods? Well, de-regulation, global competition, dramatic change in Internet communications, and the continuous search for cost reductions drive them to change work-force management practices that they hope will produce improvements in competitive advantage.

Increasingly, the strategic and financial success of companies is tied to the ability of work teams to deliver more new products to the market with ever-rising quality in customer service. Firms try to link real-time market and production data to the decision making of SDTs. The complexity of market and production data streams rises with the intensity of global competition and SDTs have to adapt for the firm to remain competitive. Business models erode, management fads come and go, and yet, managers are continuously challenged to find new and improved ways to harness group performance to the success of the firm. Once protected market segments are vulnerable to low-cost competitors and often the firm's first line of defence against these intruders is its SDTs. Maintaining their flexibility and responsiveness rests on managers' understanding of the features, structure and processes of effective groups.

### 6.1.1 Types of Groups in Organisations

Professor Shaw describes a work group as two or more employees who 1) interact with each other, 2) perceive themselves as sharing several common interests or goals and 3) come together or are brought together to accomplish a meaningful organisational activity. To some limited extent, firms give employees some latitude to decide if they want to accept positions in task groups. However, most employees accept these assignments because they know that their career progress depends on it! When employees are assigned to groups based on the needs of the firm, we call these formal groups. Professor Dunham describes formal groups have two or more members who interact to accomplish corporate goals in prescribed ways and they know that they have shared responsibilities for group goals. Such work groups can be either task groups which work together on a series of related activities or command groups which exercise on-going decision making authority within the organisation. An example of a task group is a self-directed team that assembles car emission systems at Volvo's Kalmar plant. An example of a command group is the board of directors for any public corporation.

### Are all Organisational Groups Formal Groups?

The answer is an emphatic NO! Informal groups are constantly being created by employees who share common interests or backgrounds (*see* the Schlumberger

example in section 5.3.5). Informal groups satisfy their members' needs for social contact, professional development, and mutual support. These needs may not be directly met by membership in formal groups; so informal groups spring up to fill these voids.

Managers do not always encourage informal group formation because they believe such groups may be counterproductive, inconsistent with the firm's values or downright revolutionary in some cases. Yes, you guessed it, these are the opinions of 'X' managers and such opinions, at times, can undermine competitive advantage. For example, in a rigid and secretive firm, an informal group may agitate for safer working conditions and threaten to expose the firm for its unsafe working conditions. 'X' managers may naturally conclude that informal groups should be stamped out and their members should be placed under surveillance! Consider this recent example: In China's cadmium battery factories informal employee groups have been arrested for threatening to expose widespread examples of cadmium dust poisoning of plant workers. Fearing wider fallout in global markets, local officials have interceded to provide medical care to affected workers. Evidently the stories got out anyway.

Rigid managers are often too quick to attack informal groups instead of sensing that maybe they have arisen because some management practices are ineffective or counterproductive. Managers should use informal groups as 'sounding boards' for possible systems changes. Secure internal websites and 'community groups of employees' will certainly provide timely and meaningful feedback to management about any proposed change. These devices hold much more promise for improving competitive advantage than surveillance systems!

## Project Teams and Effective Organisations

Tom Peters, the management guru, notes that many very successful firms use teams to generate solutions for important organisational problems. Several firms have developed cultures of excellence based on project team work. The general characteristics of such systems are noted below.

1. The life span of the typical project team is kept short. For instance, Texas Instruments uses teams that last for four months or less.
2. Members volunteer and they retain their positions in their functional units (engineering, finance, marketing, etc.) while they serve on project teams. Ideal project assignments merge challenging problems and employees with strong professional development needs.
3. The project team is pulled together quickly without a formal selection process. Employees with expertise and interest in the project are drawn in while the problem is fresh and important (*see* the Schlumberger example in section 5.3.5).
4. Follow-up is swift in that immediate links with higher management are forged at the time the project team is organised. Upper management's task is to quickly embed the team's work in the firm's business model.

5. Project teams are expected to 'scrounge' for support by creating connections throughout the firm. In most cases this means finding knowledge workers with the expertise to solve the problem at hand.
6. Communication and project documentation are informal: no wide paper trails! The idea is to speed decision making and project completion; results matter more than methods!

'X' organisations are far less effective at nurturing project teams. They have to dismantle their rigid decision systems and strip layers from their chains of command before they can seize the benefits of agile and effective project teams. Small, embryonic companies that are pressed for cash have no choice but to use project teams. If you think about it, all new businesses start off as project teams: it's a matter of survival! Employees must be willing to quickly attack any problem that threatens the firm's existence. Thus, entrepreneurs should try to operate their fledgling businesses like project teams. As companies flourish and grow, they forget project team lessons and they lose their ability to be responsive and creative. Large successful firms, by using the project team concept, try to return to their 'roots' by re-creating the urgency of the small, entrepreneur-run business.

### 6.1.2 Why Individuals Are Attracted to and Join Groups

Individuals join groups because they believe membership is a pathway to need satisfaction. It then follows that the more individual needs group membership satisfies, the more important the group will be. Table 6.1 lists the main factors which make individuals want to join groups.

**Table 6.1 Factors causing group formation**

| Factors                           | Workplace example  |
|-----------------------------------|--|
| 1 Interpersonal attraction        |  |
| a. Proximity                      | Clerks in a mailroom form an informal T.G.I.F. club (Thank God Its Friday).                                    |
| b. Physical attraction            | Young engineers join an expensive health club in the hope of meeting attractive people of the opposite sex.    |
| c. Attitude similarity            | Students who believe the university should have more intramural sports form a protest group.                   |
| d. Economic and social similarity | Chief executive officers of banks are asked to sit on the boards of other banks.                               |
| e. Race and gender similarity     | Female Indian engineers form a career interest group to discuss employment problems experienced by minorities. |
| f. Perceived ability of others    | Employees with athletic ability organise a corporate sailing team.   |
| 2 Activities of the group         | Employees organise a darts club to compete in a tournament.  |
| 3 Goals of the group              | Employees organise a fund drive to raise cash for AIDS research.   |

Source: Adapted from R.C. Dailey, 1988. *Understanding People in Organizations*. St. Paul, MN: West.

**Interpersonal attraction** is composed of desirable internal and external group qualities that members find to be appealing. For instance, employees who share work areas are likely to form friendships through sustained contact created by proximity. When an individual exemplifies the physical characteristics of beauty or handsomeness in a given culture, individuals are attracted to and seek association with him or her.

**Similarity of attitudes** also attracts individuals to certain groups. An applicant who wants to be an investment banker will seek a position at Goldman Sachs because he thinks the firm is made up of bright and motivated people who share his interests. Likewise, an engineer may pursue a job with a design firm because he thinks his high work standards will be matched by other engineers in the firm.

**Similarity of economic status, social status, race and gender** give meaning to the expression 'Birds of a feather flock together'. This adage demonstrates the powerful pull of exclusive clubs that carefully screen potential members for their 'suitability'. Sometimes called reference groups, these organisations try to project an air of exclusivity and this prompts aspiring members to practise the accepted behaviours to prepare themselves for membership. This 'rehearsal' activity is intrinsically motivating to the 'wannabe' and, sometimes, quite amusing to outsiders.

**Perceived ability of others** encourages people to seek out others who have a record of problem-solving success in areas of current group activity. In many work situations, according to Professor Senn, problem-solving ability often supersedes other forms of attraction because members believe group-based rewards are more obtainable in groups made up of people with proven problem-solving skills.

**Group activities and goals** are two interrelated reasons for group attractiveness. Group activities and goals attract new members because they match the members' terminal and instrumental values. Non-government organisations like Doctors Without Borders and Habitat for Humanity attract new members because their goals and activities match members' terminal and instrumental values. Volunteerism, charitable work and the like are based on this form of intrinsic motivation.

## 6.2 Work Group Composition, Cohesiveness and Norms

We often describe our membership in groups as being involving and interesting on the one hand, or alienating and barren on the other. These reactions to membership are caused by similarities and differences among members. Known as group composition, this phenomenon defines the degree to which group members are similar or different; homogeneous or heterogeneous with respect to member traits. Homogeneous groups have members with similar qualities (*see* Table 6.1) and heterogeneous groups are composed of members who differ in given characteristics.

Subconsciously (or perhaps less so...), some managers believe that the most effective group will consist of members who share his traits: the 'just-like-me' syndrome! (*see* similarity error in Table 4.2) However, this form of leader-driven group homogeneity produces less effective groups. This result is especially glaring at the firm's top level. Study after study shows that homogeneous corporate boards – those with members who are hand-picked by the CEO – produce far lower gains

in total market capitalisation than heterogeneous boards that have several outside directors who were nominated by shareholders. Homogeneity in corporate boards is a real threat to shareholders!

Heterogeneity is always messier because it widens the basis for conflict in a decision making group. However, that threat is often defeated in heterogeneous groups because they are more versatile and creative; they figure out more ways to attack a problem. Lots of qualities and numerous viewpoints among members ensures that no one member's biases dominate or rule the group's goals or methods. Shortly you will see in much greater detail what happens to groups that become too homogeneous.

### 6.2.1 Cohesiveness: The Social Adhesive in Work Groups

Professor Shaw tells us that cohesiveness is a reliable outcome of group composition and it consists of: 1) attraction to the group, including resistance to leaving it, 2) high morale exhibited by members and 3) strong coordination of member effort. Table 6.2 compares the highly cohesive group to one that lacks cohesiveness.

**Table 6.2 Features of cohesive and incohesive work groups**

| <b>A cohesive work group tends to</b>                                  | <b>An incohesive work group tends to</b>                                    |
|--|---|
| Perform well if its goals conform to organisational goals              | Perform poorly regardless of its or the organisation's goals                |
| Have energetic members who are motivated by the group's goals          | Have members who are indifferent to group effort and goals                  |
| Have less absenteeism  | Have high lateness and absenteeism  |
| Have members who celebrate the group's success and lament its failures | Have members who are indifferent to the successes and failures of the group |
| Have members who value highly group membership                         | Have members who are indifferent to group membership                        |
| Resist transfer  | Seek transfer   |
| Become homogeneous over time   | Remain unchanged in terms of member characteristics                         |

Source: Adapted from R.C. Dailey, 1988. *Understanding People in Organizations* St. Paul, MN: West.

### Can Managers Influence Cohesiveness?

A manager can raise cohesiveness by controlling work group composition: he has to match a group's task to the characteristics of group members. A seamless match between member qualifications and group task demands creates high cohesion and maintains group motivation and performance. The work group's size is also a factor in cohesiveness and performance. Larger groups have more interpersonal conflict and disagreement which detract from task accomplishment. In addition, time constraints, the importance of members' acceptance of the group's decision and task coordination requirements are factors that may give a performance edge to smaller groups. If the job at hand requires gathering information, discussing alternatives and deciding on a course of action; then a small, cohesive group (3–9 members) will often out-perform a large, less cohesive group (10 members or more).



Managers can also influence the clarity of group goals and activities. Members generally find their work groups to be more attractive if they perceive greater task clarity and if they are convinced that the work group knows where it is headed. By clarifying work activities and setting reasonable performance goals, managers can encourage attitude similarity and group-based confidence concerning the likelihood of task success.

By controlling the clarity of group goals and activities managers can raise levels of group cohesiveness. Members generally find their work groups to be more attractive if they perceive greater task clarity and if they are convinced that the work group knows where it is headed. The manager who teaches, clarifies and evaluates performance raises members' competence and confidence. And, cohesion follows because members share excellent line of sight.

Another good management strategy to sustain cohesiveness is to formalise the role of disturbance handler in heterogeneous groups. This member facilitates agreement and moves the group beyond the problems of personality-based conflict. A manager can also control interpersonal conflict – a serious threat to cohesiveness – by setting ground rules for tasks like gathering information, evaluating alternatives and making final decisions.

By creating the perception of a 'common enemy' a manager raise cohesiveness. As long as the external threat is thought to be manageable and members believe the group has various strategies to meet it, then cohesiveness rises. If the threat is overwhelming then it is 'every man for himself'.

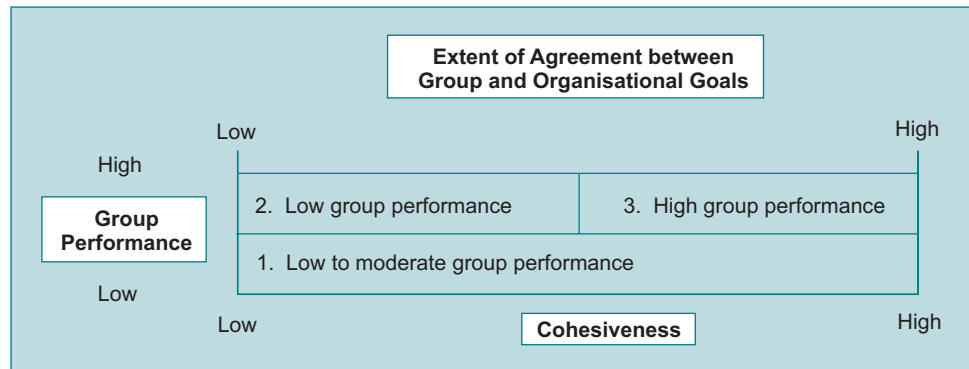
Finally, managers can influence cohesiveness by carefully timing positive feedback about work group successes. The feedback should emphasise group-based rather than member-based work successes. And the manager should use group-based rewards to reinforce the role of collaboration in success. This does not mean that merit-based rewards are ignored. Managers must develop and use a two-tiered reward system to bring forth both high individual task performance and high cohesiveness-driven team performance.

It's clear that managers can affect cohesiveness. In addition, they ought to recognise that employees satisfy many personal needs by joining cohesive groups. Generally, cohesive groups have members who feel included, experience less stress and tension on the job and have higher self-esteem. The presence of these outcomes does not ensure that a group will perform effectively.

## Relationship between Cohesiveness and Performance

Three conditions influence whether or not work groups will be high performers: 1) the level of work group cohesiveness, 2) the performance goals set by the group and 3) the degree of agreement between group performance goals and organisational performance goals. Figure 6.1 illustrates the relationship among these factors.

Cohesive work groups that have ambitious and unambiguous goals that match the goals of the firm will be high performers. On the other hand, cohesive groups whose goals do not match the firm's goals will be poor performers. Consider the following example:



**Figure 6.1 Cohesiveness, goals and work group performance**

Employees in the customer order department took great pride in their department's ability to ship orders within 4 hours of receipt. The firm maintained its ordering process on a decentralised computer system run by employees in the sales department. The company was very proud of the unit's low error rates and high customer satisfaction.

Due to increased rising costs, management decided to 'off-shore' sales' computer operations in what was called business-to-business (B2B). The company projected 14 per cent cost savings in indirect labour overhead and a 5 per cent improvement in cash flow from better management of receivables.

Managers and employees in the sales resisted the new system raising numerous objections. One of their favourites was to suggest that 'foreigners' would be able to 'meddle' in customer accounts. The level of resistance became so high that company management abandoned their off-shoring B2B model in spite of the fact that many rivals had successfully made the conversion.

Employees in the department were outraged that company management was trying to 'change the rules in the middle of the game'. High departmental cohesiveness coupled with extreme variance between departmental goals and the firm's B2B plan created a conflict won by the department. The company backed down to restore order and realign departmental and company performance goals. Had the firm not done this, cohesiveness in the department would have remained high; unlike its performance!

### 6.2.2 What Managers Need to Know about Work Group Norms

Work groups have norms for controlling members' behaviour. Norms are the group's expectations for members concerning their: 1) level of effort and 2) agreement with and support for the group's goals. Norms exist in any work group and exhibit several common properties.

1. **Norms regulate the process of influence in a group.** Clear-cut norms limit individuality and inform members where their personal needs end and the group's needs begin.
2. **Norms apply to member behaviour and not to their thoughts.** A member can privately disagree with a course of action and still be a member in good standing; unless of course, the group is a cult and its leader is a tyrant!

3. **The group's strongest norms govern members' level of effort and performance.** Members' effort and performance levels sustain the life and effectiveness of the group. Only with great reluctance do groups set lower expectations for members in these two areas.
4. **Norms resist change.** Norms must remain intact because they determine how new members are indoctrinated. Indeed, they must remain intact so 'senior' group members can teach new group members 'the ropes'. In long-lived groups indoctrination is part of the group's lore (heritage): 'rite of passage' – or a ritual that becomes a group goal in itself. Continuing these rituals comforts old members and keeps new or 'probationary' members off balance and dependent.
5. **Some members have more right to deviate from work group norms than other members do.** Members who have solved crucial problems and others who are known for their creativity get more leeway to veer off course; especially if they claim: 'I'm doing it for the team!'

By now you have concluded that group norms create the basis for conformity: how members consciously adjust their behaviour to meet the group's expectations. In the simplest terms, members conform/comply to gain rewards from the group and to escape punishment. By controlling conformity/compliance/rewards it is possible for managers to build productive groups that have healthy and resilient norms (see Table 6.3).

**Table 6.3 Managerial principles for controlling work group norms and member conformity**

- 1 Create a desire to remain in the group. Cohesiveness is an important benefit valued by members, so acknowledge employee expressions of *esprit de corps*.
- 2 Show how high standards for group achievement meet individual needs and trigger rewards at the group level.
- 3 Specify the importance of giving up individual gains in favour of group success. The manager must be a role model for this.
- 4 Seize opportunities to show the small difference between members' personal preferences and what the group asks of its members.
- 5 Carefully define how members' contributions help the group achieve its goals.
- 6 Give members a say in creating norms about effort levels and performance standards.
- 7 Develop a simple and accepted system for recording and publicising work group success in core performance areas.
- 8 Develop valued rewards to motivate members who meet or exceed team performance standards.
- 9 Forge a link between team goals and personal accomplishments.
- 10 If creativity is necessary to ensure team success, temporarily suspend norms to encourage member innovation.
- 11 Make it clear that there are serious negative consequence for non-compliance with core performance norms.
- 12 Do not expel members who deviate from norms if: 1) they have a history of helping the group, 2) they are high status members and 3) the group has a history of helping rather than isolating deviants.
- 13 Do not allow work groups to become too isolated so that they ignore the company's need for coordination.

Source: Adapted from A. Zander, 1982. *Making Groups Effective*. San Francisco: Jossey-Bass.

### 6.2.3 Groupthink: When Conformity Runs Amok

When conformity and cohesiveness rule a group, its decision making process becomes distorted and ineffective. It is as if the members 'prefer any decision'

as long as the group remains unified and conflict-free. Experts have labelled this the group think syndrome and it is a common and dangerous problem in firms.

### The Indicators of Groupthink which Managers Should Recognise

According to Professor Janus, when groupthink is present, members are much more concerned with unity and fellowship than with the quality of the group's decisions. When groupthink is present, the following symptoms typically come to the surface.

1. **The illusion of invulnerability.** Members conclude that success can be achieved easily even in the face of unfavourable odds.
2. **Collective rationalisation.** The group believes it cannot fail because members are oblivious to indicators which could spell trouble.
3. **Mindguards.** Much like celebrities who have bodyguards, groups have self-appointed guards who eliminate disagreeable external information and protect the group from threatening outsiders.
4. **Belief in the inherent morality of the group.** Members of the group protect their self-esteem and the reputation of the group by claiming that the group's decision occupies high moral and ethical ground.: 'We're the greatest!'
5. **Negative stereotyping of the opposition.** The group – in its smugness – characterises the opposition as being, dull, stupid, confused or cowardly.
6. **Direct pressure applied to dissenters.** If a member disagrees with the group's course of action, the mind guards 'encourage' him to be loyal and to support the group's decision.
7. **Self-censorship.** If a member doubts the wisdom of the group's course of action he keeps quiet to show everyone that 'he's on board'.
8. **Illusion of unanimity.** Each member takes the silence of others as total commitment for the course of action at hand.

Scholars have attributed many governmental 'fiascos' to the existence of groupthink in high-level policy-making groups. Modern examples of this phenomenon would include endorsement of executive actions by Enron's board of directors, Exxon's board decision to grant \$378m to the company's retiring CEO, and the disastrous decision to launch the Challenger space shuttle in 1986.

You probably recognise groupthink symptoms because you have seen how they produce sub-par decisions. There are no sure-fire methods that can be used to stamp out groupthink, but Professor Janus and his colleagues makes a few useful suggestions that principally involve the group's leader.

1. The leader must assign the role of critical evaluator to members on a rotating basis. Additionally, he must allow his position in group decisions to be criticised.
2. Influential members should not pre-specify solutions or methods for reaching solutions. And, idea generation should be separated from idea evaluation.
3. The leader directs subgroups to arrive at separate decisions before polling the entire group on its decision.

4. At pre-specified intervals, outside experts give guidance to the group.
5. When rivals and their actions are the focus of group decision-making, sessions should be devoted to exploration of warning signals and possible forms of retaliation.
6. A 'second chance' meeting should be held after the group has selected its official position or made its decision. The purpose of this meeting is to provide a forum for expressing doubts which may have occurred to members.

The suggestions for addressing groupthink noted above reduce the impact of influential work group members on the group's decision processes. Groupthink is often caused by leaders who are simultaneously autocratic and charismatic. Such leaders have strong preferences and you always find their 'finger prints' on group decisions. Along with their finger prints you usually find symptoms of groupthink. Many significant economic, political and military decisions have probably been made through decision processes riddled by groupthink. Nonetheless, they have been good decisions which have stood the test of time. In many ways, time urgency may have forced political and military leaders to put pressure on their task and command groups to render quick decisions. One can imagine the immense pressures for conformity in these pressing situations. When extraordinary circumstances confront extraordinary leaders, groupthink may be inevitable and necessary to avert a crisis.

### 6.3 Significant Aspects of Work Group Structure

During your career you have probably been a member of several groups. You may have detected differences among them in terms of their 'personality', methods, capabilities and successes. We have already differentiated formal and informal groups and we studied carefully the characteristics of project groups. You also now have an understanding of why people join groups and you can identify the ones that are in trouble because they are too cohesive and conformity is too highly valued. Now we move on to consider other important features of groups that have a bearing on their members and on group performance *per se*. We begin by taking a look at elements of group structure.

**Positional status** is the member's rank in a group and it reflects his authority to set policies, settle disputes, to represent the group to outsiders and to formulate goals and methods. Positional status is usually consistent with the placement of the position in the work group's hierarchy of authority. Positional status differs from personal status which is the esteem accorded to a group member by his colleagues. Both types of status are honoured by firms and they use powerful symbols to convince employees of the virtues of earning them. Table 6.4 shows some formal status symbols in organisations.

**Group size** affects a number of important individual and group-level outcomes. As a work group increases in size, the range of abilities, talents and aptitudes of members for task accomplishment increases – larger groups are probably smarter than smaller groups! Larger groups have a higher propensity to produce even as they provide more hiding places for members who wish to avoid responsibility for

**Table 6.4** Examples of personal and position status in firms

|  |  |
|--|--|
| <i>Symbols of rank and position (titles)</i> | Director<br>Chief Executive Officer<br>Treasurer<br>Senior Engineering Fellow  |
| <i>Formal work relationships</i>             | Managing partner<br>Attache to the president<br>Special assistant to the chief researcher  |
| <i>Pay and perquisites</i>                   | Expense account<br>Travel benefits (first class or corporate jet)<br>Reserved dining room and parking privileges<br>Country club/health club memberships |
| <i>Control of work schedule</i>              | Personal work schedule<br>Day versus night work  |
| <i>Work space amenities</i>                  | Large office with library and fireplace<br>Windows overlooking a pleasant view<br>Private secretary to screen visitors                                   |

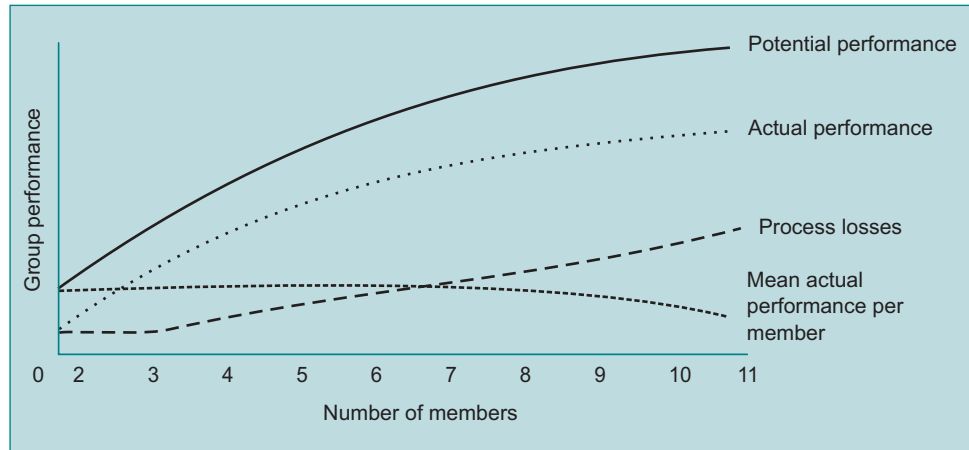
group decisions – you can hide more easily in large groups! Some other effects of size are summarised below.

**Group size and participation.** Bigger groups create more opportunity for face-to-face contact but the duration and the depth of the contact may decrease. Thus, the time available for member participation decreases in larger groups. Another effect of large groups is that they suppress insecure members who are afraid to speak up. And so, as groups get bigger you see that participation is skewed: the talkative ones get everyone's attention as the shier ones are overlooked.

**Group size and internal conflict.** Bigger groups naturally produce more conflict over methods, goals and personalities: in a big group you can easily find someone to dislike! As we noted a moment ago, it's easier to hide (avoid responsibility) so members of larger groups report less stress and more ways to relieve it. If you are in a large group you make more friends but you have to spend much more time keeping them. Growing firms often let groups become too large and these groups lose their intimacy. Large, impersonal groups are quite likely to have rising turnover and absenteeism. Goals for large groups become generalised and fuzzy. This causes members to lose their focus and to feel marginalised. In turn, they experience less cohesion and they become indifferent to group norms. In sum, the control system in large groups can easily break down.

**Group size and performance.** The question of ideal work group size is not an idle one. How big should the design group be in engineering? How many chemists should work on the polymer project? If we consider the nature of process losses in work groups, along with group size and performance, we can make some informed judgements about ideal work group size. Figure 6.2 introduces the concepts you need to understand the relationship between work group size and performance.

Figure 6.2 has a number of new terms so let's quickly define them,. Potential performance is defined as that level of performance which could be achieved with the ideal combination of members' skills, abilities and previous work experiences.



**Figure 6.2** Group size, performance and process losses

Naturally, as group size increases, it is more likely that a given member will possess the qualities necessary to solve problems confronting the group. Process losses are any obstacles to achieving potential performance for a group. Examples of process losses are groupthink, interpersonal conflict, disagreements about methods or goals and high membership turnover. Actual performance is the difference between potential performance and process losses experienced in a work group.

Potential performance increases at a decreasing rate with respect to group size. Process losses do the opposite, and total actual performance increases at a decreasing rate relative to group size. Mean actual performance per member decreases as group size increases because coordination difficulties among members mount as size increases. Mean average performance per member also falls because there are bound to be more social loafers (freeboarders) in larger groups (*see* section 6.5.2) In very large groups it becomes an easy task for the social loafers to accept the rewards that come with membership in the group while they make lame excuses for their undependability and inadequate effort.

### 6.3.1 Guidelines for the Management of Work Group Size

According to Professors Hampton *et. al.*, managers seem to come to agreement concerning a number outcomes that are related to group size. Let's take a look:

- Middle-sized groups (5 to 11 members) often make more accurate decisions than groups outside that size range.
- Small groups (2 to 5 members) are better able to achieve consensus than large groups: especially ones with three members.
- Larger groups (11 or more members) generate more ideas, but as size increases beyond 20 members, the number of ideas relative to the number of members (mean actual performance per member in Figure 6.2) decreases.



- Groups of 4 to 5 members foster greater member satisfaction than middle-sized or large groups.
- Very small groups (2 to 3 members) may have members who are anxious about their visibility and performance.

## 6.4 From Statics to Dynamics: Work Group Development and Decision-Making

Work group behaviour, according to Professor Tuckman, is easier to understand if the stages of group development are isolated and analysed. Being able to recognise a work group's stage of development will allow you to adjust your managerial actions to encourage further development of the group or to sustain its high performance profile.

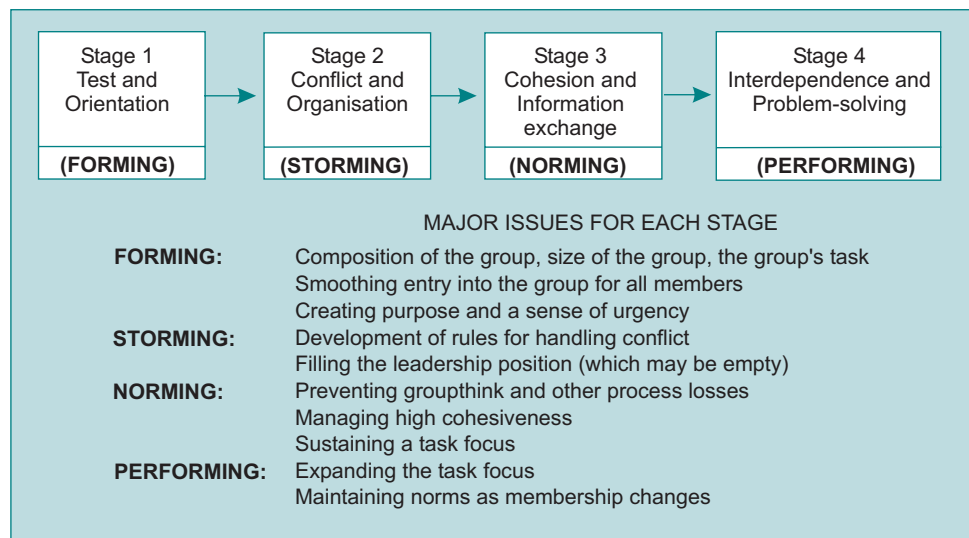


Figure 6.3 Stages of work group development

### 6.4.1 Understanding Stages of Work Group Development

Work groups move through the stages at different speeds. Some groups reach stage 4 more quickly because members have considerable work group experience and they know what the firm expects. Second, the boundaries between the stages are not always clear and each stage will last until its major issues are resolved. Third, a work group can find itself moving backwards. This can happen to a stage 4 group because it gets several new members or its task and available resources changes in some way. We shall examine each stage in turn.



## Forming

Forming is the group phase-in, during which members move from a personal focus to a group focus. Members wrestle with 1) identifying the behaviours most important to the group, 2) assessing the skills, abilities and experiences of members, 3) discussing and comparing members' goals and motives and 4) assessing the degree of early commitment and involvement of members to the group. Members test each other's assumptions about hard work and cooperation and this leads to the formation of roles and a hierarchy of authority. In many cases (especially for project groups), this stage may have leadership turbulence. Several people may aspire to group leadership before a permanent leader is selected. In general, pressuring groups to move quickly through forming is a good idea: it prevents excessive 'navel gazing'!

## Storming

Interpersonal conflict emerges in stage 2. Members may become more assertive in their opinions about the group's purposes, methods and norms because they have more knowledge about individual members and the emerging features of the work group (norms, required tasks, potential leaders and chain of command). Member dissatisfaction with the current leader may surface and he or she may be replaced. These disagreements are stage 2 process losses and they are necessary to create a basis for trust and collaboration; movement to stage 3.

If the work group is unable to develop member behaviours to support trust and collaboration, members will conclude that they can satisfy their personal needs more effectively on their own rather than through group membership. This may create late stage 2 turnover and absenteeism. Some groups get stuck here and never make it out of stage 2. Such failures hurt the members and the organisation. The organisation suffers because resources were wasted in constructing a group which did not 'gel' or become productive. Employees are hurt because they are less likely to see future work group membership as a viable career pathway or a pathway to personal need satisfaction.

## Norming

As interpersonal conflict subsides and the work group's normative structure emerges, it enters stage 3. In it, members are thoroughly aware of their involvement and commitment to the group and they believe firmly that the benefits of membership outweigh its costs. The leadership position is established and stable, and the group has a hierarchy of roles (structure) with expectations attached to each. Harmony, agreement and growing members' confidence about performance are characteristics of a stage 3 work group. The group may become 'over-confident' to the extent that groupthink sets in (a major process loss). Since members value their positions and membership highly, an external threat may trigger strong feelings of solidarity. If the work group has good information transfer across its boundary, and it is thoroughly tied in to the organisation's hierarchy and information flows, then

groupthink probably will not occur because the leader is not trying to isolate the group.

## Performing

If a work group succeeds in reaching stage 4, then actual performance is close to potential performance because the group is minimising its process losses. Stage 4 work groups exhibit collaboration; i.e. members confront and solve task-related conflict and interpersonal conflict. In effect, process losses are minimised without diminishing the members' experienced satisfaction with membership. Collaboration sustains members' involvement, motivation to contribute, acceptance of authority and active participation. Stage 4 group members feel empowered and they know how to resolve conflicts by collaborative means rather than by resorting to bargaining or negotiating. This in turn prevents the formation of coalitions and challenges to the structure (and leadership) of the group.

Stage 4 groups are composed of members who are confident about their personal abilities and they reinforce each others' confidence in the group's ability to achieve its performance objectives. For this reason group members attack any performance problem (process loss) that threatens their collective sense of unity of purpose. Indeed, a key difference between a stage 3 and a stage 4 work group is the ability of the stage 4 group to detect the emergence of process losses in sufficient time to correct them. In a stage 4 group, anyone can voice concern about process losses; it's a requirement of membership. Groups in other stages rely on influential members (opinion leaders) to raise such issues. Unlike the stage 3 group, voicing concerns about process losses is less associated with status in stage 4 groups.

## Can Stage 4 Work Groups Retain their Position Indefinitely?

Just as individuals cannot always be simultaneously highly satisfied with their jobs and highly productive, work groups may slip from their stage 4 perches. Turnover, new goals, new technologies, rising competition, and losing key members can all push work groups out of stage 4. All stage 4 groups must find mechanisms to remain flexible and adaptable. For this reason a portion of a mature group's resources must be devoted to socialising and training new members, changing or abandoning ineffective norms, creating new positions requiring new behaviours and scanning the external environment for changes which threaten to expel the work group from stage 4.

Stage 4 groups offer their members an abundant supply of extrinsic and intrinsic rewards such as performance-based recognition, status and prestige. Aspirants see these groups as stepping stones to higher positions in the chain of command and the groups encourage likely future members to 'prepare themselves for bigger and better things'. When membership is based on proven performance and the group's rewards are strongly merit-based, the stage 4 group will be able to renew itself indefinitely.

From a practical standpoint, it is probably impossible for a firm to keep all of its project teams and SDTs in stage 4. Any organisation attempting to 'freeze' all work

groups in stage 4 is denying the inevitable external forces that erode competitive advantage and cause it to migrate to other firms in the industry. It is more realistic to view the organisation's work groups as moving slowly through an 'evolutionary cycle' of development where a key task is keeping work groups flexible (recruiting new members, adopting new technologies and maximising cross-training) so that they can quickly adjust to needed changes in company strategy.

### Can Psychometric Testing Be Used to Quicken Groups' Progress to Stage 4?

Firms that link their competitive advantage to the strength and flexibility of their SDTs are always looking for improvements that hasten team progress to the stable performance and productivity platform of stage 4. Some highly effective firms choose to apply psychometric testing during the forming stage to create highly balanced SDTs capable of minimising process losses, avoiding the pitfalls of group-think and developing a normative structure that encourages individual creativity and team resilience (all properties of stage 4 teams). Meredith Belbin, a management researcher at the Henley Research Centre in England, has studied these team management challenges and he developed a psychometric test to isolate team roles that propel an SDT to stage 4.

He clarifies crucial SDT roles by advancing the idea that an 'allowable weakness' accompanies each one. You might think of this as a 'manageable cost' associated with each role; a cost that is strongly outweighed by the positive contributions made by the SDT role occupant (team member). Well, by now you have asked yourself; 'What are these roles, their contributions and their allowable weaknesses?'

**Table 6.5** Belbin's roles in highly successful, value-adding SDTs

| Role                  | Contribution  | Allowable weaknesses   |
|-----------------------|---|--|
| Plant                 | Creative, imaginative, unorthodox. Solves difficult problems (introverted).   | Ignores incidentals. Preoccupied with own thoughts, may not communicate effectively.           |
| Resource investigator | Extrovert, enthusiastic, communicative. Explores opportunities. Develops contacts (team boundary spanner, linking pin). | Over-optimistic. Can lose interest once initial enthusiasm has passed. (impatient and fickle). |
| Coordinator           | Mature, confident. Clarifies goals. Brings people together to promote team discussions (self-starter).                  | Can be manipulative. Offloads personal work.   |
| Shaper                | Challenging, dynamic. Thrives on pressure. Has the drive and courage to overcome obstacles (high nAch Type A).          | Prone to provocation, may offend others (impatient and abrasive).                              |
| Monitor/evaluator     | Serious minded, strategic and discerning. Sees all options. Judges accurately.  | Can lack drive and ability to inspire others (bureaucrat, bean counter).                       |
| Team worker           | Cooperative, mild, and diplomatic. Listens and avoids friction (high nAff).   | Indecisive in crunch situations (may become emotional).  |
| Implementer           | Disciplined, reliable, conservative in habits. A capacity for taking practical steps and actions.                       | Somewhat inflexible. Slow to respond to new possibilities.                                     |
| Completer/finisher    | Conscientious, detects errors and omissions (high nAch).  | Inclined to worry unduly. Reluctant to delegate.   |
| Specialist            | Single-minded, self-starting, dedicated. Provides knowledge and skills in rare supply.                                  | Contributes on only a limited front. Dwells on specialised personal interests.                 |

You can think of the Plant, Resource Investigator, and Specialist as brainy, intellectual roles that underscore the importance of developing and sustaining creativity in a SDT. For these roles to be present and fully functioning, a team needs norms that tolerate the inherent 'deviance' generated by the presence of these team members.

The Shaper, Implementer and Completer/Finisher are action-oriented roles occupied by team members who are naturally effective and goal-oriented. The relevance and importance of these roles are sharply defined in relation to the stages of group development and the team's problem at hand. The shaper articulates team goals in clear terms while the Implementer stays on top of practical issues as the Completer/Finisher ensures that nothing is missed. The occupants of these roles press for the importance of setting ambitious milestones and measuring outcomes on the way to project completion.

The Coordinator, Team Worker and Resource Investigator are people-oriented roles that focus on team cohesiveness and the minimisation of process losses in the maturing SDT. The Coordinator conducts the team like an orchestra while the Team Worker facilitates and ensures that individual feelings are dealt with and the Resource Investigator deals with external communications inside and outside the SDT.

Professor Belbin argues that team effectiveness depends on the presence of all roles. He notes that versatile team members often fulfil the requirements of more than one role during the team's progress through its stages of development. These versatile members are dealt with in Module 7 in the crucial topic of leadership. By the time a SDT reaches stage 4 it is sufficiently flexible to encourage team members to settle in to their preferred role(s). At this point, if a stage 4 SDT finds that it has some vacant roles it will quickly match existing or new members to those roles to prevent process losses from accumulating (threaten its stage 4 position).

#### **6.4.2 Work Group Risk-Taking and Creativity**

Are individuals deciding alone or are groups more risk oriented about making decisions? Professor Shaw suggests that groups are no more risk oriented than individuals making decisions alone. Groups take risks or are cautious depending on how members value risk in particular decisions. For example, if a new product development team is deciding to scrap a traditional product design, the chances are good that the group will be very risk oriented. Product development personnel are supposed to support new and innovative product designs, so a 'penchant for risk' in such groups would not be unusual. On the other hand, if a group of doctors make a decision to request more diagnostic tests for a very sick patient, they will often choose the medical intervention which is least invasive and most conservative. Physicians believe in the instrumental value of 'first do no harm'; therefore, their group-based decision is likely to be conservative. Table 6.6 shows the forces which influence risk-taking in work group decision-making.

Closely related to the issue of work group risk-taking is work group creativity. We have all seen how individuals who work alone can be more creative than a group that is hampered by conflicting personalities and rules that govern its procedures.

**Table 6.6** Factors influencing risk-taking in group decisions

| The work group is risk oriented if  | The work group is conservative if   |
|---|---|
| 1 The members value risk and the firm rewards risk taking that succeeds and learns from risk taking that fails. | Members do not value risk and the organisation punishes risk taking that fails. |
| 2 The decision has little to do with organisational systems or personnel.                                       | The decision involves human resources or employees' perceptions of the company. |
| 3 The leader is risk oriented.  | The leader is averse to risk.   |
| 4 The group has a history of tolerating deviance from group norms (stage 4).                                    | The group has a norm that values the status quo (groupthink).                   |

Under some conditions groups seem to inhibit creativity. Table 6.7 shows the typical ways in which groups do this.

**Table 6.7** Factors which contribute to low-group creativity

|    |  |
|----|--|
| 1  | The group has no unifying goal or core focus: unclear aims.                      |
| 2  | No standard method for making decisions is followed: inefficiency.               |
| 3  | Generating ideas is not separated from evaluating ideas: imbalance.              |
| 4  | Ideas are evaluated in terms of who suggested them: status effect.               |
| 5  | Ideas do not become the property of the group: status effect.                    |
| 6  | Conclusions are an individual product instead of a group product: status effect. |
| 7  | Members' time is not valuable: complacency.                                      |
| 8  | Insecure members are reluctant to participate: self-censorship.                  |
| 9  | Some members deflect the group from its stated purposes: dominance.              |
| 10 | Higher managers are slow to approve creative team output: no validation.         |
| 11 | The group pressures members to adopt a low standard of creativity: mediocrity.   |
| 12 | The group fears failure: timidity.   |

Table 6.7's elements can discourage the manager who wants to enervise creativity in his work teams. Take heart, there are ways to tie the team's creativity process to cohesiveness and time urgency. Let's take a look at some of these time-tested methods.

### 6.4.3 Brainstorming, Nominal and Delphi Decision-Making in Groups

#### Brainstorming

This technique has been in existence for many years and it remains the first choice selected by groups that are trying to get out of a decision making rut. The fundamental principle of brainstorming is the separation of idea generation from idea evaluation. Groups that ignore this principle 'get stuck' in evaluation or they leap to adopt the idea that is suggested by the group's most influential member. Brainstorming, according to Professors Basadur and Finkbeiner, works best if idea generation is stressed and idea evaluation is delayed. By employing this principle, the group can generate many possible solutions, effects and outcomes without becoming prematurely bogged down in criticising suggestions. The steps for a typical brainstorming procedure are noted below.

1. Assemble the work group and appoint a session leader (not necessarily the manager or supervisor, but perhaps someone with special knowledge of the problem): emphasise status.
2. Explain the focus of the session. Define the purpose and/or problem (ideas, strategies, solutions, alternatives, etc.): a clear, simple aim.
3. Set a time limit for the session: time urgency.
4. Select a recording method (flip chart, video-conferencing, and post to website): keep a clear and visible record.
5. Review the rules of brainstorming, noted below.
  - (a) Break down complex problems into problems specific enough to be brainstormed. Instead of 'How can we promote a new product?' use three separate problems: 'How can we promote a new product 1) to the retailer, 2) to the trade and 3) to the consumer?': simplify.
  - (b) Any suggestion or idea can be proposed by any member at any time: suppress dominance.
  - (c) Ideas must be generated as quickly as possible: urgency.
  - (d) Use ideas already suggested creating new ones: piggyback.
  - (e) Criticisms or evaluations are not allowed during the 'brainstorming period': no means-ends inversion.
  - (f) Defer lengthy discussions: generate; don't evaluate.
  - (g) The more suggestions the better: go for quantity.
  - (h) The session runs for the allotted time or until no more ideas are forthcoming: efficiency.

Now that we've said all of these wonderful things about brainstorming, it is time to ask how the process stacks up from the employees' point of view. On the negative side, for starters, many employees come to believe that brainstorming is often launched on the basis of 'there's no such thing as a bad idea'. Perhaps this is the reason why, after too many failed sessions, some employee wags refer to the process as 'blamestorming' or 'coblabberation'. Managers see a discouraging circle of ineffectiveness: firms have unshakeable faith in teams and employees slog through brainstorming knowing all the while that their time is wasted and results will be mediocre. While these reactions are widespread; they need not be fatal if the process is governed by the rules set down above.

Perhaps one of the best ways to combat 'brainstorming fatigue' is to adopt a few variations on the methodology shown above. In stop-and-go brainstorming, short periods of brainstorming (10 minutes or so) are interspersed with short periods of evaluation. With large groups, the Phillips 66 technique can be used: small groups of six brainstorm for six minutes. This is followed by a member of each group who reports either the best ideas or all ideas to the larger group. Reverse brainstorming brings fresh approaches by turning the problem around, for instance: 'How could we lower productivity? How could we decrease morale? What can we do to stifle creativity?'.

## Nominal Group Technique (NGT)

NGT boosts team creativity by controlling the nature of verbal interaction among members. The group, usually no larger than nine, follows a highly structured procedure which is briefly described below. Please note how NGT addresses threats to team productivity noted in Table 6.6.

1. The question under study is posted in front of the group whose members silently generate ideas in writing without looking at the work of others or discussing the question (5 to 10 minutes).
2. The leader goes around the table and asks each participant to read one idea from his or her notes until all ideas are recorded.
3. The leader works his way down the recorded list and makes clarifications based on participants' reactions.
4. Each member records the ideas on 3' × 5' cards and rank orders them secretly from 1 to  $n$ . A frequency tally is constructed to identify the mean average ranking for all items. The NGT process can end here or the decision may be refined through discussion and rewording.

The NGT has advantages over more common and less disciplined group problem-solving methods. First, idea generation is separated from idea evaluation. Second, everybody participates and dominant members are reined in. Third, it ensures progress to a clearly defined outcome. Fourth, a group in any stage of development can use the NGT and it helps move groups to a higher stage of development. Fifth, groups with stable membership find the technique effective as well as new groups or project groups. And last, it is time efficient and members find the process to be satisfying.

On the negative side, the NGT is highly formalised and its repeated use raises the possibility of 'ritualistic decision-making'. To preserve its effectiveness, the team or group leader should limit the use of NGT to the elimination of threats to competitive advantage. Over time, the leader who overuses NGT will find that solutions regress to the mean: they become average and uninspired.

## Delphi Technique

This method can be used to make group decisions when members cannot attend a meeting or when group members give their informed consent to remain isolated from one another. According to Professor Dalkey it is a cyclical process that gathers information, summarises it and re-submits the summaries to members until a consensus is reached. The technique was developed by the Rand Corporation as a way of forecasting future events of national and international importance. The technique is time consuming and it requires a central coordinating mechanism to manage the alteration, transmission and summarising of questionnaire data. The Delphi technique follows these steps.



1. Each group member independently and anonymously records comments, suggestions and solutions to the problem facing the group.
2. All the data generated in step 1 are sent to a centrally located individual who is responsible for data compilation and reproduction.
3. Each member receives a copy of all written comments from other members.
4. Members generate feedback on other members' comments, and all second-round feedback is written down and sent to the centrally-located individual.
5. Steps 3 and 4 are repeated as many times as necessary to reach consensus.

### Are Delphi Groups Effective?

Delphi groups can be more effective than groups which do not follow a disciplined problem-solving procedure. Average performance was higher for Delphi groups than for undisciplined groups both working on a comparable problem-solving task. Delphi groups eliminate the effects of dominant personalities on group decision-making and they also eliminate status effects: powerful, charismatic individuals who can co-opt the process. Computer-based e-mail systems and the Internet create great efficiencies in the Delphi method. Table 6.8 summarises differences between Delphi and nominal groups.

**Table 6.8** How Delphi groups differ from nominal groups

| Delphi groups are  | Nominal groups are  |
|--|---|
| Composed of members who are unaware of other group members                               | Composed of members who know each other   |
| Made up of members who never meet face-to-face   | Designed to meet face-to-face   |
| Reliant on a central processing unit which collects, collates and feeds back information | Designed to reach a decision more quickly<br>More likely to have status and dominance effects |

## 6.5 Practical Guidelines for Managing Groups

Managers must continually shift their emphasis between two activities which influence the effectiveness of group decision-making. The first is task activities or those chores which channel member efforts to achieve the purposes of the group. When members define work methods, plan schedules or assess service or product quality, they are working on task activities. The second set of chores is called maintenance activities and they nurture and sustain the emotional qualities in a task group. These include issues like member satisfaction, well-being and the group's cohesiveness. Table 6.9 describes situations which suggest the presence of task or maintenance activities in work group decision-making.

Members of stage 4 groups willingly confront both task and maintenance activities whereas the leader of a group in an earlier stage is personally responsible for detecting and reacting to group shifts between task and maintenance activities. Once the group reaches stage 4, members handle responsibilities for task and maintenance activities; in effect they have been delegated to the stage 4 group. The

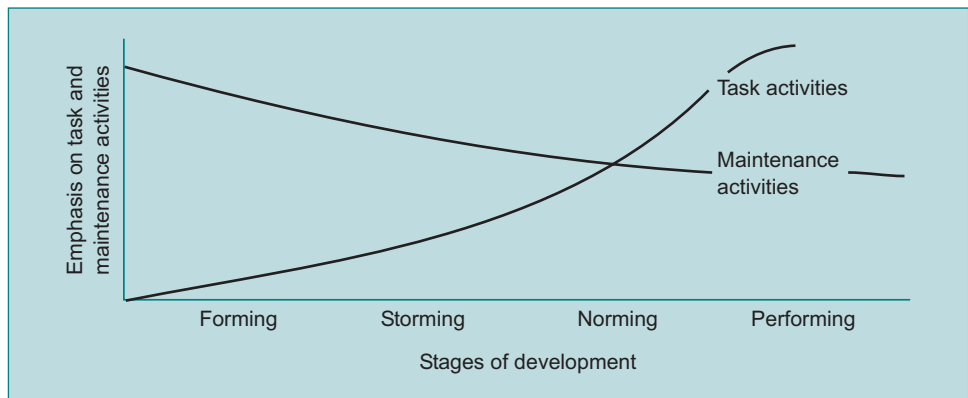


**Table 6.9** Situations characteristic of task activities and maintenance activities

| Task activities are occurring when  | Maintenance activities are occurring when   |
|---|---|
| The group diagnoses problems and suggesting problem effects   | The members create cohesiveness by encouraging the use of agreement and praise                                      |
| Members request objective information to ensure accuracy and attention to detail                                      | Members revise group norms to better support consensus  |
| The group provides timely information about its task to its members and they discuss matters of workflow coordination | Members ratify each others' ideas to ensure commitment and loyalty  |
| Members sum up group progress on ideas, activities, goals and solutions   | They discuss ways to attract and to socialise new members   |
| They measure their progress and report on their goals   | The leader maintains an 'open door policy' and all members stress the importance of equality in group relationships |
| The leader reports the group's progress to higher managers  |   |

Source: Adapted from R.C. Dailey, 1988. *Understanding People in Organizations*. St. Paul, MN: West.

leader does not abdicate his responsibilities in these areas; rather, he recognises that staying in stage 4 is a function of full member participation in both activities. Emphasis on task and maintenance activities shifts through the stages of work group development. Figure 6.4 shows this effect.

**Figure 6.4** Stages of development and the emphasis on task and maintenance activities in work groups

Effective management of work groups goes well beyond recognition of task activity and maintenance activity needs. Knowledge of the work group's stage of development coupled with a willingness to use brainstorming, NGT and the Delphi technique can move groups beyond self-inflicted process losses and into stage 4. The following guidelines also help minimise process losses.

1. **Define the work group's task or problem carefully.** Time spent on problem definition leads to more effective decisions in less time.
2. **Put a partition between idea generation and idea evaluation.** This idea grows in importance if the problem is complex and participation is essential to ensure members' support for implementation.

3. **Avoid groupthink.** Do not allow conformity and cohesiveness to stifle creativity. Convince groups that failure is not a punishable offence. Teach all group members how to recognise the symptoms of groupthink.
4. **Install a group norm that encourages creativity and problem solving.** Make it possible for an individual team member to be a 'star performer'.
5. **Make group-level rewards contingent on the group's contribution to work unit successes.** Reward successful collaborative behaviour that achieves breakthroughs in core aspects of competitive advantage (customer service, product quality improvements, major cost reductions, etc.)

### 6.5.1 Managing Intergroup Behaviour and Performance

Intergroup behaviour occurs when two or more groups have their interaction requirements set by management. According to Professors Steers and Black, the effectiveness of an inter-group network in the firm depends on the extent to which member groups fulfil three interaction requirements: 1) interdependence, 2) information flow and 3) integration. Interdependence requirements refer to the frequency and quality of interactions among groups. In the event of high task complexity and uncertainty, interactions among groups must be carefully coordinated and surrounded by safety procedures to prevent errors and communications lapses. Information flow requirements refer to the amount, quality and timing of information necessary to produce coordinated, joint decisions made by interacting groups. If the task(s) facing the groups are unclear and complex (high task uncertainty) then information requirements (amount, quality and timing) rise rapidly. As the number of interacting groups rises along with task uncertainty managers must overlay more real-time communication systems to prevent the stacking of errors that can lead to a crisis. Integration requirements refer to the extent of collaboration, cooperation and structural unification among groups working towards common goals. Joint preparedness, degrees of urgency reflected by alert status, and 'plug and play' communication systems are essential elements of integration. If integration requirements are allowed to deteriorate among units then they naturally become highly differentiated and they develop their own unique methods and forms of communication. Thus, specialists in one unit can no longer communicate effectively with specialists from other units: 'They speak a foreign language!'

The resources necessary to produce effective interaction among a firm's groups (or operating divisions) rise in lock step with increases in the number and size of groups and with rises in task uncertainty. Formal, rigidly bureaucratic firms facing global competition find that hierarchical control (X-oriented and top-down) produces more and more failures at higher and higher costs: a top-down hierarchy simply fails to detect and react effectively to the three challenges confronting its inter-group network. Professors Steers and Black suggest some ways to improve decision making in inter-group networks.

**Rules and procedures.** In a hierarchical, X-oriented firm we might find low task uncertainty and low interaction requirements. X managers naturally choose rules, regulations and procedures to ensure that cooperating groups are informed

of tasks requiring joint action. An example of this would be the requirement that the shipping department notify personnel in accounts receivable within one hour after shipping that products are in transit. The problem with rules and procedures is that they never allow for independent, timely action. Teams, if they are used, are never encouraged to be creative when rules and procedures always carry the day.

**Member exchange.** Sometimes groups swap members to facilitate understanding and collaboration. These 'temps' learn another group's language and methods through simple job rotation. Maybe the intergroup network becomes more effective as a result of job rotation; maybe not.

**Linking roles.** Creating a position to oversee and coordinate the work of two or more groups can improve intergroup performance. Brand managers oversee, coordinate and direct marketing, production and sales efforts to sustain a sharp focus on a particular product and its market share.

**Task-forces.** A task-force is a temporary group version of a linking role. When an organisation faces an urgent, short-term problem such as building a new production facility or launching a new manufacturing platform, a task-force is a useful mechanism to improve intergroup performance. A task-force is made up of individuals with complementary skills from all units that will be strongly affected by the solution to the problem. The act of creating a task-force and choosing its members sends a strong signal throughout the organisation about the importance of change and the status of organisational units before and after the change.

**Decoupling.** Factors such as 1) time urgency; 2) security (terrorism threat) or 3) severe intergroup conflict may make it necessary to separate groups physically or administratively. This action may achieve desired performance outcomes while greatly muffling group interactions. Setting up special product development teams in their own work areas and requiring them to report only to a given high-level manager is a good example of decoupling: Lockheed does it in its 'Skunkworks' where new airplanes and weapons guidance systems are created. Decoupling is usually temporary (and limited to product or process development activities) because there are 'down stream' synergies that must be captured; e.g., product designs are framed by independent groups to a certain point before they are integrated with other product requirements. Thus, decoupling is used to prevent early, paralysing conflict among teams during the early stages of a prototype's life. At later stages, the conflict diminishes anyway because teams are required to focus on integrating product features rather than competing for scarce product development resources.

Global firms and conglomerates with multiple subsidiaries use all five methods. In either setting it is essential that managers learn how to use all five strategies. In today's world of 'off shoring jobs' and ever shorter product life cycles firms must apply more resources to ensure groups coordinate their work without straying from their core responsibilities. Any deviations are punished harshly by rival firms that stand ready to grab customers and market share.

### 6.5.2 Laggards in Groups: Spotting and Correcting Social Loafing

All managers have led teams or been members of teams having members who do not perform their fair share of the group's work. These individuals are experts in the

fine art of social loafing. They talk a good game, deliver little effort and performance and then stand around waiting to get 'their share' of the team's rewards: loafers one and all! Social loafers are as common in firms as spots are on a leopard. Before this turns into a sermon, perhaps we should consider why social loafers seem to be a growing sub-species of any work-force.

Several theoretical explanations have been offered for social loafing: 1) equity of effort ('Everyone else is goofing off, why shouldn't I?'); 2) loss of personal responsibility ('It's a large group, so no one will pay much attention to what I'm doing'); 3) reduced effort caused by reward sharing ('Everyone is paid the same, so why should I put in extra hours?'); 4) coordination complexity in larger groups ('There are so many of us that we're getting under each other's feet'). There you have it: four explanations that ensure the multiplication of social loafers in our firms! The recommendations to lower social loafing borrow heavily from the concepts of job involvement, work group norms and the significance of group goals. The best way to attack social loafing is through 'preventative maintenance': create transparency in the team. Here's what you do:

1. Target for participation the interesting and important aspects of the task to increase the level of job involvement of group members.
2. Assure group members that their individual contributions are identifiable, measurable and significant: try 360 degree performance appraisal.
3. Offer scheduled and unscheduled feedback to keep everyone on their toes (BMod and its variable and fixed ratio reinforcement schedules).
4. Emphasise the importance of individual merit-based and team-based rewards: the latter does not occur if the former cannot be documented.

## 6.6 Decision-Making in Teams: Deciding on the Extent of Participation

Managers puzzle over the best way to have employees participate in team decision making. The newer the group (in terms of development stage) the harder the problem! Stage 4 groups typically solve the participation issue on their own because members are highly cross-trained and everyone is comfortable with the group's decision processes and norms.

Professors Vroom *et. al.*, from Yale University have tackled the employee participation problem by developing a decision model which helps managers to choose the best form of employee participation in light of existing situational factors. The model describes five forms of decision-making which vary from being autocratic and boss centred to being collaborative and group centred. The five forms (and levels) of employee involvement in group decision making are:

**The AI form.** A manager makes a decision alone, using the information currently available. This is the most authoritarian, boss-centred style of decision-making.

**The AII form.** A manager seeks information from subordinates or group members and then makes a decision. Employees may or may not be aware of the problem before the manager takes a decision.

**The CI form.** A manager explains the problem to his subordinates in a one-to-one format. The manager takes a decision which may or may not reflect the ideas of his subordinates.

**The CII form.** A manager explains the problem at hand to his subordinates in a group format. The manager takes a decision which may or may not reflect the ideas of his subordinates.

**The GII form.** A manager explains the problem to his subordinates in a group format. With the manager, the group makes a final decision.

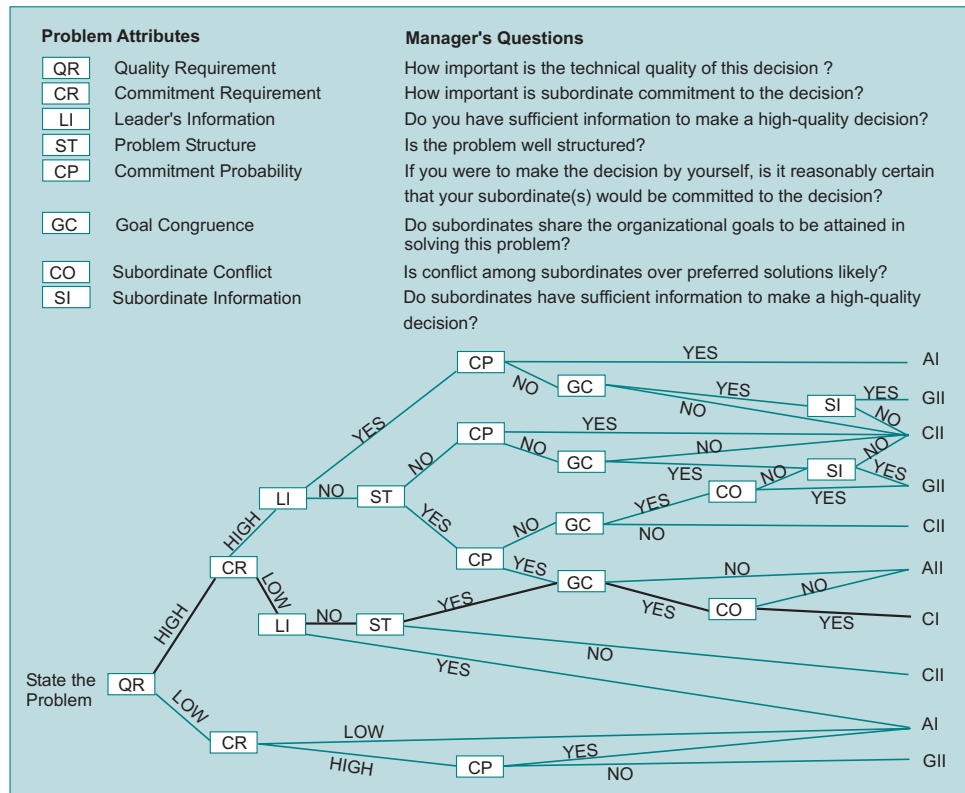
The central principle to the model is that the decision-maker should select the form that best fits the problem at hand. The key to the model is for the manager to match the characteristics of the decision situation to the best form noted above. Using the decision tree in Figure 6.5, it is possible for a manager to select the correct form by answering a series of structured questions about the decision situation. The critical situational attributes are: available time to make the decision, the importance of quality in the decision, the importance of subordinate commitment to the decision and the extent of information available to make the decision. As the manager answers these questions he works his way along the decision tree branches until he hits the right form.

Using the decision tree helps managers to analyse the situational qualities of a decision so that they choose the best form of participation for the decision at hand. For instance, the heavy line in the figure indicates that a particular problem is best handled with a 'G' group decision method. After running managerial training in the proper use of the method, Professors Crouch and Yetton showed empirically that retail sales managers who were trained to use the model achieved higher team sales results than their counterparts who were untrained. In addition, managers with strong conflict-management skills who received training in the use of the model achieved much better team results using collaborative problem solving than their untrained counterparts who possessed weaker conflict-management skills.

The normative decision model emphasises the importance of choosing the form of participation which is most appropriate for the decision to be made. The model encourages the manager to evaluate the decision's features and context before he selects the appropriate level of subordinate participation. Complex, service-driven firms have so many decision situations that it is nearly impossible for managers to apply the normative model in each instance. Nevertheless, there is a clear discipline and value in applying the model as often as possible because it strips emotion and impulse out of decision making. Firms are rational and participants respond to incentives. The normative model helps managers to be more objective and subordinates then conclude that systems and processes are fairer and clearer. Thus, using the normative model improves line of sight!

## 6.7 Work Groups in Competition and Conflict

No discussion of work group behaviour would be complete without considering the significance of conflict and how to manage it in work groups. Consider the following episode:



Source: Reprinted from Victor H. Vroom and Arthur G. Jago, 1988. *The New Leadership: Managing Participation in Organizations*, Englewood Cliffs, NJ: Prentice Hall. Copyright 1988 by V. H. Vroom and A. G. Jago. Used with permission of the authors.

**Figure 6.5 The Vroom-Yetton-Jago normative decision model**

James was the senior design engineer in Leitnerlox Inc., one of six divisions of the Leitner Company founded by J.M. Leitner. He supported his engineers and he often told them that they were the best in the world at creating new belting systems for moving lightweight products through customers' manufacturing systems. Recently, J.M. (who developed the first interlocking plastic belting systems for industrial applications) became concerned with the specifications for a new belting system which James' group had produced. J.M. felt the specifications were incorrect and the engineers had selected an inferior plastic to be used for extruding the interlocking plastic components in the new system. James immediately came to the defence of his engineers and openly criticised J.M. He went to Roger Keyte, the Leitnerlox division general manager with his explanation and demanded that he support the Leitnerlox design group. Roger agreed and took the case to Jay, J.M.'s son and chief operating officer of Leitner. Roger indicated that he had 'the best damned engineers in the business and [he] didn't appreciate J. M.'s meddling in the design unit's affairs'. Jay responded with: 'J.M. built the entire business with his inventive genius and he can still design circles around any of your engineers, including James'. Roger listened to this and responded abruptly with: 'If you don't think my engineers are

competent then you must think I'm not competent. If you want my resignation, you've got it'. Jay thought for a moment and responded: 'I didn't ask for your resignation, but I want James terminated'.

### 6.7.1 Two Organisational Views on Conflict in Groups

The dilemma above illustrates how escalating conflict creates unforeseen consequences. Essentially, organisations fall into two categories when it comes to managing conflict in and between work groups: 1) conflict is always dysfunctional and unhealthy (a Theory X profile) and 2) conflict is a by-product of organisational life and it is unavoidable but manageable (a Theory Y profile). It is clear that the conflict noted in the example classifies the Leitner Company in the first category, especially when non-family executives challenge the status quo in a family-dominated firm.

The first philosophy is called the traditional view and it encourages the suppression of conflict by developing norms to keep conflict under strict control (it is thought to be a threat to competitive advantage). Jurisdictional disputes are discouraged and the chain of command solves problems by referring them upward where they usually vanish rather than being solved. If they are solved, it is often by decree rather than by participation and discussion. In these cases the dispute has simply risen to a level in the hierarchy where a manager with sufficient power insists on a solution. After many upward referrals, solutions merge and resemble each other because the same manager is involved each time. This is a form of 'regression to the mean' and it becomes an unexplored, deeply embedded threat to competitive advantage.

The contemporary view takes the position that conflict in and between groups can be a useful deviation from the status quo. The idea is that if deviation can be managed, then positive by-products (improvements to competitive advantage) can emerge. It also holds that the suppression or avoidance of conflict is too damaging and costly to merit serious managerial consideration. Managers who work in this healthier (more transparent) environment often grow suspicious if too much harmony is evident because they suspect that tranquility is really complacency: a threat to competitive advantage.

Companies that adopt the traditional 'X' view unconsciously encourage their employees to experience conflict as a destructive process: one that can disrupt careers and create hard feelings among employees. The contemporary view accepts that conflict can be destructive and constructive, sometimes in terms of the same issue. This view encourages the development of company systems to manage and channel disagreement to valuable organisational ends. As a general rule, conflict benefits the firm if it centres on goals and processes; not personalities.

### 6.7.2 Managing Conflict within and between Groups

Conflict-management varies along a continuum bounded by near-total avoidance (traditional view) to using it to sharpen goals and to shape competitive advantage



(contemporary view). Let's look at some of the methods that occupy positions on the continuum.

### Avoiding

Avoidance, as a conflict management strategy, seeks to suppress conflict; keep it from coming into the open. Groups that use conflict avoidance need to have a norm that convinces group members that disagreement is disloyalty. When conflict avoidance is active in a group you see members who refuse to deal with any negative information that they believe will upset the group. Moreover, these individuals often function as mindguards (*see* groupthink, section 6.2.3) and they might censure other members who point out deficiencies in group processes.

### When Should Avoiding Be Adopted as a Strategy?

About the only positive thing that can be said about avoidance is its short-term use as a damage-control strategy. According to Professor Thomas, managers might adopt avoidance if: 1) the issue is trivial and more important issues are pressing, 2) he believes there is no chance of satisfying his concerns, 3) the costs of disruption outweigh the benefits of resolution, 4) it is necessary for people to calm down and gain perspective (avoid panic).

### Accommodating

Was there ever a time when you appeased others, fell on your sword, and let them have their way? If you say 'yes' then you adopted accommodation. In some instances, perhaps you fear losing a good friend or you think you might be transferred if you disagree too much. Once again you are practicing accommodation. You may adopt accommodation if you believe that winning a particular battle may mean losing the entire war: survive to fight another day as it were.

### When Should Accommodation Be Adopted as a Strategy?

Accommodation can be effective when a manager decides he is wrong and shows his reasonableness by letting others be heard. It may also be useful if an issue is more important to others than it is to the decision-maker. If the manager wants to minimise losses or he thinks he's overmatched; accommodation may be in order. Sometimes managers choose the strategy because they believe the firm's reputation is at stake and public conflict could drive away customers. If employee development is important use accommodation so your subordinates can learn from their mistakes.

### Forcing

This refers to using power, coercion or pressure to impose a solution through intimidation. Under emergency conditions, forcing requires the CEO to step forward,



become the public 'face' of the firm, and make a decision. Some executives ruefully refer to forcing as the 'buck stops here'.

### When Do Executives Select the Forcing Alternative?

Professor Thomas advocates forcing when a decisive action is vital (crisis conditions) or if unpopular actions (downsizing or off-shoring of jobs) are necessary to restore competitive advantage. At the group and team levels you may at times see forcing used to put a stop to process losses that endanger goal achievement. You might also see it used on a cohesive group that rejects the firm's goals and its performance standards. (It's our way or it's the highway!)

### Compromising

When you compromise you negotiate: find a common ground that is acceptable to you and to those on the other side of the dispute. This is the standard approach for solving labour-management disputes. Compromising occurs if the parties in conflict have about equal power, and a fixed amount of resources must be divided in some way. The process of compromising is frequently punctuated by the efforts of both parties to distort information, make strong emotional appeals and attempt to argue for their positions in the court of public opinion if the conflict is a highly visible one. This is the tactic used by politicians when they run for office or when they promote their legislation.

### Why Would Executives Select a Compromising Strategy?

Executives adopt compromise – they negotiate if: 1) they believe that their goals are important and they are reluctant to use more assertive methods; 2) the opponent has equal power and is committed to mutually exclusive goals, 3) a 'cooling off' period is mandatory to avoid economic or social hardships; 4) excessive time pressure dictates expedient solutions and 5) collaboration has failed (*see Professor Kennedy's Negotiation course*).

### Collaboration

This is the 'Y' style problem-solving approach where the needs of both parties are integrated to solve a problem permanently through mutual commitment to the solution. Collaborative problem solving is time consuming but it can lead to permanent solutions that support competitive advantage. Generally, collaboration is at work when rational (unemotional) people share facts, avoid distortion and analyse alternatives. It is also at work when people agree to measure results and to adjust their methods if the results change. Collaboration is the triumph of thinking over emotion (fear).

## Summary Points

- A group is two or more employees who interact, perceive common interests or goals and are brought together to accomplish a task.
- Firms have formal task or command groups and informal friendship groups. Informal groups emerge because formal groups cannot satisfy all their members' needs.
- People join groups and organisations because of interpersonal attraction created by proximity, physical attractiveness, attitude similarity, demographic similarity, group activities and group goals.
- Work group composition refers to the degree of similarity or difference between members' personal qualities. If members share numerous characteristics their group is homogeneous and if they have little in common their group is heterogeneous.
- Cohesiveness means that members value the benefits of membership highly. Cohesiveness augments performance if the work group's norms agree with the norms of the organisation. Managers can influence cohesiveness by controlling the group's composition, size, and goal clarity. In addition, managers can create a disturbance or common enemy to influence the cohesiveness in their groups.
- Work group norms streamline the process for controlling member behaviour. Without norms, a group would have to deal with each example of behaviour as a discrete event.
- If conformity and cohesiveness are extremely high, a work group may exhibit groupthink. This is the suspension of critical thinking in the group. Groupthink symptoms are detectable and correctable. Groupthink need not always result in bad decisions. Often a work group will exhibit groupthink but possess enough information to reach a correct decision.
- Work group size has predictable effects on member participation, satisfaction with membership, process losses and average performance per member.
- Work group development proceeds through: 1) forming, 2) storming, 3) norming and 4) performing. Each stage has identifiable issues which must be resolved before the group can progress to the next stage.
- Belbin's roles analysis of teams can be used to hasten team's progress to stage 4 performance and productivity.
- Work groups cannot stay in stage 4 indefinitely. Turnover of membership and changes in the group's task eventually dislodge the group from this stage.
- Groups make risky decisions based on how members value risk and the organisation's expectations that given groups should be risk tolerant or risk averse.
- Work group creativity can be low if the manager does not know how to separate idea generation from idea evaluation in group decision-making.
- Brainstorming in work groups defers judgement about the quality of suggestions and focuses exclusively on generating as many suggestions as possible in a set time period.
- The nominal group technique (NGT) formalises face-to-face interactions in work groups to minimise the effects of status and to manage member participation in decision-making. Managers must prevent NGT from becoming ritualistic.

- The Delphi technique can be used for large-scale policy decisions where anonymity of group members is a prerequisite for effective decision-making. While it is costly and time-consuming, the Delphi technique does produce decisions which are superior to those produced by conventional face-to-face decision-making groups.
- The effective group leader must judge when task activities or maintenance activities are of greater concern to the group.
- Process losses can be minimised by: 1) careful definition of the group's task, 2) separation of idea generation from idea evaluation, 3) avoidance of groupthink, 4) making group rewards contingent on group performance and 5) making group rewards contingent on group contributions to work unit successes.
- Managing intergroup behaviour and performance requires the manager to assess groups' need for interdependence, information flow and integration. Depending on needs in these three areas, managers can choose among the following to improve intergroup behaviour and performance: 1) rules and procedures, 2) member exchange, 3) linking roles, 4) task-forces and 5) decoupling.
- Social loafing is the decline in average member performance in groups of increasing size. Social loafing can be reduced if a manager focuses on maintaining high job involvement, preserving group performance norms and reinforcing the importance of the group's performance goals.
- The extent of group participation in decision-making can be determined by analysis of these conditions: 1) the time pressure to make the decision; 2) the importance of decision quality; 3) the importance of subordinates' commitment to the decision; and 4) the extent to which information is available to make the decision. The actual amount of group participation in decision-making varies from none (boss-centred decision-making) to considerable (full group-centred decision-making).
- Group conflict can be suppressed ('X' view) or viewed as a feature of organisational life ('Y' view).

## Review Questions

### True/False Questions

- 6.1 A group of design engineers formed to complete the reliability testing for a new industrial process is an example of a command group. T or F?
- 6.2 Informal groups emerge in the organisation when formal groups do not satisfy all the needs of their members. T or F?
- 6.3 Project team management relies heavily on a well-structured system to support the productivity of the teams. T or F?

- 6.4 In general, interpersonal attraction leads to heterogeneity in informal work groups. T or F?
- 6.5 When members of a bank's board of directors are asked by executive officers of other banks to join the board, interpersonal attractions based on social, economic, gender, race and perceived ability similarity are functioning. T or F?
- 6.6 Over time, stage 4 mature groups are likely to become more heterogeneous. T or F?
- 6.7 Heterogeneity in work groups generally increases group problem-solving potential, member satisfaction and conflict. T or F?
- 6.8 Cohesiveness in a work group emerges more quickly if the group is homogeneous. T or F?
- 6.9 If a manager controls 1) work group size, 2) clarity of the group's goals and activities and 3) timing of positive feedback, then cohesiveness rises. T or F?
- 6.10 The degree of agreement between the work group's goals and the organisation's timing of group-based rewards determines the relationship between work group cohesiveness and performance. T or F?
- 6.11 Norms in a work group develop most quickly in the areas of members' efforts and the group's work activities and goals. T or F?
- 6.12 Groupthink may be occurring in a work group when it prevents outside experts from introducing information into decision-making and the leader suppresses dissenters. T or F?
- 6.13 Project groups which are quickly formed and heterogeneous are less likely to exhibit groupthink than a permanent work group in stage 3 of development. T or F?
- 6.14 Work groups experiencing groupthink often make poor decisions. T or F?
- 6.15 Having the respect of your subordinates for your expertise in problem-solving is an example of positional status. T or F?
- 6.16 When a work group adds two new members, it is generally true that average member participation will decline while average performance per member will rise. T or F?
- 6.17 Process losses are minimised in a heterogeneous work group which matches members' skills to the group's task or goals. T or F?
- 6.18 Work group composition and maintenance of norms characterise the management problems of a stage 2 group. T or F?
- 6.19 In general, mature work groups quickly detect the presence of process losses and require the leader to take prompt action to eliminate them. T or F?
- 6.20 If members of a command group value risk, the group has high positional status and the organisation is conservative, then the group will make risky decisions indefinitely. T or F?

- 6.21** Brainstorming is a successful method for achieving work group creativity because it overrides the group's natural tendency to defer judgement on creative members' suggestions. T or F?
- 6.22** Delphi groups are: 1) composed of members who do not know each other, 2) less likely to exhibit status and dominance effects than nominal groups and 3) not reliant on a centralised data processing function. T or F?
- 6.23** A stage 4 group discussing ways to attract new members would be engaged in a task activity. T or F?
- 6.24** The traditional view of conflict holds that organisational harmony may sometimes stand in the way of creative work group problem-solving. T or F?
- 6.25** Forcing would be a good conflict-management strategy in a command group if there were sufficient time to make the decision and members had unequal power. T or F?

### Multiple Choice Questions

- 6.26** Participative decision-making tends to be associated with:
- A. higher levels of group member satisfaction.
  - B. lower individual member productivity.
  - C. less creativity among team members.
  - D. more rapid decision-making.
  - E. increased rivalry among team members.
- 6.27** A way to minimise the effects of groupthink is to:
- A. encourage members to rationalise the group's decision.
  - B. increase peer pressure to manipulate dissenting group members.
  - C. re-examine the preferred solution even if consensus has been reached.
  - D. criticise the competition or opposition.
  - E. have the leader convince group members that mistakes are impossible to make.
- 6.28** Being a project team leader, you recognise the value of achieving some initial success at defining the nature of task problems confronting your team. Therefore, early in the process of achieving team goals you might:
- A. encourage high cohesiveness to build strong group integrity.
  - B. use devil's advocacy to prevent initial groupthink.
  - C. minimise member diversity by selecting team members with much in common.
  - D. use brainstorming to develop a long list of unevaluated problem approaches.
  - E. use the Delphi technique.
- 6.29** Social loafing is often:
- A. a deterrent to effective group relations among members and to group performance.
  - B. a direct result of excessive cohesiveness in a group.
  - C. a result of groupthink.
  - D. a stimulant to increased group performance.
  - E. a deterrent to potential group performance but not a deterrent to average individual member performance.

- 6.30** A group quality which can sometimes lead to either high or low group effectiveness is:
- A. high levels of interpersonal attraction.
  - B. cohesiveness.
  - C. participation in group decisions by members.
  - D. risk avoidance by group members.
  - E. members with uniformly high personal status.
- 6.31** The third stage of group formation involves:
- A. members trying to understand those behaviours which are most important to the group.
  - B. collaboration and minimisation of process losses.
  - C. the development of trust and support among group members.
  - D. members' assessment of the degree of commitment and support required for group membership.
  - E. the stabilisation of group leadership and the determination of group hierarchy.
- 6.32** By the \_\_\_\_\_ stage of development group cohesiveness tends to be strong.
- A. forming
  - B. performing
  - C. norming
  - D. storming
  - E. maturity
- 6.33** Group cohesiveness is negatively affected by:
- A. large group size, more than 15 members.
  - B. interpersonal attraction.
  - C. moderate external pressure in the form of competition among groups.
  - D. group members with high personal and positional prestige.
  - E. groupthink.
- 6.34** Which of the following is not a maintenance activity in a group?
- A. Smoothing conflicts.
  - B. Following the ideas of other group members.
  - C. Setting goals and assigning tasks to members.
  - D. Helping other members express their feelings about group membership.
  - E. Arranging for new members to be introduced to senior team members.
- 6.35** Generally speaking, effective, empowered problem-solving teams would take the \_\_\_\_\_ view of conflict.
- A. traditional
  - B. short-term
  - C. liberal
  - D. contemporary
  - E. internal

### Short Essay Questions

- 6.36** Under what conditions would you use project teams? What are the typical job requirements that you would communicate to a project team?

- 6.37 Explain how you would manipulate at least four group and situational factors to influence group cohesiveness.
- 6.38 Does work group cohesiveness mean that the group will be productive relative to organisational standards? Please explain your answer.
- 6.39 Describe groupthink and the characteristics of a group caught in it.
- 6.40 How do the problems facing a work group change as it moves through the four stages of development?
- 6.41 Assuming a work group has members who value creativity and they work for a firm which expects them to be creative, what process losses can prevent the group from actually being creative?
- 6.42 Why is the deferral of judgement about creative suggestions in a work group an important prerequisite for sustained creativity?
- 6.43 If a manager does not wish to use the brainstorming, NGT or Delphi methods, what should he do to keep his work group creative?
- 6.44 What diagnostic questions should be considered as a manager considers the proper level of team involvement in organisational decision-making?
- 6.45 As organisations move from centralised decision-making to decentralised decision-making centred in self-directed teams, what will have to be done in terms of team integration and interdependence?

### Case Study 6.1: Assessing Work Group Creativity

Lexington Ltd develops and distributes managerial training materials for manufacturing and service companies in the UK. The company was founded by Ean Cleese ten years ago and it has grown steadily in domestic and export sales. Last year it had sales of £5.4 million and this year Ean expects a 10 per cent gain in domestic sales (about 80 per cent of the firm's business) and a 7 per cent gain in foreign sales. The firm currently has 50 employees engaged in production and sales work. The 'creative core' of the business consists of six employees and Cleese who develop all of the company's web-based video products and allied training materials. Around the company they are known as 'Ean's patrol'.

Cleese hand-picked the six employees five years ago. Their names, ages, and professional backgrounds are shown in Table 6.10.

Ean believes the group works well together, even though some members have odd personal habits. For instance, Lydia prefers to wear her hair in a 'neo-punk' style and it has occasionally been more than one colour at the same time. Wilson, on the other hand, is very conservative and prefers to wear a coat and tie at all times. The group maintains that Wilson wants Lydia to colour her hair 'plaid'. Jensen prefers to work odd hours and he is frequently on the job Saturdays and Sundays. However, he may not show up the next Monday and Tuesday. Andrea prefers a regular work schedule as does Abelson. These two work together quite well and they have designed some new formats for blending computer-generated animation with standard studio footage that is visually very exciting and inventive. According to Ean, Lisa evaluates all the creative products of the group 'as if she were putting together a travel brochure'.

**Table 6.10** Ean's patrol at Lexington Ltd

| Name            | Age | Professional background  |
|-----------------|-----|--|
| Lydia Smith     | 28  | She studied theatre arts but left college to work with a small theatre group in London for two years before coming to Lexington four years ago. She was responsible for all set design and stage management.   |
| James Wilson    | 32  | Degree in romance languages from Heriot-Watt University. Worked as a management development specialist at Heriot-Watt's Esmée Fairbairn Research Centre for five years. During that time, he became an expert in designing large-scale corporate training programmes offered by the research centre. Has been with Lexington for four years. |
| Keith Abelson   | 35  | Degree in computer assisted graphic design from the University of British Columbia, Vancouver, Canada. He is a 'wizard' in creating animation effects with computer-assisted design. Ten years at Lexington.   |
| Lawrence Jensen | 36  | Seven years of experience in magazine layout and advertising copy-writing before joining Lexington eight years ago. He won several industry awards for his advertising layout work with a medium-sized advertising agency in London.   |
| Andrea Wight    | 26  | Mathematics and literature major in college. Has worked at Lexington for two years. Prior to that, worked for a small consulting firm specialising in designing software for controlling complex assembly movements for robotic devices.   |
| Lisa Bronson    | 38  | She and her husband owned and operated a successful travel agency. After they sold the business, she worked for three years as an executive in the London Tourism Council. She has worked at Lexington for five years.   |

The group knows that they have a free rein to use equipment and develop new training products and video tapes as they see fit. They work closely with the filming crew, since they must produce all the written scripts which represent the basis for the management topics dramatised in the video tapes. The freedom to be creative has led to a high level of cross-training: patrol members are comfortable with all aspects of product and service development.

The group has divided itself into development and production areas. For instance, Lydia, Andrea and Lawrence typically brainstorm new products while James and Keith sketch out the scripts and search for suitable filming locations. Lisa arranges shooting schedules and coordinates production work with Ean and the film crews. She also makes all local arrangements for the crews when they are filming at various corporate offices in London.

Keith and Andrea have been working hard on Ean and the rest of the group to consider animating sections of older training films to give them a 'new look'. They argue that it would be much cheaper to do the upgrade on older products than start from scratch with new ideas in the works. Some of Keith and Andrea's demonstration footage is quite creative and Ean has considered showcasing their work at the next planning session with the vice-president of production and filming.

The group has no set work schedule. They usually bring their lunches to work and they can often be found brainstorming new production ideas around the lunch table. Everyone is included in these sessions, but it is not unusual for a member of the team to miss a lunch. No one gives this much thought since team members often take care of personal business at midday.



It is hard to say if there is a formal leader in the group. Keith has ten years of experience with Lexington, but for any given project, someone else could easily take the lead. The group seems to select leaders on the basis of project expertise rather than on seniority. They all look to Ean however as their 'anchor or ballast' as he is sometimes called. He gladly assumes this role which also occasionally requires settling a dispute in the group. These disputes more often involve 'artistic licence' than personality clashes. The rest of the employees tolerate the odd work schedules and strange demands for equipment made by Ean and his group. Other employees seem to recognise that the 'creative types' are necessary in spite of their odd work habits.

- 1 Use module information to describe the primary features of Ean's group?
- 2 How does the group's composition facilitate creativity? Do you agree with Ean's rationale for selecting members for his design group?
- 3 Isolate and describe three things that Ean has done to instil a strong creative ethic in his 'patrol'.

### Case Study 6.2: Team Productivity at A. E. Leeson's Ltd.<sup>1</sup>

Allister McPherson is the general manager of A. E. Leeson's, a small UK-based electronic sub-component assembly facility. It is a part of a larger conglomerate which imports a variety of computer hardware and software. Reporting to Allister are three key managers of the facility: a production manager who oversees three work shifts; an office manager who oversees 15 specialists including two marketing staff members; and a manager in charge of human resources and plant safety.

The production facility is designed for work teams. Team members have very clear expectations about the extent of team authority to make production-related decisions. For instance, members make their own decisions about work scheduling and production planning. The teams understand their work assignments and managers leave the teams alone so that they can get their jobs done. At times a team may refuse to follow the orders of a supervisor if they think he is impeding team performance or decision-making. A team might also complain if a supervisor is using discipline unfairly or is trying to force employees to obey the wishes of management.

An informal 'tradition' at the facility is 'job-bidding' in which a worker applies for an unstaffed position in the facility. Some managers view the process as a cop-out: a way for workers to avoid certain bosses. Employees think of job bidding as a way to get a better work schedule, e.g., moving from the night shift to the day work shift. Supervisors resent this system because they feel that they should have the right to choose their subordinates rather than having a system which allows employees to circumvent their requirements.

As an informal job benefit, employees were allowed to use company tools and materials for personal use. Employees have grown used to the fact that the company will provide hardware and software to them at cost and they have come to expect the company to let them use tools for fixing personal equipment and for home repairs. In turn, the company enjoyed a very low rate of pilferage and generally all company tools and equipment are returned in good shape.

<sup>1</sup> Source: Adapted from R. Steers and J. Black, 1994. *Organizational Behavior*, 5th edn. New York: Harper Collins, 276–7.

The company has just decided to buy \$15m worth of new production equipment and Allister will integrate it into the assembly facility. Allister had found a replacement, Rudy Washington, for his production manager who was retiring soon. Rudy had served with distinction in the Royal Navy during the Falklands War and he had excelled in two industrial positions before joining Leeson's two years ago. Allister believed that facility productivity and profitability could rise significantly with new equipment and a new production manager who was familiar with all the latest management techniques.

Soon after his arrival, Rudy began to leave his mark on the facility and its production practices. He scrapped the practice of allowing employees to borrow company tools for personal use. He reasoned that a few unethical employees could steal the tools and resell them because the control process governing their use was extremely lax. He also replaced the job-bidding system with a military-like seniority system. Managers and supervisors throughout the facility avidly supported the system, but it soon became evident that it has led to resentment and frustration among the facility's production workers. Workers have been overheard saying 'Rudy is still in the Navy and he thinks we are all new recruits'. Rudy, of course, believed that management should not be questioned and workers had a duty to obey legitimate orders from supervisors.

Rudy was fond of making 'rounds' through the production facility on an hourly basis. During his first four months, he reduced labour-hours for assembly and increased product quality and dependability. During this period, five employees left and in exit interviews they cited the termination of the job-bidding system for their decisions. Three employees who resigned had obtained excellent job performance ratings on a regular basis.

The installation of the new equipment had gone smoothly, but it was clear that employees were unhappy because their productivity had generated more profits for the company but no wage increases for them. Rudy began to notice that losses of company equipment and tools began to rise above historical averages. He decided to install metal detectors and a system for random employee locker inspections to deter any further theft of company equipment and tools.

After a year on the job, Rudy was called back to company headquarters for a month-long seminar on leadership and organisational quality improvement. During his absence, Allister decided not to fill his position with a temporary production manager. Instead, he told all shift supervisors that they were each responsible for their shifts with no further direct supervision. Shortly after Rudy left, Allister learned from the third shift supervisor that night employees wanted a slightly longer break at 3 a.m. because humid work conditions were causing some employees to experience drowsiness. To avoid defective assemblies Allister granted the request and he told the three shift supervisors to use their own judgement to handle minor employee requests. He later learned that several other changes had been made, but none of Rudy's major management decisions had been altered.

Two weeks later, employees complained loudly about the company's policy of mandatory overtime to meet production output requirements. Demand for sub-assemblies had been so robust that workers were regularly working 15–18 overtime hours each week. Allister considered the problem and announced that if the work shifts could boost production by 15 per cent, then he would suspend the mandatory overtime requirement. Within two days, production rose to the required level and Allister kept his promise. Much to his surprise, the company received several large orders which once again put his facility under a back-order requirement and he reluctantly had to reactivate the mandatory overtime rule. Within a week the work-force had eliminated the back-order problem and Allister, once again, dropped the overtime rule.

Employees were soon complaining about the metal detectors and random employee locker searches because they thought management did not trust them. They called the policies 'unjust' because the majority of honest workers should not have to submit to these humiliations just to root out a few bad apples'.

Allister agreed and he proposed a 'four-week trial period' in which the detectors and searchers would be suspended while tool and equipment numbers were closely monitored by designated employees. With little debate, workers accepted this offer as a realistic compromise.

Two days before Rudy's return, Allister was studying his monthly report and he was startled to see that production was up 20 per cent and product defect rates had fallen five per cent below the running six-month averages. In effect, production output and product quality had increased without the presence of a production manager. Allister knew that he faced a dilemma. He could report these findings to corporate officials and he could make a strong case for eliminating the production manager's position. This would cost Rudy his job and Allister was genuinely concerned by this because he considered Rudy to be his friend. Or he could show Rudy these results and work with him to change his management style. He knew that his 'Navy man' would be hard pressed to change.

- 1 Why was production output up 20 per cent and product defect rates down five per cent?
- 2 Once Rudy returns, what should Allister tell him and what actions should he take with respect to Rudy's position and management style?

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# The Influence Processes in Organisations: Power, Politics, Leadership and Entrepreneurship

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### Learning Objectives

By the end of this module you will be able to:

- Distinguish among power, authority and influence.
- Differentiate forms of interpersonal power used by managers.
- Explain how employees can gain power.
- Explain why political behaviour takes place in firms and why managers play politics.
- Describe effective methods for upward management.
- Differentiate leadership behaviour from managerial behaviour.
- Describe current theories of leadership and how they differ.
- Recognise the importance of effective leader reward and punishment behaviours.
- Explain how characteristics of subordinates, tasks and the organisation can function as neutralisers and substitutes for leadership.
- Characterise the 'entrepreneurial profile'.
- Contrast entrepreneurial behaviour and administrative behaviour.
- Diagnose your own ability to be an entrepreneur.

This module addresses three issues important to managers and students of OB. First, we will define the important concept of power in organisations. We will examine the bases for interpersonal power and how individuals and organisational

subunits obtain power. Next, we'll explore organisational politics and we will see how individuals and subunits manipulate the firm's political system. Our next topic is leadership. We will define it, differentiate it from management and trace its development as a core concept in the fields of OB and management. The module concludes with a variation on the leadership theme: entrepreneurship and its role in sustaining competitive advantage.

## 7.1 An Example of Power

The chancellor of the state-supported vocational training school was hand-picked by the previous director of educational administration. Over a two-year period, the chancellor hired his family members, put his secretary's husband on the payroll and made other decisions which violated his public trust to run the institution in the most unbiased, cost-effective manner. The director of educational administration knew he had to go. The local newspaper had run several front page articles about corruption at the school and local officials were calling for a 'full-scale audit' in the wake of talented faculty departures. The director of educational administration dealt with the situation quickly by announcing that the vocational training school was cut out of next year's budget. Students were in an uproar, faculty were outraged and the local community was concerned. Students and faculty held a public debate in which the chancellor defended his record. The press covered the event in considerable detail and within two days the chancellor had resigned and an acting chancellor was on the job with the budget restored.

This example highlights power, how it can corrupt the person who wields it and how fast it can disappear. People find power and politics to have connotations of manipulation, abuse of position and corruption. Managers agree that power and politics are necessary and sometimes disagreeable features of life in organisations. Politics and power plays erupt in firms when people disagree and the status or survival of a group is threatened: they are forms of competition. You can think of them as a 'tax' on organisational effectiveness and productivity: when they are in play, less work is accomplished. For instance, in a corporate buyout (a common occurrence) nobody in the target firm concentrates on work: they focus on survival by playing politics. It is usually a poor endgame because to the winner go the spoils and the managers in the target firm know they may be soon declared 'redundant' by the winners.

### 7.1.1 The Meaning of Power, Authority and Influence

Professor Cobb states that power is the ability to alter the behaviour of others while being able to avoid having one's own behaviour modified in undesirable ways. Powerful firms (and individuals) can exert or project control while neutralising any limits on its own behaviour. Power has several characteristics. First, it can only be wielded in a relationship which other people depend upon in some way. Power has no meaning outside the context of human relationships because it has to be perceived and acknowledged by participants. Second, knowledge and experience

make it possible for individuals to learn how to use power effectively: they learn to appreciate its limits. Third, power is fluid; it can flow in any direction in an organisation. The most common flow is downward; especially in bureaucratic, Theory X organisations.

Authority is the right to order or ask others to do what you want them to do. A manager's authority is defined and limited by his position in the chain of command. For instance, he sets subordinates' goals, evaluates their performance and determines their work assignments. Authority, if it is not abused, is simple, every day downward control. It stems from a hierarchical position and it flows through the manager who issues the orders. The origin of power is much more complex and it often reflects the executive personality (*see* Module 1).

Influence is a process of persuasion that affects the thoughts, feelings and behaviour of others. It's an active process in groups that have charismatic leaders and high cohesion. The impact of influence rises when interpersonal attraction is high; e.g., individuals are strongly motivated to join particular groups. Identification with a group widens the employee's zone of indifference: the range in which he perceives influence attempts as legitimate and acts on them without a great deal of evaluation or thought. If the employee perceives an influence attempt as illegitimate, his manager has to exercise his power to expand the employee's zone of indifference. Managers seldom rely on authority in this case because it plays so badly with subordinates. You see, employees find the authoritarian boss to be rigid to the point of being incompetent and sometimes even comical; e.g., the hit television show 'The Office' illustrates this point.

### 7.1.2 Sources of Power

Professors French and Raven were astute observers of managers' sources of interpersonal power. They proposed that all sources of interpersonal power are directly related to the effectiveness of either groups or organisations. We are all fascinated by the subject simply because some of us seem to have an insatiable appetite for forms of power, influence and dominance. We link sources of interpersonal power to spectacular success and failure. Enron and its executive team are examples of our current fascinations with all three. And, we'll probably always be shocked by the behaviour of some of the world's more juvenile (and vicious) dictators. Table 7.1 illustrates the various forms of interpersonal power.

Each source of interpersonal power noted in Table 7.1 is expressed in a dependence relationship. When you have control over what others want, they are dependent on you and you therefore have power over them. Likewise, when you are dependent on others, they have power over you. As we move through the descriptions of the types of interpersonal power, remember that they 1) only have meaning in terms of interpersonal relations and 2) are always expressed in dependence relationships.

**Table 7.1** Sources of interpersonal power and an example of each

| Form of power | Work example  |
|---------------|---|
| Reward        | Telling a subordinate that he has been very effective in productivity enhancement during a formal performance review. |
| Coercion      | Warning a colleague that you will go to your superior if he does not stop trading on insider information.             |
| Legitimate    | Transferring an employee to an overseas assignment.   |
| Referent      | Emulating a senior design engineer who is widely respected throughout the company.                                    |
| Expert        | Including a design engineer in all product review meetings because of his experience in design work.                  |

**Reward power** is the capacity to provide positive outcomes and prevent negative outcomes. It is often used in place of legitimate power because it is more appealing to subordinates. And so, managers prefer to link rewards to their recommendations for employees' pay rises, promotions and performance reviews. They smooth employees' acceptance of delegated authority – 'Why you should want to do a portion of my job' – by explaining how the expansion of their (employees) responsibilities leads to promotion opportunities and more skills.

**Coercive power** is the capacity to use of punishment and threat. Our study of BMod (section 3.4.1) reminds us to always use it carefully and sparingly. Managers can assign undesirable tasks, threaten termination, order transfers and give negative performance feedback. Coercive power can be wielded in interesting and surprising ways.

An extremely effective hospital productivity specialist was transferred from that job to director of food service operations. Apparently, upper hospital management thought he was 'too good' at his job because he was uncovering too many examples of ineffective management: sooner or later upper management would have to 'explain' the problems he had uncovered. And so we arrive at upper management's 'solution': put the highly competent specialist in a 'backwater' department where he cannot damage their sources of power (and credibility).

**Legitimate power** is the capacity to direct the behaviour of others due to one's position in the organisational hierarchy. Subordinates accept their duty to obey because their superiors have the right (authority) to give them orders. Some organisations de-emphasise legitimate power while others celebrate it. The military uses uniforms, service medals, protocols and status to reinforce legitimate power. Members of new product design groups would probably laugh at these expressions of legitimate power.

**Referent power** is the extent to which the power-holder is well liked and admired by others. Successful entrepreneurs, politicians, entertainers and statesmen all possess high referent power or charisma. People are attracted to charismatic individuals and they may adopt their behaviours and attitudes. Referent power is a common subliminal element in advertisements that use celebrities to endorse products. Referent power is highly personal (and portable) because it reflects various forms of attractiveness. Anyone in a firm can gain referent power. It attaches to the person and not to his position.



**Expert power** appears in individuals who possess specialised knowledge that is valued by the firm. Individuals who control information in crucial areas gain expert power because they can influence organisational success. In addition, expert power is linked to the ability to solve key organisational problems. It too is like referent power because it attaches to the person and not to the position held by the power-holder. It follows that a variation on expert power is making yourself or your work group irreplaceable. Consider this:

In a Belgian shoe factory, maintenance workers made themselves indispensable by keeping all maintenance procedures and techniques secret. New maintenance employees were trained by word of mouth through long apprentice programmes. No one in production or management understood the complex production equipment, so the maintenance employees were able to keep a monopoly on maintenance knowledge. Thus, they retained monopolistic expertise power to control operations in the plant.

### 7.1.3 Using Power Ethically

Managers are responsible for using the five sources of interpersonal power in an ethical manner in their work with employees, customers and colleagues. For instance, coercive power must be used consistently, uniformly and privately. Communicating well and respecting subordinates is the ethical starting point in the use of the five types of interpersonal power. Before a manager exercises his sources of interpersonal power, he should consider three questions raised by Professors Velasquez, Moberg and Cavanaugh.

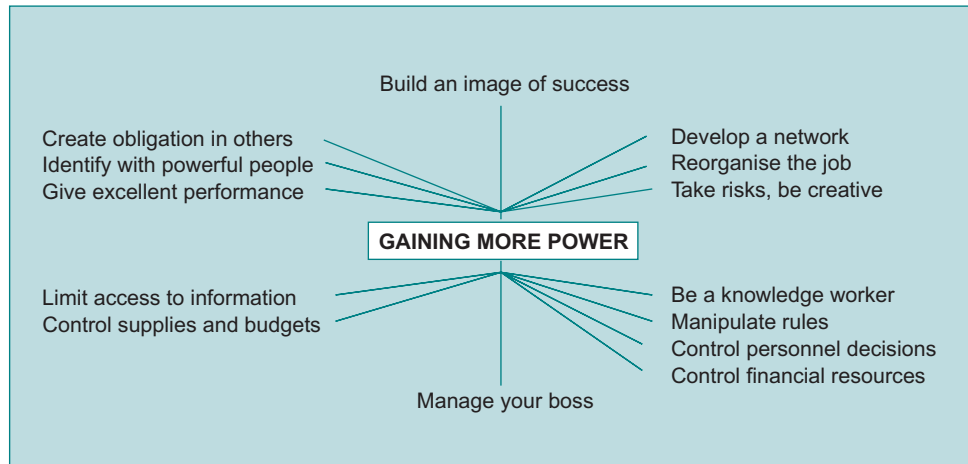
1. **Does the behaviour produce a good outcome for those who are affected?** Exercise power to create the greatest good for the greatest number of people.
2. **Does the behaviour respect everyone's rights?** Exercising power should not suspend free speech or due process.
3. **Does the behaviour treat everyone equitably and fairly?** The exercise of power should not arbitrarily benefit one party at the expense of another.

### 7.1.4 How Employees Obtain Power

Let's turn our attention to how employees obtain more legitimate power, demonstrate their expertise and get their peers, subordinates and superiors to like them (see Figure 7.1).

**Employees build an image of success** by projecting their competence and organisational commitment. You can polish your image by drawing attention to your successes, being enthusiastic about the organisation, placing value on the organisation's status symbols and volunteering to act on behalf of the organisation: all of these are good citizenship behaviours.

**You can create obligation in others by doing them favours.** These individuals may be in a position to help you later. This approach is no substitute for effective



**Figure 7.1** How employees gain power

performance on the job. To your peers it may appear that you are simply currying favour with the boss. Use this approach carefully and sparingly!

**You can identify with powerful people in the firm: finding a mentor.** You can find a boss in a powerful position, work for him and give your career a positive boost. You may be able to advance your career because you benefit from your boss's greater experience and insights about the firm and its practices. Along the way you avoid a few mistakes and your career progress accelerates. Most mentor–protégé relationships slowly decline in value to both parties, as the protégé gains experience and knowledge: self-sufficiency slowly erodes the value of the relationship (as it should).

**By giving excellent performance** you meet or exceed the firm's performance expectations. If you look outside the formal appraisal system you can easily identify areas where you can stand out by working hard. This may include volunteering for difficult organisational assignments and defending the firm's reputation. If you become known as an employee who tackles difficult problems your expertise power can only grow inside the firm.

**Moving into a position that controls access to information** can greatly increase your indispensability: you become impossible to replace! You control information that is crucial to others' job success and so they turn to you for timely information or advice. This kind of 'job security' often flows to the individual who sees an opportunity to carve out or create his own job. And so, if you are offered an interesting project it might be wise to take it on.

**In today's highly competitive world it may be sensible to move into a position that gives you control over supplies and budgets.** Jobs in accounting and distribution management have the potential to save firms money because they rein in costs and reduce cycle time (just-in-time inventory management systems).

**You can further your career progress in the firm by nurturing and maintaining a network of respected colleagues.** Sustaining reliable work relationships and friendships and not forgetting those who have helped you over the years is a sign

of loyalty and respect. These characteristics are valued by your co-workers and they appreciate being remembered. There is always more room in firms for the civilising benefits of expressions of gratitude and generosity.

**Be a job reorganiser!** See if you can identify some unmet objectives or create some new, value-adding tasks and complete them. In Module 1 we discussed the importance of self-efficacy or being a self-starter. If this is an aspect of your nature, then practice job enlargement by adding complimentary tasks that expand your skill set.

**If your firm values risk taking then tackle problems in your department by becoming an 'intrapreneur'.** Bring your ideas for process improvements forward in team meetings. Stay current in the technical literatures that apply to your job or profession and apply what you are learning to nagging problems in your work unit.

**Make it your long-term goal to become a recognised knowledge worker.** You can start working toward this goal by becoming a 'boundary spanner' between departments and learn to 'speak the language' used in other units of the firm. You see, the most significant problems faced by your department usually involve other departments. By being 'multi-lingual' you become a more versatile problem solver. If you have the interest and you find it challenging, you can acquire specialised expertise in marketing, crisis-management (terrorism threats, spectacular product failures, for instance) and international operations.

Do you remember our discussion of the Mach V manager? **By manipulating rules or sticking close to company policies** you can gain an advantage that may boost your personal power in the firm. Some jobs offer ample opportunities to gain power through rule manipulation. For instance, staff lawyers and internal auditors become powerful because they have the job of writing, revising and controlling procedures.

**Controlling personnel decisions** does not simply mean hiring and firing. Your power grows if you are in a position to recommend who needs further training, who should be transferred, who should be promoted and who handles recruiting for the organisation. Knowledge obsolescence is a threat to most employees and this raises the power of experts in training, recruiting and employee development.

**Gaining power to manoeuvre financial resources** raises your clout throughout the firm. Control over financial resources is not always concentrated just at the top of the firm. For example, project, product or brand managers often obtain authority for the control of financial resources relative to their projects or products. The same logic would apply to important cross-functional teams and self-directed teams that create product innovations through customer research and focus groups. Pushing your career toward these jobs will increase your access to controlling financial resources.

**Managing upward is our final strategy for acquiring power.** One of the greatest determinants of career success is convincing your boss to invest in the ideas you advance. It is a 'soft' skill that is complimented by gratitude and graciousness. Because upward management is a soft skill, it can easily be mistaken for something else: self-promotion, glossing over errors and ingratiation. So, tread carefully but

remember: the people above you are the only ones who can help you. Treading carefully is telling your boss about your accomplishments and, if necessary, giving him ownership for them. Show your boss how your suggestions align with his. He'll go along with this approach because he probably thinks his ideas are better than yours anyway. Finally, maintain your relationship with your boss: ask for advice and maintain your "face time".

### 7.1.5 How Subunits Obtain Power

So far our discussion has focused on how individuals acquire power. Work units and their managers can be ambitious pursuers of power. Manifestations of these unit power differences include: 1) number of employees, 2) size of budgets, 3) quality of facilities and 4) impact on decisions. The obvious question is: How do some units come to be so powerful? Professor Grant maintains that the answer lies in their ability to influence and to control strategic processes and outcomes. This means that the work performed in other units depends on activities, goals and performance of the departments in question. Work cannot proceed in the dependent units until the strategically powerful department 1) grants permission, 2) provides resources, 3) completes its work or 4) provides critical information. Let's examine the conditions which contribute to a department's abilities to control strategic management outcomes and to accumulate power.

#### Scarcity

Variation in subunit power is magnified under conditions of resource scarcity. When a firm has extensive slack resources, subunits seldom compete for power since there is an abundance of budget money, office space, support staff, etc. You often see this phenomenon in the firm that 'leads its domestic industry' because it has captured the differentiation competitive advantage (the best product or service with the most features desired by largest number of customers) At times the firm with the differentiation competitive advantage can be threatened by a powerful global rival that has a lower cost structure. If our domestic leader suffers lower sales or its product is less competitive, its slack resources evaporate and subunits must fiercely compete to avoid downsizing or the more likely reductions to their budgets. Competition for scarce resources need not be limited to organisational subunits. Not long ago when Pennzoil Co. won a \$3bn judgement against the Texaco Corporation and it made Pennzoil the most cash-rich oil company in America, Texaco danced toward bankruptcy – barely avoiding it – while Pennzoil merrily made a series of corporate purchases. Pennzoil expanded and Texaco contracted! As an aside, the employees of Pennzoil presented the outgoing chief executive officer with a rug which had a fractured Texaco star in its middle. The rug symbolised what Pennzoil did to Texaco.

#### Uncertainty (Risk)

Organisations attempt to reduce risk whenever possible. Point-of-purchase consumer research, dealer training prior to product launches, strategic alliances with

companies already operating in foreign markets are all examples of risk-reduction strategies. Firms and their industries crash: sometimes terrorism does it; sometimes a natural disaster is to blame, or perhaps a spectacular failure unfolds because a product or process fails. What ever the root cause, firms go on 'high alert' and they stumble in their effort to regain their decision making footing. It stands to reason that those subunits which, in the wake of a crisis, quickly restart decision making and core company processes are going to be very powerful. They become recognised as power centres that protect other units from the unknown. Routine risk reduction (for the firm) is provided by units that are called 'boundary spanners'. These units (marketing/sales; R&D political lobbying services) maintain and service the ties between the firm and elements of its external environment.

### Centrality

Subunits performing activities which are 'on the critical path' of work flow will acquire more power than subunits off the critical path. This is the principle of centrality and it appears in subunits involved in the 'core aspects' or the 'basics' of the firm's work. Centrality can take several forms. First, the subunit can authorise payments; accounting departments fit this description. They handle accounts payable for subunits and they set transfer prices if the firm has global operations. Second, centrality appears in units that influence the quantity or quality of the organisation's product or services. Companies making products that must have extremely high reliability (e.g., medical testing equipment or pharmaceutical products) must have quality control subunits. The quality control specialists from such departments have 'emergency powers': they can suspend production operations or to initiate inspections at a moment's notice. These units are surely in the 'spotlight' if the firm experiences a crisis triggered by product, process or service failure.

### Absence of Substitutes

If a subunit is the only one capable of performing a service or producing a product for the organisation, then its centrality increases because there are no substitute sources of services or products. The flexibility of the Internet is eroding the 'monopoly power' of such units because firms find ways to 'offshore' the work of these once-powerful units. Offshoring, real-time video conferencing, web-based quality and distribution control all shorten decision cycle time and flatten corporate hierarchies. It should come as no surprise that the number of management positions has declined 21 per cent world-wide while the use of Internet-based control systems has surged. Now it is possible for firms in Europe to use cost and logistics control systems that are provided and monitored by supplier firms in India. This trend is globalisation and it threatens once-powerful subunits with extinction!

## 7.2 Uses and Abuses of Power: Playing Politics

Politics, according to Professors Mayes and Allen, refers to the management of influence to obtain ends not sanctioned by the organisation or to obtain sanctioned

ends through non-sanctioned (illegal) means. The key point in the definition is legitimate outcomes and legitimate methods. Figure 7.2 shows a matrix of the combinations of outcomes and methods that represent organisational politics. As you evaluate the four combinations, consider how each one would create different answers to the ethical use of power questions in section 7.1.3.

1. **Approved methods and approved outcomes.** Here power is used to achieve sanctioned outcomes. For example, if product development agrees to speed up the production of a prototype because marketing has learned that a competitor is ahead in its product development activity, then approved methods and outcomes are being observed. No political activity is occurring in this situation and legitimate outcomes are being pursued by the subunits in question. This condition would provide satisfactory answers to the three questions shown in section 7.1.3.
2. **Approved methods and unapproved outcomes.** In this case, the organisation's rules are followed to achieve organisationally undesirable outcomes. Suppose a manager covers up the drug addiction of a subordinate by giving him an overseas assignment. The assignment may be authorised, but covering up performance problems caused by drug addiction is not.
3. **Unapproved methods and approved outcomes.** 'The ends justify the means' captures the essence of this combination. You see its use when resources are scarce and the subunit's success is threatened. For instance, a production unit might hoard supplies, or order excessive amounts of raw materials, to ensure steady production operations. Steady production is desirable but cash flow problems are not!
4. **Unapproved methods and unapproved outcomes.** This combination is the most flagrant form of political activity. Its users (think of Enron's executives) must become skilful in mastering the art of covering their tracks. For instance, the CEO encourages the board to 'time the granting of his stock options' so that he maximises his capital gain. These 'insider' arrangements are illegal in most countries because they deceive investors and reduce earnings-per-share.

|                     |                        | Political results  |  |
|---------------------|------------------------|--|--|
|                     |                        | Acceptable results   | Unacceptable results   |
| Management approves | Management approves    | Non-political work that is efficient, productive and effective                 | Whistle-blowing to expose theft of company equipment or the inappropriate use of company funds |
|                     | Management disapproves | Ignoring the chain of command to gain company support for a product innovation | Degrading a colleague who is a competitor for a higher-level job opening                       |

**Figure 7.2** A taxonomy of political behaviour in firms

### 7.2.1 How Managers Play Politics

Managers play politics because they are ambitious, resentful, insecure (fearful), dissatisfied or arrogant. We would need an army of psychiatrists to enlighten us about all of the possible motives for political behaviour. We can't cover all of these possibilities so, following Professor Mintzberg's guidelines, we'll narrow our focus to four that all have the potential to change the firm's direction: 1) change the firm by whistleblowing; 2) defeat rivals by creating line versus staff conflict, 3) build power bases through sponsorship and coalition-building and 4) resist authority through insurgency.

**Whistle-blowing** (see Module 1) behaviour occurs when an individual believes the organisation is violating his instrumental or terminal values, or the law. The whistleblower informs a reporter, police officer, government official or other influential individual about an assumed injustice, irresponsible organisational action or violation of the law. Whistleblowing bypasses the chain of command and the C-class executives are usually infuriated when they discover it.

Whistle-blowers usually have high ethical standards and they can appear anywhere in the firm. They dislike being ignored (disrespected) and they may react to it by becoming abrasive and troublesome. They believe they have the firm's interests in mind and they are convinced that a crisis will occur if their warnings are ignored. (See Case Study 1.2.)

**Line versus staff conflict** refers to the inherent disputes which must arise when staff units are created in the organisation. Staff experts have specialised knowledge which can greatly improve the quality of line management decisions: reduce risk. Insecure line managers may fear or resent staff experts. Staff experts may think that line managers are too timid or perhaps too arrogant and impulsive. Perhaps we need the shrinks again! Anyway, line and staff personnel practise 1) withholding information, 2) gaining access to powerful executives, 3) building better images and 4) increasing centrality. Ingrained line-staff conflict may be less of a problem in the future because firms are finding ways to 'offshore' a variety of staff functions. There it is again: globalisation

**Sponsorship and coalition-building** gain favour for an individual if he is able to attach himself to a powerful individual or group. The ambitious employee who employs this method is constrained only by staying loyal to his sponsor or group, giving his sponsor or group credit for outcomes and showing gratitude at the appropriate times. These are the behaviours of the successful protégé and they allow him to 'tap into' the mentor's power bases and move up the hierarchy more quickly.

**Insurgency or resisting authority** is extremely popular in firms! Some skilled insurgents 'follow the letter of the law' and others interpret and enforce policies in a manner unintended by management. Insurgency is hard to document and correct. Its widespread practice indicates a deterioration of organisational culture which should disturb management and lead to the constructive examination of possible internal causes for such behaviour. An example of insurgency was the Eastern Airline machinists' and maintenance workers' campaign to discredit Eastern's aircraft maintenance practices by filing complaints with the US National



Transportation Safety Board. The campaign led quickly to the grounding of 40 per cent of Eastern's planes. Frank Lorenzo, the president of Texas Air (Eastern's parent corporation), mounted a campaign to attack Eastern's maintenance employees, but the attacks led to the bankruptcy of Eastern. This example shows how insurgency narrows the number of options, sometimes hardens into obstinacy and produce a lose-lose outcome.

### 7.2.2 Looking Upward: Managing the Boss

No relationship in the organisation is more political than the one between superior and subordinate. At various times the relationship can be tricky, dangerous, frustrating and surely rewarding. Keeping it in good working order is crucial to subordinates because their superiors are their only links to the more powerful parts of the firm. The superior-subordinate relationship rests on mutual dependence and often times the boss finds that his career progress is linked to his subordinates' successes on the job. Subordinates may not fully appreciate this fact and they meekly leave the management of the relationship to their superiors. Subordinates who fail in this regard often make two faulty assumptions about their relationship with their boss.

1. The boss is omniscient and knows, in advance, all of the possible alternatives for solving various performance problems in the unit. When this assumption is afoot employees limit their participation in departmental problem solving.
2. The boss has all the information to make a decision. Evidence of this assumption appears in employees as procrastination and complacency: 'Let's wait to see what the boss says'.

To be more effective in managing upward, the subordinate can take some proven steps to understand his boss as much as possible. These steps are shown in Table 7.2.

**Table 7.2 Strengthening your work relationship with your boss**

- |   |  |
|---|--|
| 1 | Take time to understand your boss's goals, objectives, job pressures, strengths and weaknesses and leadership style. Learn to avoid an emotion-laden work relationship with your boss.   |
| 2 | Realistically assess your own strengths and weaknesses, preferred decision-making style, comfort level with authority and your need for achievement. Be honest with yourself about the extent to which your personal style matches your boss's decision making style.                      |
| 3 | Professionalise your work relationship with your boss by basing it on<br>a) both of your needs and styles; b) well-understood expectations; c) keeping your boss informed, d) dependability and honesty, e) documented performance and f) selective use of your boss's time and resources. |

When working with action-oriented superiors who routinely delegate tasks, an effective subordinate knows not to waste the boss's time or resources when he encounters a performance 'road block'. In such circumstances, an effective employee studies the problem and frames the pros and cons for various actions. Once he has evaluated those decisions, it is time to see the boss. Most managers who are interested in developing their subordinates' skills through delegation of authority



will help a subordinate choose the best course of action. The key to this example is approaching the boss with alternatives which have been thoroughly thought through. Simply asking the boss what should be done is a classic mistake made by employees who do not manage upward. Worse yet, such mistakes are strong evidence to the manager that his effort to delegate authority to a subordinate may have been a mistake.

### 7.3 Leadership: A Conundrum of Theory

Leadership is the most comprehensively studied topic in OB. In spite of this, a unifying theory of leadership still does not exist. At present, there are a number of theories which give partial answers to complex leadership questions; the most pressing of which is: 'How much do leaders contribute to the success of their enterprises?' Our first task in charting a path through competing leadership theories is to develop a useful distinction between leadership and management. Leadership is an influence process where one individual guides the actions of another. In corporations especially, leaders often focus their efforts on trying to convince participants to accept change: applying new methods to old problems. In the broadest sense, leadership is about crafting a new vision for an enterprise and convincing employees to go along with it. Here's Professor Hymowitz's interesting example of leadership:

Eighteen months ago W. James McNerney Jr., CEO of 3M Co. saw the handwriting on the wall: 3M hadn't launched a blockbuster product in several years and its sales were anaemic. When he worked under Jack Welch at General Electric, Mr. McNerney was used to seeing things happen: cost paring, downsizing, and Six Sigma, the management process model that breaks every job into increments measured against a perfect model.

Mr. McNerney soon found that GE's methods were a foreign language at 3M. His insistence on seeing financial data prior to making decisions jolted his complacent and collegial corporate staff. 'We weren't used to making decisions that way,' said a senior VP of business development. Mr. McNerney also noticed that no one talked about 'best practices' or return on investment across business units. His solution: A two-day retreat for corporate staff in which they would learn a common finance language and reformulate 3M's core values. In short order he instructed his executives to deliver plans that would increase sales by 10 percent each year – twice the rate of the last ten years. 'And he didn't order anybody to do anything, Instead, he told us things like, '3M has this great global reputation, so let's leverage it; let's get on the same page and help each other', said a senior VP of finance.

3M employees are now evaluated on a 'curve' – a GE system brought to 3M by Mr. McNerney. To build acceptance for the new method, the CEO reminded 3M employees that they had often complained about the old evaluation system's tendency to coddle under-performers. In the 'good old days' managers above a certain level received stock options each year. Now those options go only to those managers who earn above average ratings. Aggressive new employees like the system because it puts innovation on an equal footing with experience. Refocusing 3M on growth, big product breakthroughs and cost cutting without tossing out its fabled innovation has not been easy. Engineers were used to

being left alone. Now, upper management directs the flow of R&D funds to the most promising products and markets. In 3M's future: shrinking its 50 000 products to the most profitable.

### 7.3.1 Are Leaders Different from Managers?

Leaders transform and managers transact! By this we mean that managers are responsible for maintaining stable processes, controlling costs, and motivating personnel: they supervise the firm's subunits. Managers are consumed by the routine, repetitive operations of the firm. For this reason we often think of them as advocates for the status quo and for stability. At the bottom of the hierarchy we find a uniform (and understandable) emphasis on stability and control among supervisors, foremen and department heads. These lower-level managers are judged and rewarded on their ability to deliver day-to-day results. They focus on measured outcomes because they are rewarded by the firm. It will come as no surprise to you to learn that two basic principles are at work in this context: 1) what gets measured gets paid attention to and 2) what gets rewarded gets done. These two principles draw sharp boundaries around the manager's job and around his expectations for his subordinates.

As we noted, a leader resists the status quo and proposes changes. Leaders are supposed to be visionaries who succeed in persuading others to share their vision for the enterprise. Leaders change the 'rules of the game' when they articulate a new business model for the firm. This is called transformation and it is why we refer to some top executives as 'change artists' or 'turnaround specialists'. Managers accept the CEO's vision and they lead the troops in day-to-day operations to achieve it. A less glamorous description to be sure; but an absolutely crucial one for achieving the firm's financial and strategic goals.

### 7.3.2 Merging the Concepts through Role Analysis

It makes the most sense to integrate leadership and managership because there is no position of responsibility in any firm that does not involve both. We can do this by considering Professor Mintzberg's roles for managers. The roles are surprisingly similar across various types of organisations (health care, governmental, educational, cultural, and for-profit). Professor Mintzberg has analysed how managers spent their time and he has identified the ten stable managerial roles (in three clusters) shown in Table 7.3.

**Interpersonal roles** start, maintain and improve working relationships and the **informational roles** integrate the firm's subunits so that coordination and collaboration continue apace. The **decisional roles** set, implement and monitor progress towards goals. Managers rotate through these roles in predictable patterns to maintain mutual trust and high performance expectations. These rotations may involve coordination with other departments, networking with other managers, and being an advocate for employees. How the manager prioritises and sequences his roles is absolutely crucial to his success. For instance, a manager

**Table 7.3 Managerial roles**

|  |  |
|--|--|
| <b>Interpersonal relationship maintenance</b>                            |  |
| Figurehead/chief   | Testifies in court and at regulatory hearings<br>Cuts ribbons and opens new offices/facilities                     |
| Leader/encourager  | Gives pep talks and holds open meetings with workers and staff<br>Passes out awards and honours<br>Hires and fires |
| Liaison/linking pin  | Presides over industry trade group or professional society/certification group                                     |
| <b>Informational (generation and transmission of data and knowledge)</b> |  |
| Monitor/surveyor   | Reads industry reports and meets with vendors  |
| Distributor  | Holds meetings, writes memos and sends e-mail  |
| Advocate/spinmeister   | Makes speeches, meets with the press, grants interviews  |
| <b>Decisional (deciding and controlling)</b>                             |  |
| Creator/entrepreneur   | Scans and detects new ideas/product innovations/ industry trends   |
| Crisis controller  | Acts quickly in a dilemma and makes decisions to limit perceived damage  |
| Resources distributor  | Sets and manages the budget in relation to the firm's strategic plan   |
| Mediator/negotiator  | Solves work stoppages/grievances and disputes with vendors and distributors  |

might impulsively jump into his decisional roles before he has sufficient information or before he has established dependable work relationships. This is the equivalent of: 'Ready...Fire...Aim!' The next time you see an example of this phenomenon you should remember the importance of role sequencing!

We can also learn a little bit more about leaders and managers if we consider how people in positions of responsibility spend their work hours. Once again with surprising uniformity across types of organisations, Professor Mintzberg found that managers spend about 48 per cent of their time with subordinates, seven per cent with superiors and 44 per cent with peers and outsiders. Of course, managers therefore spend little time alone! They simply do not have very many solitary tasks to perform. Professor Kotter notes that the manager's job is peppered with frequent interruptions. People want to talk about their troubles, their work demands, their expectations: well, you get the picture! A wise and experienced manager learns to accept the fact that his real job is knowing how to handle these interruptions and how to put them to good use in the firm. One thoughtful manager expressed it this way: Being a manager is the most frustrating, infuriating and demanding job anyone could ask for. You don't get time to yourself, and you're constantly 'on call'. You always have to watch out for everyone else. For these reasons, I wouldn't do anything else.

### Effect of Downsizing and the Use of SDTs on Certain Managerial Roles

Downsizing, offshoring and the use of SDTs have altered the importance of a number of the roles shown in Table 7.3. Delayed firms that use teams and offshoring have reduced needs for the roles of figurehead, leader and spokesperson in day-to-day operations: they still have to be filled effectively during an organisational

crisis however. The middle managers who have survived these corporate trends find themselves disseminating information, allocating resources among teams and intervening in disturbances that might threaten inter-team relations. These managers are linking pins that hold the firm together: they are integrators and facilitators in the decentralised and globalised firm

### 7.3.3 Coming to Grips with the Problem of Leadership

Leadership research has advanced on three inter-connected, semi-distinct fronts. One front emphasises that the leader himself has a distinct influence on the firm's success. This is called the **trait** approach to leadership. A second front – the **behavioural** approach – stresses the importance of the constancy and predictability of the leader's behaviour across leadership situations. The third front – the **situational** – aims to integrate the leader's personality and the situation that he confronts. Let's take them in the order of their presentation.

### 7.3.4 Research on Leadership Traits

Historians and biographers have been fascinated by the lives and accomplishments of leaders. They study tyrants, rebels, religious fanatics and political visionaries. In every book about the life of a great man or woman we eventually read the author's thoughts about the importance of his subject's personality. The writer's assumption (and it is ours too) is that those of us who become prominent leaders possess a set of special traits which allow us to rise above the masses and distinguish ourselves as leaders. This assumption is at the core of the trait approach to leadership.

Over the years (and over the studies) a set of leader traits has emerged. They include physical characteristics, social background, intellectual abilities, personality features, work orientation and interpersonal skills. During and after World War II, perhaps because of the ghastly consequences wrought by tyrants, a great deal of effort was expended to identify individuals who could be effective leaders. Personality tests were developed to spot those who had 'leadership potential'. During WWII these test results were used to assign individuals to various military officer candidate schools. After the war, companies picked up the personality tests and used them to differentiate leaders from followers. Here's what we now think are the 'traits' of effective leaders (*see* Table 7.4).

Now, here is the pressing question: 'To what extent are the leader's personal traits associated with the effectiveness of the enterprise?' Well, the answer is really quite disappointing! Hundreds of studies suggest that many traits are weakly or not related to leadership emergence or success. Well, with that dismal conclusion in mind, enterprising researchers simply asserted that the approach was 'too narrow'. So they broadened the categories and threw out some of the more useless leader traits. According to Professors Bennis and Nanus, we're left with this set of personal traits: logical thinking, persistence, empowerment and self-control.

**Table 7.4** Examples of leadership traits

|                    |                                     |                                |
|--------------------|-------------------------------------|--------------------------------|
| <b>Physicality</b> | <b>Social pedigree</b>              | <b>Mental characteristics</b>  |
| Energy level       | Economic and social status          | Intelligence                   |
| Height             | Alma mater and college degree       | Judgement                      |
| Attractiveness     | Job mobility                        | Verbal fluency                 |
| Weight             | Public service                      | Abstract reasoning ability     |
| <b>Personality</b> | <b>Work orientation</b>             | <b>Social skills/abilities</b> |
| Dominance          | Achievement need                    | Cooperativeness                |
| Aggressiveness     | Initiative                          | Likeability                    |
| Self-confidence    | Desire for responsibility/promotion | People skills                  |
| Creativity         |                                     | Diplomacy                      |
| Stress tolerance   |                                     | Supportiveness                 |

**Logical thinking traits** refers to: 1) putting ideas into simpler form, 2) persuading others and 3) explaining things in unique ways.

**Persistence traits** refers to 1) treating setbacks as small mistakes, 2) working long hours and 3) trying to succeed against formidable odds.

**Empowerment traits** highlight 1) getting people excited about goals, 2) being energetic and enthusiastic and 3) making subordinates believe they can achieve excellence.

**Self-control traits** involve 1) working under heavy pressure, 2) remaining even-tempered and 3) resisting intimidation by powerful people.

**Nagging and persistent difficulties in the trait approach to leadership.** The first of many problems centres on this circular question 'Do great leaders make great situations, or do great situations make great leaders?' From the corporate angle this becomes: 'Do leaders create great outcomes by altering firms or do urgent situations create the conditions for leaders to emerge? If the first aspect of the question applies, then it makes sense to pre-identify individuals with leadership potential. If the second aspect applies then we must wait, somewhat helplessly, until a saviour appears! Alas, the trait approach fails to resolve this quandary.

The deafening silence of the trait approach when it comes to the question above may be due to its failure to account for the situation in which leadership occurs. You see, leadership is an influence process and it cannot occur outside the context of interpersonal relations. Neglecting these interpersonal situational parameters explains the weak connection between the traits of leaders and the effectiveness of the work units they lead. Having said that, to know something about leadership traits is not entirely an exercise in futility. For instance, if you study closely the traits of leaders in your firm you will come to understand who gets promoted and who does not! You see, leadership traits are strongly related to promotability.

### 7.3.5 The Behavioural School of Leadership

The behavioural approach to leadership de-emphasises the leader's traits and concentrates on those leader behaviours which influence subordinate performance and

satisfaction. In some ways it is a 'bottom-up' approach that highlights the importance of followers' perceptions. The key question in the behavioural school becomes: 'Is there a dominant or preferred [by subordinates] leadership style which is more effective than other styles?'.

Behavioural researchers give a strong 'yes' answer to the question above. Several American business schools have conducted comprehensive research on leader behaviours. Their researchers ask leaders and managers to complete a survey entitled the Leader Behaviour Questionnaire while their subordinates complete a 'companion survey' titled the Leader Behaviour Description Questionnaire. In all of these studies, after independent statistical analyses were performed, two fundamental leader behaviours emerged: initiating structure and consideration.

Initiating structure refers to leader behaviours stress: 1) work procedures, 2) planning, assigning tasks, 3) clarifying work roles, 4) supervising subordinates and 5) asking for results. These are leader behaviours that focus, channel and guide subordinate activities. More informally they suggest 'getting on with the job so that we achieve our results'. Recalling our discussion of group behaviour in Module 6 we can say that 1-5 above reflect a group's task activities.

Consideration is those leader behaviours which exhibit 1) approachability, 2) supportiveness, 3) maintenance of high morale in the work group, 4) concern for group welfare and 5) maintenance of a collaborative work atmosphere. Again, from Module 6 we see that a leader's consideration behaviours reflect maintenance activities within the group. In addition, a leader's consideration behaviours focus heavily on maintaining group cohesiveness. by supporting individual members and building an atmosphere of trust and respect based on documented performance.

### When Do Consideration and Initiating Structure Matter?

The behavioural approach to leadership has produced a number of valuable conclusions about group satisfaction and performance. Let's consider them.

1. When subordinates are experiencing time pressure, job ambiguity or external threat, satisfaction and performance increase under initiating structure leader behaviour. Said another way: 'Protect your team so they can focus on the job at hand.'
2. If the group's task is perceived to be interesting and challenging by group members, then the need for consideration and initiating structure is reduced. If you have a highly trained and motivated group; get out of the way and let them produce!
3. When the group's goals and task are certain, consideration promotes satisfaction and initiating structure can cause dissatisfaction. Thus, under conditions of high task clarity, initiating structure becomes unnecessary and intrusive. Do not 'over-supervise'. Instead, delegate authority and link performance to rewards (line of sight).
4. If subordinates lack job performance knowledge or their jobs are vague, consideration has a weaker relationship with satisfaction and performance than

initiating structure. In this situation you should emphasise cross-training and skill development by being a teacher and a coach.

The behavioural approach to leadership assumes that a leader can be high, average or low on both dimensions at the same time. This means that subordinates do not think the two behaviours are incompatible: they can exist simultaneously in the same leader. Therefore, the behavioural approach suggests the existence of an 'ideal' or 'one-best-way' to lead': show consideration if it is called for and take subordinates to task if that is the pressing requirement at hand.

### Evaluating the Leader Behavioural Style Approach

The analysis of leader behaviour makes some improvements over the trait approach because it proposes that behaviour is observable whereas traits must be inferred. It also focuses on what leaders do instead of what leaders are like, as the trait approach does. Since it suggests that leaders can learn how to successfully practise the two principal leader behaviours, it therefore bolsters the organisation's attempts to train and to develop leaders. In short, it advances the proposition that leader behaviours can be learned, and through shared experience, they can be transferred from one person to another. Somewhat over-enthusiastically it suggests that there is an 'ideal' leader who adroitly balances consideration and initiating structure behaviour.

The behavioural approach is not without its problems, however. First, it is not known if leader behaviours cause group performance and satisfaction or conversely, they are created by satisfied members of the leader's group. You see, the behavioural approach does not address the fundamental issue of leadership as a cause or an effect. For instance, if a highly skilled soccer team wins the league championship, their success and skill may bring out consideration behaviour in the coach. The point here is that the behavioural styles theory is weakened because it does not address the leadership situation.

### 7.3.6 Situational Leadership Theories

Now we can merge three things: the leader's personality, his behaviour and the situation he confronts. Out of this blending come leadership theories that are more complex and yet more promising because they are more inclusive, and perhaps more realistic. Let us begin with Fiedler's contingency theory.

### 7.3.7 Fiedler's Contingency Theory

Fiedler's contingency theory of leadership proposes that leader behaviour interacts with the favourableness of the situation to influence group performance (effectiveness). Professor Fiedler thought that some situations are more or less favourable and they require different leader behaviours. He also proposed that the leader's preferred style could be measured by his personal orientation toward his 'least preferred co-worker (LPC)'. The LPC questionnaire is a 16-item paper and pencil



test which asks a leader (or manager) to think of someone with whom he had recent difficulty working; i.e., his least preferred co-worker. Examples of the test's elements are shown in Table 7.5.

**Table 7.5**

|          |                 |             |
|----------|-----------------|-------------|
| PLEASANT | 8:7:6:5:4:3:2:1 | UNPLEASANT  |
| FRIENDLY | 8:7:6:5:4:3:2:1 | UNFRIENDLY  |
| WARM     | 8:7:6:5:4:3:2:1 | COLD        |
| DISTANT  | 8:7:6:5:4:3:2:1 | CLOSE       |
| GLOOMY   | 8:7:6:5:4:3:2:1 | HARMONIOUS  |
| RELAXED  | 8:7:6:5:4:3:2:1 | TENSE       |
| BORING   | 8:7:6:5:4:3:2:1 | INTERESTING |
| SINCERE  | 8:7:6:5:4:3:2:1 | INSINCERE   |

Leaders who describe their least-preferred co-worker in warm and accepting terms (high LPC leaders) are called relationship oriented. The high LPC leader reasons as follows: 'I found this individual hard to work with, but he still has many worthwhile qualities. I simply had trouble working with him'. The low LPC leader is said to be task oriented and he believes the poor performer (least-preferred co-worker) has few redeeming qualities. Thus, the low LPC leader reasons: 'The guy is a poor performer and he's dull, boring and uncreative'. Thus, the task-oriented leader describes his least-preferred co-worker in rejecting terms. To clarify the meaning of the LPC score, Professor Fiedler tells us that it reflects something he calls the leader's motivational pattern. High LPC leaders are motivated to maintain good interpersonal relations with subordinates. On the other hand, low LPC leaders are motivated to get on with the job and achieve goals.

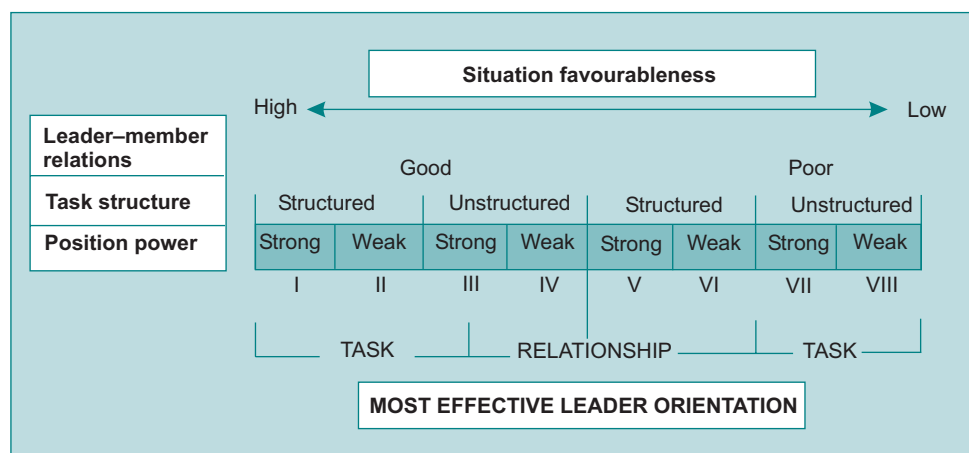
Situational favourableness – the next component of Fiedler's theory – is composed of three constructs. The most important aspect of the situation is the quality of leader-member relations. It is composed of loyalty, support, and trust between the leader and his subordinates. If these elements do not exist we can expect to find negative outcomes like insubordination, sabotage, absenteeism, grievances and work slowdowns in the group. Task structure refers to the clarity of the group's work methods and the clarity of its goals. When these conditions exist, the leaders' job is made easier because he can design performance measures that the group members accept and value (this concept is related to line of sight). If the group's task is unstructured, the leader may be less able to specify performance measurement and the group may be unconvinced that the 'leader's way' is better than their way. The remaining situational element is the leader's position power. It is his legitimate authority to tell others what to do. It increases as you move up the firm's chain of command. The more position power held by the leader, the more favourable the situation.

### The Contingency Model in Action

We can now answer the question: 'Under what conditions is one leadership orientation more effective than another?' Figure 7.3 presents Fiedler's answer to this



question and indicates that the task-oriented leader is most effective when the situation is highly favourable (I, II or III) or highly unfavourable (VII or VIII). The relations-oriented leader is most effective when the situation is moderately favourable or unfavourable (IV, V or VI). Fiedler explains these results in the following way. When the leadership situation is highly favourable, it is not stress inducing, therefore it is possible for the task-oriented leader (low LPC score) to behave in a relations-oriented manner. However, when the work group faces a crisis (a highly unfavourable situation), it must have a decisive and focused task-oriented leader. In the middle positions which vary from slightly favourable to slightly unfavourable the leader needs to concentrate on maintaining positive and encouraging relationships with his subordinates – the skill set of the relations-oriented or high LPC leader.



**Figure 7.3 Fiedler's contingency theory of leader effectiveness**

Professor Fiedler stresses that the leader's orientation (LPC score) cannot be easily changed. For this reason he says the organisation must diagnose situational favourability to see if it matches the leader's orientation (LPC score). If there is a good match, the professor says, 'Leave the leader in his position'. On the other hand, the professor says, 'rotate in a new leader' if LPC score and situational favourability have diverged. By now you can see how this procedure would produce a system in the firm designed to match the leader's orientation to the demands of the leadership situation. It would be cumbersome indeed for firms to be continually assessing the fit between the orientations of leaders and the situations they face. Professor Fiedler has reacted to this obvious impracticability by suggesting the prescriptions summarised in Table 7.6.

### 7.3.8 House's Path-Goal Theory

Professor House's path-goal theory (PG) chooses the best leader behaviour for the situation at hand. The PG theory assumes that the leader's main job is to clarify the path from subordinates' effort and performance to the rewards that

**Table 7.6** How leaders can change the situation that they face**Tinkering with leader-member relations**

- 1 Spend more or less time with subordinates including lunch and after-hours socialising
- 2 Request certain people for group membership or assignments
- 3 Volunteer to supervise or work with troublesome group members
- 4 Transfer certain group members
- 5 Get additional rewards to improve morale
- 6 Listen to employees' concerns and offer personal advice

**Modifying task structure**

- 1 Give the group creative challenges with no constraints on methods
- 2 Provide more standardised assignments
- 3 Divide the work into smaller, more specialised units

**Modifying position power**

- 1 Rely on discipline to constrain troublesome team members
- 2 Require that all information and group decisions are reviewed by upper management
- 3 Delegate more authority to group members (empowerment)

they value (he's a manager of line of sight!). The rewards valued by subordinates are such things as promotions, pay increases, more challenging work, time off with pay and recognition. When subordinates obtain these rewards, they become more satisfied and are more willing to exert effort and to follow orders (accept the leader's influence). The PG theory can be called a transactional theory because the leader exerts influence and the subordinates respond with effort and performance to obtain rewards.

In the path-goal theory, the leader's job is to create reasonable expectancies and instrumentalities for his subordinates (Yes, these are expectancy theory concepts). Thus, leaders must be flexible and analytical so that he chooses the correct behaviour to move his subordinates along the sequence of effort-to-performance and performance-to-reward. In the PG theory he has four choices:

1. **Directive behaviours** which are planning, setting performance standards, clarifying work expectations and giving instructions.
2. **Supportive behaviours** which are consideration, gratitude, empathy, and compassion.
3. **Participative behaviours** such as using subordinates' ideas in problem-solving.
4. **Achievement-oriented behaviours** refer to delegation of authority and setting tasks that enhance employees' skill sets.

The path-goal theory focuses on two aspects of the leadership situation. First, it looks at the subordinates' task abilities and need for achievement. Second, it looks at the environmental factors of task clarity, routineness and challenge. The leader must then match his behaviour to the interplay of subordinate characteristics and environmental factors. Several combinations of situation-leader behaviour are noted below.

1. Subordinates with a high nAch will work hard under a leader's achievement-oriented behaviour if their contributions to unit performance are acknowledged and rewarded.
2. Subordinates who prefer high work structure will perform best under directive leader behaviour that emphasises feedback (they want to know where they stand).
3. If workers are unsure of their task abilities, they will respond best to directive leadership. They will resent this behaviour if they have high ability to perform the task well and there is time pressure to complete it.
4. If employees are highly competent and their tasks are clear and routine they will strongly resist directive behaviour from the boss.
5. If tasks are challenging and ambiguous, subordinates will respond best to a combination of directive and participative behaviours.

### Does Leadership Matter in all Cases?

The list above indicates that various combinations of subordinate and task characteristics require different leader behaviours if subordinates are to work hard, accept the leader's influence and be satisfied with work. Some of the combinations hint at the fact that the leader's behaviour may be less important relative to subordinate acceptance, effort and satisfaction in some situations than in others. It can be argued that certain subordinate, task and organisational characteristics can be neutralisers of leadership: they naturally inhibit the leader's need to exert influence. Consider these two situations:

Aaron is a university research scientist with a scientific grant which frees him from teaching duties. For two years he has conducted basic research on materials possessing superconductive properties. His grant covers all of his living expenses plus a six-month leave of absence to work with scientists conducting similar research at Lucent Technologies.

Sidney is a chartered public accountant who hopes to become a partner in the practice. He works closely with his peers and the managing partner. He wants to be assigned to a major audit for a new client so that he can gain the attention of his superior. His boss has the authority to give him an early promotion to senior auditor.

Sidney's boss is in a much stronger position to exert successful influence than Aaron's department head at the university. Aaron's scientific expertise and his earned external financial support are bound to make him less responsive to the short-term rewards in the department. His boss would sense that his leadership influence was neutralised and he would probably leave Aaron to his own devices.

Neutralisers for leadership reduce the leader's power or eliminate it altogether. On the other hand, substitutes for leadership allow the leader to lower the number of his influence attempts. He can sit back and wait for the arrival of a pressing or urgent situation that demands that he 'take charge'. Consider these situations:

The members of the new product development team had worked together for four years. During that time they have created seven new products which had

earned £150m. The group is highly cohesive and members understand and accept their roles in the team.

Employees in purchasing and manufacturing continued to have trouble with the MRPII integrated inventory and production management system. Manufacturing complained about continued out-of-stock problems, and purchasing was troubled by incorrect summaries of inventory levels.

Leadership is clearly needed in the second situation because manufacturing and purchasing have failed to successfully implement the MRPII programme. In the first situation the new product development team has an excellent work atmosphere, stable membership, evidence of success and effective work relationships. The team has evolved its own governance mechanisms which function as substitutes for leadership.

Table 7.7 shows the various categories of leadership neutralisers. By referring to the examples please note that neutralisers can convert to substitutes for leadership. In Aaron's case, his expertise and research grant neutralised his department head's influence. This was not the case for Sidney. In the case of the new product development team, the characteristics and success of the team functioned as substitutes for leadership. In the situation of the MRPII system installation, formal leadership was needed and perhaps overdue.

**Table 7.7 Substitutes for leadership and control in work relationships**

| Substitutes                              | Neutralisers of relationship orientation | Neutralisers of task orientation |
|--|--|----------------------------------|
| <i>Qualities of subordinates</i>         |  |                                  |
| Ability, expertise, knowledge            |  | yes                              |
| Professional certifications and licenses | yes                                      | yes                              |
| Indifference to rewards                  | yes                                      | yes                              |
| <i>Jobs' features</i>                    |  |                                  |
| Routine methods and clear goals          |  | yes                              |
| Provides own feedback                    |  | yes                              |
| Intrinsically satisfying and involving   | yes                                      | yes                              |
| <i>Firm's features</i>                   |  |                                  |
| Formal, inflexible work rules            |  | yes                              |
| Cohesive self-directed teams             | yes                                      | yes                              |
| E-mail and intranets                     | yes                                      | yes                              |
| Spatial separations                      | yes                                      | yes                              |

### 7.3.9 Leader Reward and Punishment Behaviour: BMod Revisited

So far, the leadership theories put forth in Module 7 have not been tied to the principles of BMod in Module 2. BMod views the leader as a control mechanism: he governs contingencies of reinforcement. In this light the leader can choose among four ways to influence his subordinates' behaviour. First, he can use two effective and two ineffective strategies. On the effective side he can use rewards in the wake of employees' successful job performance or he can use punishers in the

wake of ineffective or dangerous employee behaviour on the job. Either strategy makes sense in the proper circumstances. What is not sensible is the manager's use of non-contingent reward or non-contingent punishment behaviour. In either case the manager is teaching his employees that he's inconsistent, unreliable and unlikeable!

Performance-contingent leader reward behaviour is clearly associated with higher levels of subordinate job performance and satisfaction. Results for contingent punishment leader behaviour are mixed in terms of its effects on subordinates' job performance and satisfaction. However subordinates clearly resent the leader's use of non-contingent punishment because it makes them feel insecure: they think their boss is a tyrant!

The leader's use of rewards and punishers is magnified by the effects of equity comparisons made by employees. We saw, in Module 3, that employees experience fairness when outcomes (rewards) match their effort and performance on the job. If the leader matches rewards (and punishers) to performance in a timely fashion, employees react by judging the leader to be fair-minded. However, if they think that leaders distribute rewards and punishers in a highly personalised way (non-contingent behaviour), then their perceptions of leader fairness drop dramatically and they will become demoralised and resentful. More job-mobile employees will quit and those who are locked in their jobs will still try to restore fairness to their equity comparisons by discounting the importance of their jobs, by disparaging their bosses, and by cutting back on their effort levels.

Okay, we can see how employees' equity comparisons magnify the effects of a leader's reward and punishment behaviours. What is the prudent manager to do in light of these effects? Well, here are a few recommendations that blend our study of leadership with principles from BMod.

1. Only distribute significant financial and non-financial rewards based on measurable and well-understood individual and group-based performance standards.
2. To sustain the motivational staying power of non-financial performance-based rewards, use recognition and thank exemplary individuals and groups.
3. Create variety in how you use non-financial rewards. Let employees suggest the ones that they most value.
4. Generally avoid the use of punishment except in cases of organisational legal liability such as non-compliance with stated contracts; employee and customer safety; employee ethics violations such as sabotage or product espionage; continuous product and service defects which are traceable to individuals and work groups; and deliberate violations of organisational policies by individuals or their work groups.
5. Do not delay the delivery of performance-contingent rewards and punishers because it degrades their potency.
6. Avoid personal biases in giving rewards and punishers.
7. Administer punishers to individuals or work groups in private. And, do not feel guilty after you have punished an employee who deserves it!

## 7.4 The New Age of Entrepreneurs

Entrepreneurship creates economic growth (wealth) by applying intellectual property. Intellectual property is a dynamic brew of people, ideas and technology that is combined at the right time and in the right place by a fellow we call an entrepreneur. At times these forces come together in a large organisation and so we call it intrapreneurship. Professor Drucker suggests that much of the conventional wisdom about entrepreneurship is wrong. He proposes that entrepreneurship can be learned and he says it is characterised more by hard work than by romanticism. According to Professor Drucker, 'a bias for action' is a crucial feature of entrepreneurial behaviour. Psychologically, entrepreneurial behaviour is a form of channelled 'restlessness' or dissatisfaction with the status quo. Thus it would be incorrect to think of entrepreneurship in the narrow terms of chasing profits or building wealth. And still, the common view is that entrepreneurs have one goal in mind: how to become rich and powerful. In some ways entrepreneurship is a 'cult of personality' and it causes us to think of immensely rich entrepreneurs like Bill Gates or Sir Richard Branson. The 'larger than life', celebrity status of entrepreneurs enlivens several myths about them and their personal success.

1. **The myth: entrepreneurs are doers, not thinkers.** The truth: they assume risk based on careful planning and analysis and they reduce the chance of failure by thinking through their actions in some detail.
2. **The myth: entrepreneurs are born and not made.** The truth: entrepreneurial traits are acquired and not inherited.
3. **The myth: all you need is money.** The truth: in the beginning commitment to a good idea is more important than having instant capital. Being single minded is much more important than being rich when it comes to starting a business.
4. **The myth: all you need is luck.** The truth: individuals who believe in luck will not be successful entrepreneurs because they deny the importance of hard work and tenacity in making a business succeed.

The list above points out the dangers of the profile (trait) approach. Professor McClelland believes the elements in Table 7.8 perpetuate the myths of entrepreneurship.

### 7.4.1 How Entrepreneurs Differ from Small Business Owners and Administrators

Another active line of inquiry seeks to distinguish among the entrepreneur, small business owner, manager and administrator. Professors Sexton and Bowman-Upton argue that dissatisfaction with the status quo and the ability to recognise an opportunity, exploit it and to start an enterprise set the small business owner apart from the administrator or manager that we find in large enterprises. Entrepreneurship is thought to be a process of opportunity recognition followed by a plan to exploit the opportunity. Thus, entrepreneurs and small business owners both start off the same way. However, at some point the entrepreneur succeeds at building an enterprise that soon outgrows the small business classification. He seizes growth

**Table 7.8 The entrepreneurial profile**

| Entrepreneur's characteristic       | What the entrepreneur believes   |
|-------------------------------------|--|
| 1 Is tenacious and makes sacrifices | You must make sacrifices in your family life and standard of living to start a business. |
| 2 Pursues achievements              | You must have a strong desire to succeed even in the face of several failures.           |
| 3 Is directive                      | Have a clear vision of your goal and be able to explain it to others.                    |
| 4 Assumes personal responsibility   | You should seek situations where you can assume responsibility for success or failure.   |
| 5 Solves problems                   | Turn problems over until you get the best solution or result.                            |
| 6 Appreciates novelty               | Catch things that others miss.   |
| 7 Has an internal locus of control  | Believe that your outcomes are a control matter of your efforts.                         |
| 8 Tolerates ambiguity               | Be productive and focused in the face of substantial uncertainty.                        |
| 9 Takes calculated risks            | Lower your risk by developing a thorough business plan.                                  |
| 10 Handles failure                  | Failure is temporary.  |

opportunities while the small business owner settles comfortably into a niche and he stays there.

The most reliable way to think of entrepreneurship is that it is a consistent orientation in an individual who wants to link knowledge with opportunity. If this position is adopted then it is reasonable to think that entrepreneurs can be found in all organisational settings. We find a few entrepreneurs in various organisational settings but we surely find many more bureaucrats and administrators: individuals who welcome the comfort of predictable organisational structures and processes. Table 7.9 makes some useful contrasts between the behaviours of entrepreneurs, and the behaviours of bureaucrats.

#### 7.4.2 Encouraging Entrepreneurial Behaviour In-House

Large companies try to encourage entrepreneurial, risk-taking employees to prevail against the stifling effects of bureaucracy. Thriving enterprises build control systems that routinise work and reduce defects. Processes become predictable and stable, decision making slows down even as it grows more formalised and employees become reluctant to suggest radical improvements. This is the natural order in maturing enterprises. At the same time, these firms become clumsier when it comes to rapid market and technological change.

#### 7.4.3 How Organisations Encourage Entrepreneurial Employees and Innovation

It is clear that entrepreneurial behaviour diminishes in firms as they mature. Can large, mature firms keep employees who are entrepreneurial? The short answer is that they can if they create 'intrapreneurial' positions that require innovation

**Table 7.9** Differentiating entrepreneurial behaviour from bureaucratic behaviour

| Dimension of behaviour          | Entrepreneurs tend to ...  | Bureaucrats tend to ...  |
|---------------------------------|--|--|
| Creating value-added strategies | Spot opportunities<br>Radically change the firm<br>Exhibit self-confidence<br>Believe in firm's capabilities   | Control the flow of resources<br>Make incremental changes in methods<br>Efficiently use the firm's current resources   |
| Taking decisions                | External product and process opportunities are closely linked to the personal value that change is valuable and meaningful<br>Flat structures best keep the firm flexible and fluid (cross-training is a must) | Separate personal beliefs about external opportunities and change (change is not always good)<br>Checks and balances are more important than rapid decision-making |
| Tackling problems in the firm   | Minimise risk by leasing or renting facilities and equipment<br>Always be prepared to add capacity   | Own equipment and facilities and add capacity only when capital costs are manageable   |
| Using incentives                | Keep salaries low and use options to retain talented employees<br>Use bonuses at individual and team levels  | Develop and maintain merit-based reward system<br>Periodic salary surveys to ensure competitive pay  |

and creativity. Any innovation in the firm begins with an idea champion; a risk-taking employee who generates an idea and promotes it throughout the firm. The most valuable and successful idea champions are those who possess expertise and referent power. The firm takes them seriously and benefits from their creativity. Any firm with a reputation for making significant product breakthroughs (think iPods and iPhones) must institutionalise the role of **idea champion**.

For each idea champion, there must also be a **sponsor** to protect the idea champion while he nurtures the new concept and applies organisational resources to the increasingly disruptive and expensive development of the idea. The sponsor, who need not be the idea champion's boss, lends his positional power (and perhaps his reputation) to the idea, project, process, service or product in question. Firms having the best innovation track records consistently convert former or current idea champions into effective sponsors. Keeping both idea champions and sponsors in the firm is essential and you do it by giving these individuals lots of room to create and significant rewards when they do!

For the new concept (or product) to gain sustained funding the firm needs orchestrators or **godfathers** to handle the political obstacles surrounding the commercialisation of the product or service. The godfather need not be a C-class executive, but he probably is fairly high in the chain of command. He has the authority to say: 'We're going to develop this concept'. The godfather makes resources available, gets people working together and builds coalitions which help convert non-believers. It should be no surprise to learn that the best godfathers were once idea champions and sponsors themselves.

The special roles noted are not sufficient to sustain entrepreneurship and innovation in large firms. They must horizontal coordination mechanisms which seal off



innovation teams from outside interference. These semi-isolated units are **greenhouses** and they are physically removed from the rest of the firm. They often exhibit unique characteristics which reflect the work habits of the employees. One manager's comments about a greenhouse are illuminating:

The floor is cluttered with magazines and music CDs. A flat screen TV. plays the last film in the Trilogy of the Rings. Wireless laptops are turned on but no one is using them because the team members are gathered near a plasma screen showing images from the Facebook URL. These employees do not come to work until 10 a.m., and they don't leave until 11 p.m. For four months the team laboured to discover why web surfers preferred certain website formats. In addition, they had studied how surfers organised information to select one website instead of another. At the end of that period, an employee was asked what she had accomplished. She said, 'We've figured out how surfers partition information, organise it and prioritise it to govern their web search behaviour. With this information we'll be able to launch a new service that advertisers will love! We'll be able to match our clients' advertisements to the stages of the surfers' search. It's like a 'home run'.

Now, let us see how you think you would fit in to an organisation which uses idea champions, sponsors, godfathers and greenhouses. Try the short questionnaire below to see if you're innovative and suited to be an idea champion.

*Instructions:* Rate each statement honestly by using the following scale:

- 1 = Always describes me.
- 2 = Often describes me.
- 3 = Sometimes describes me.
- 4 = Never describes me.

1. I do not worry about getting a bad job performance rating.
2. I more often attempt difficult tasks that I am not sure I can do than easier tasks that I'm sure I can do.
3. I would rather do something that I feel is challenging and difficult than something that is easy.
4. I prefer to develop my own approach to work rather than have a job description.
5. It is very important to me to do my work as well as I can, even if it means not getting along well with my peers.
6. I rarely ask for instructions from my manager even when my job seems unclear.
7. My idea of how success should be measured does not depend on the number of promotions I receive.
8. When I work, I like situations in which I can't get everything done without the help of others.
9. I make things happen when I work. I can accomplish things no matter what the work climate is like.
10. I do not expect to succeed all of the time. The important idea is to have lots of room to try new things.

Add up your score. If the total is under 28, then you would be effective in a firm that puts pressure on employees to innovate. As a general profile, you 1) probably

tolerate ambiguity well, 2) believe you can control your own destiny at work, 3) are not too concerned with organisational politics, 4) handle work overloads well, 5) are persistent about accomplishing things under conditions of adversity and 6) are not afraid to go against work rules.

If you scored over 28, then you probably favour a firm which rewards adherence to rules and procedures and has very specific performance goals. You are sensitive to the needs of your co-workers and political aspects of the enterprise matters to you.

Where do you stand? You can see that the idea champion's life is loaded with controversy and doubters. People may block his idea because they prefer the firm's status quo. If the idea champion's life is for you, be prepared to argue and sometimes defy the wishes of people who are threatened by change.

## Summary Points

- Power is the ability to influence someone else.
- Authority is the right to order or to ask others to do what you want them to do. It is bestowed by the position in the organisational hierarchy.
- Influence is a dynamic interpersonal process in which one person affects the thoughts, feelings and behaviours of others.
- Managers who use power ethically must communicate effectively and through their words and actions show respect for their subordinates.
- There are several sources of interpersonal power. Reward power, coercive power and legitimate power all adhere to the position held by the individual. They are a function of vertical placement in the hierarchy. Referent and expert power are forms of personal power which have little to do with placement in the hierarchy of the organisation.
- Subunits in the organisation gain power by 1) competing for resources, 2) managing organisational uncertainty, 3) occupying a central position in the flow of work and 4) eliminating substitutes for the subunit's activities.
- Organisational politics focuses on methods and results. Both can be either sanctioned or non-sanctioned. Failure to pursue sanctioned outcomes with approved methods has ruined more than a few executives and their firms.
- Leadership is the power of one individual to guide the actions of another. Management is understood as a set of interlocking roles: 1) interpersonal, 2) informational and 3) decisional.
- Behavioural style theory emphasises the leader's consideration behaviour which is those actions that sustain the morale and cohesiveness of the work group. The approach also stresses the leader's initiating structure behaviours which focus on achieving goals and clarifying work. Both leader behaviours are related to group performance and member satisfaction.
- Fiedler's contingency theory tries to integrate the leader's orientation to his least-preferred co-worker and the favourableness of his leadership situation. The theory proposes that the situation is composed of: 1) leader-member relations, 2) leader's position power and 3) task structure. The leader's control

of situational favourableness can be enhanced by changes in leader–member relations, position power and task structure.

- The path-goal theory of leadership proposes that the leader's job is the clarification of pathways from workers' effort and performance to the rewards that they value. The leader can adopt: 1) directive, 2) supportive, 3) participative or 4) achievement-oriented behaviour to achieve the clarification noted. Characteristics of subordinates, tasks and the organisation can function as neutralisers and substitutes for leadership.
- Entrepreneurs are special types of leaders who create wealth by assuming risk. Entrepreneurship consists of skills which can be learned. They differ from bureaucrats and administrators in their orientation to strategy, opportunity exploitation, decision-making, resource-allocation and reward practices.
- Entrepreneurial behaviour can be learned by employees. The organisation must create the roles of: 1) idea champion, 2) sponsor and 3) godfather to ensure a culture that encourages entrepreneurship. Organisations must also protect creative groups from organisational bureaucracy by creating 'greenhouses'.

## Review Questions

### True/False Questions

- 7.1 If an employee has expert power and referent power, then he must also have authority. T or F?
- 7.2 Banning smoking in public work areas is an expression of coercive power. T or F?
- 7.3 If a task is ambiguous, subordinates will be more effective and satisfied with a manager who uses a combination of referent and expert power than with a manager who uses a combination of legitimate and reward power. T or F?
- 7.4 An employee with referent and expert power will automatically acquire more legitimate power. T or F?
- 7.5 By and large, employees are limited in the ways they can gain power at work. T or F?
- 7.6 If an employee attempts to manage his boss, it always makes sense to become thoroughly familiar with his management style. T or F?
- 7.7 Generally, manufacturing units are better able to manage organisational uncertainty than sales and marketing units. T or F?
- 7.8 As organisations practise more just-in-time inventory management, purchasing departments will lose their centrality. T or F?
- 7.9 Stockbrokers who practise insider trading would be pursuing approved outcomes by unapproved methods. T or F?

- 7.10 Whistle-blowers are typically disgruntled employees who have an axe to grind with their employers. T or F?
- 7.11 If a manager were explaining a new personnel policy to his workers, he would be engaging in the disseminator role. T or F?
- 7.12 The trait theory of leadership does not emphasise the observable behaviour of leaders. T or F?
- 7.13 Contingency theories of leadership blend leader behaviours or traits and the situation the leader confronts. T or F?
- 7.14 The main problem with the trait approach to leadership is its failure to develop a set of 'core traits'. T or F?
- 7.15 The behavioural approach to leadership posits that leaders can only be successful if they learn how to exhibit both consideration and initiating structure. T or F?
- 7.16 Fiedler's contingency theory places special emphasis on the value of teaching people how to change their task-oriented or relations-oriented leader behaviours. T or F?
- 7.17 When subordinates have high ability and the task is unambiguous, then a combination of directive and supportive behaviour will work best for the leader. T or F?
- 7.18 Characteristics of subordinates can be a substitute for leadership, but never a neutraliser. T or F?
- 7.19 Companies can achieve more intrapreneurship by encouraging idea champions, creating sponsors, and protecting creative teams from organisational bureaucracy. T or F?
- 7.20 Creating a 'greenhouse' for a new product development team may encourage the development of expert power in all team members. T or F?

### Multiple Choice Questions

- 7.21 The right to give orders inherent in one's position is \_\_\_\_\_ and the capacity to influence peers and superiors is \_\_\_\_\_.
  - A. power; authority
  - B. influence; authority
  - C. locus of control; need for achievement
  - D. authority; power
  - E. power; control
- 7.22 Which of the following types of interpersonal power is not likely to change after a lateral job transfer (or transfer to the same job at another location) in the same company?
  - A. legitimate
  - B. expert
  - C. coercive
  - D. reward
  - E. referent

- 7.23** Which of the following power sources is least likely to be available to a technical, non-managerial employee?
- A. expert
  - B. legitimate
  - C. referent
  - D. knowledge
  - E. coercive
- 7.24** Being a management trainee, you are assigned to a senior manager who becomes your mentor. The relationship you have with your mentor is based on \_\_\_\_\_ power.
- A. reward
  - B. coercive
  - C. referent
  - D. expert
  - E. legitimate
- 7.25** When an employee engages in entrepreneurial behaviour and seeks to find creative solutions to problems confronting his department, he is using \_\_\_\_\_ to gain power in his job and career.
- A. creating obligations in others
  - B. giving excellent performance
  - C. limiting access to information
  - D. taking risks and being creative
  - E. rule manipulation
- 7.26** Which of the following is least likely to minimise the problems associated with organisational politics?
- A. encouraging participative management.
  - B. communicating the rationale behind decisions.
  - C. clarifying goals and performance objectives.
  - D. maintaining open communication channels to higher levels of management.
  - E. disregarding the informal organisation.
- 7.27** The problem of which comes first: great leaders who make great situations or great situations which make great leaders, is handled least well by the \_\_\_\_\_ leadership theory.
- A. behavioural
  - B. trait
  - C. contingency
  - D. path-goal
  - E. neutraliser
- 7.28** The Fiedler contingency theory of leadership would predict which of the following in matching the leader to a favourable leadership situation?
- A. re-engineer the situation.
  - B. leader behaviour training.
  - C. better selection and assignment of the leader to the situation.
  - D. match LPC score to locus of control.
  - E. train followers in consideration and initiating structure.

- 7.29** According to Fiedler's leadership research, high LPC (relations-oriented) leaders are most effective in situations where:
- A. leader-member relations are poor, the task is unstructured and position power is weak.
  - B. leader-member relations are poor, the task is structured and position power is strong.
  - C. leader-member relations are good, the task is unstructured and position power is weak.
  - D. leader-member relations are good, the task is structured and position power is weak.
  - E. leader-member relations are good, the task is structured and position power is strong.
- 7.30** House's path-goal theory of leadership is a transactional, contingency theory of leadership which shares theoretical principles with
- A. expectancy theory.
  - B. Herzberg's two-factor theory.
  - C. Maslow's hierarchy of needs.
  - D. McClelland's socially acquired need theory.
  - E. management by objectives.

### Short Essay Questions

- 7.31** A project team is working to develop a new product. The team selects members to manage components of the project based on their expertise. The members have all worked together before and this is their third new product development effort. The team is highly cohesive, members set their own work hours and the team is generally protected from outside interference by the project manager. Given this description, which sources of interpersonal power will be most important in sustaining the effectiveness of the project team?
- 7.32** What is the most important distinction to make in understanding a person's power in an organisation?
- 7.33** Develop an argument for explaining the extent of your marketing department's power in your organisation.
- 7.34** Some top executives have suggested that their organisations would do much better if they could get rid of politics. From the information in the module, do you think that the complete elimination of political behaviour is possible?
- 7.35** Characterise how management differs from leadership.
- 7.36** Suppose you had to explain to a friend how leadership study had changed over the years. What would you say about its development?
- 7.37** Based on the discussion of entrepreneurship, what recommendation would you make to a firm wanting to develop entrepreneurial employees and innovative teams?

- 7.38** Why do start-up companies in industries with shortening product life cycles have to function in an entrepreneurial fashion?
- 7.39** Why must upward management become more important in delayed and downsized organisations?

### Case Study 7.1: Lenton Industries

Ian Reese could not think of a time in the history of the company when there had been as much anti-company sentiment among the workers as had emerged in the past few weeks. He knew that Ashton Lenton would blame him for problems in the production division. Ian was supposed to be 'smoothing the transition' for Ashton's son Wexley as manager of the production division. Wexley had only recently taken over as production manager of the company (see Table 7.10). Wexley was very unpopular with most of the production workers, but the events of the past weeks had caused him to be resented even more. Anger was so high in the production division that several foremen had left and none of the female production workers would come to work. Their resentment had flared into an open threat: several female employees were preparing to file a harassment suit against Wexley.

The programmes which had caused the worker resentment were instituted by Wexley to reduce waste and production costs, but they had produced completely opposite results. Ian knew that on Monday morning he would have to explain to Mr Lenton why the workers had reacted as they had and that he would have to present a plan to resolve the employee problems, reduce waste and decrease production costs.

**Table 7.10** Lenton organisational chart

|   |                |                |
|---|----------------|----------------|
| <b>President</b>  |                |                |
| Mr Lenton   |                |                |
| <b>Assistant</b>  |                |                |
| Ian Reese   |                |                |
| <b>Accounting Engineering Production Marketing Product Design</b> |                |                |
| Wexley Lenton   |                |                |
| <b>Assistant</b>  |                |                |
| Eve Orderly   |                |                |
| <b>Foreman</b>  | <b>Foreman</b> | <b>Foreman</b> |
| L. Orbs   | B. Sharp       | Y. Fore        |

### Company History

The firm makes integrated circuit boards and wireless modems for an original equipment manufacturer. Lenton purchases all the parts and assembles the boards for direct shipment to several Asian manufacturers. Lenton had grown swiftly due to the expansion of its major customer which accounted for 90 per cent of Lenton's business. When Mr Lenton began the business, his was one of a handful of firms building the products. Recently, several other firms had started making similar products. One competitor had bid on business with Lenton's major customer. Thus, Mr Lenton began to put pressure on Ian to increase efficiency and cut production costs to ensure low bids to the valued customer.

## Conditions before the Cost Reduction Programmes

A family-type atmosphere had existed at Lenton before the cost reduction programmes were installed. There was little direct supervision and pressure was seldom placed on employees to meet production standards. Several employees worked overtime without supervision and most employees socialised at lunch and they often played cards together after work. Mr Lenton was on good terms with all employees but he was not perceived by employees as being involved actively in all operational decisions. He used Ian as his assistant and he was responsible for ensuring that company goals were achieved. Ian had a reputation as a firm manager who seldom gave in to employee complaints.

Wexley Lenton – 25 and recently married – had recently been appointed as production manager by his father. He supervised employees very closely and was a stickler for detail in record-keeping. Most of the production employees believed that Wexley was the production manager because he was the founder's son. He would frequently pull production employees away from their jobs to work on his 'special projects' which were not always related to the work of the firm. Recently, several employees had completed the installation of an integrated computer and digital entertainment system at Wexley's home.

While Wexley took great personal interest in the details of record-keeping, his interest in personnel matters and production control was lower. He rarely spoke to employees and his habit was to leave 'distasteful' personnel decisions to his secretary, Eve Orderly. Foremen supervised the repetitive work of 175 employees who were assigned to three production lines that operated on a 24-hour basis. The foremen had risen through the ranks and they were sympathetic to the workers' complaints that the work was rather monotonous. Despite the nature of the work, employee-foreman relationships were good. The foremen knew that the work was monotonous and so they often looked the other way if employees took slightly longer breaks, especially if the employees were exceeding production quotas. In some ways, foremen used the extended breaks as informal rewards. Nobody questioned the practice even after a new quality control inspector was hired.

## New Programmes in Production

Due to declining market share and cost pressures created by global competitors, Mr. Lenton decided to launch a programme to reduce costs and to control waste. Wexley called the foremen together and indicated to them that they would be responsible for implementing tighter work rules in the two areas noted above. In the meeting Wexley gave each foreman a sheet that summarised his new goals: 1) 10 per cent higher production quotas, 2) 10 per cent more productivity per labour hour and 3) 8 per cent lower waste. In addition, each foreman received a new company handbook that summarised a new system of work rules and disciplinary procedures. Wexley ended the one-way meeting by telling the foremen that they had one week to implement the new programme.

The foremen's efforts to implement the goals met with immediate employee resistance. The employees' reactions were typified by Allison Roe, a modem assembler on Lewis Orb's production line: 'I don't get it, Lewis used to be one of us. He knows how monotonous this work is, why is he being such a tyrant all of a sudden? Nobody wants to be around him any more. He complains about Wexley and his new production goals. What really ticks me off is we no longer get to extend our break if we are ahead of the production quota. That really stinks!'



For several weeks there were no improvements in the three targeted areas. Ian called a meeting with Wexley and the foremen to announce another new programme: the production division was going on a four-day, 40-hour work week and it was ending all overtime payments to hourly workers. There was considerable grumbling about the new work hours, especially among the older workers who felt 10-hour work days were too long. The younger employees were indifferent to the four-day work week plan. The suspension of overtime managed to offend everyone however. No one supported the plan because many employees had come to depend on the extra income.

In response to the loss of overtime, employees from each of the production lines agreed to stage a work slow-down. Hard-working employees who were loyal to the firm voiced their support for the slow-down, reasoning that 'the company can't fire all of us'. Ian and Wexley soon observed the effects of the slow-down and Wexley was livid. His response: a further tightening of work rules! His harsh, new requirements included: 1) a loss of one half-hour's pay for each five minutes of lateness in reporting to work in the morning and after lunch, 2) reducing breaks from 30 minutes to 15 minutes and 3) a tougher policy that resulted in dismissal for a fewer number of work infractions.

The new rules drew fire quickly from the employees. For the next two weeks they flagrantly violated Wexley's new rules and he retaliated by having Yves Fore dismiss two employees under the new discipline system. Other problems surfaced in Bernard Sharp's assembly area where employees slowed down the pace of work by taking extra time to test circuit boards. Bernard's employees had been criticised by Wexley for lax quality control. And so, they had agreed among themselves to increase the amount of time they spent on board inspection regardless of its effect on production output.

Before the work slowdown occurred, Bernard had asked Wexley to help him design some new standards for quality control, but Wexley had not done it. Now employees were following their own quality control guidelines and it was hurting production seriously. Ian heard of the problem and he promised Bernard that he would meet with the employees and discuss a more workable system for conducting good board inspection without serious disruption to production rates.

### **Ian's Dilemma**

As Ian sat at his desk, he gave serious thought to resigning. The new emphasis on cost and waste control was spiralling badly out of control. In fact, it was turning into a contest of wills between once loyal and hard working employees and Wexley. His working relationship with Wexley was becoming more strained and he felt as though he could no longer be honest with the man. Worse, perhaps, was the total deterioration in cooperation between Wexley and the foremen. Who were ignoring Wexley's tightened work rules.

Phillip Colson, the company accountant, came into Ian's office. He dropped the previous month's production efficiency and productivity report on Ian's desk. Ian flipped the printout to the summary of production figures and he knew instantly that he'd have to call a meeting with Mr Lenton, Wexley and the production foremen. The report showed that new production quotas had not been met, quality control had deteriorated and productivity per production employee had declined. These figures indicated that the company was no longer price competitive. Mr Lenton would not be pleased.

- 1 What kind of leadership procedures are now needed to resolve the problems in the production division?
- 2 Analyse the current problems in production from the standpoint of Mintzberg's managerial roles.

## Case Study 7.2: Looking for Mrs Good Cookie<sup>1</sup>

Debbie Fields is the quintessential hands-on CEO and founder of the cookie company which bears her name. As part of her management routine, she makes unannounced visits to stores where she quickly sizes up the effectiveness of operations and quizzes the manager about sales figures and store expenditures. During her 'cookie inspection trips' she checks to see if managers are adhering to company goals and following store management practices. While some management experts might judge her to be a very demanding taskmaster, others who are familiar with her methods say: 'If she's not satisfied with the way a store is being run, she simply rolls up her sleeves and does the job herself'. According to her husband Randy, 'She can go into a store after visiting [once] and remember not only a staff person's name but the names of members of her family, or what the telephone bill was at that store two months ago'.

Ms. Fields has become something of a business icon and some management experts are comparing her to figures as diverse as Colonel Saunders and Margaret Thatcher. Her autobiography, *One Smart Cookie*, has been a best-seller and her store management methods have been copied by competitors. During the height of her success she was a frequent guest lecturer at prominent American business schools and she has been a celebrity guest on American TV game shows. She has been an inspiration to would-be women entrepreneurs everywhere because she seems to have geared herself for success in the cut-throat food retailing world while maintaining a household and a successful marriage. Dissatisfied women on corporate career paths flocked to her seminars and she hired several seminar participants who went on to become successful managers of her retail cookie stores.

By her tenth year in the business, Ms. Fields Cookies, Inc., had grown to 543 retail outlets in six countries. The firm's debt load was growing, but sales grew faster. Ms. Fields took her company public and investors flocked to the initial public offering in the hopes that they would capitalise on the company's proven growth formula. The stock price soared but the strains of growth began to show. Investors learned that new store leases were very costly and that they would soon weigh heavily on profits. In addition, sales at stores which had been open at least one year began to slow. This traditional measure of retailing success was a clear 'red flag' and investors began to dump their shares.

The onset of the recession of the early 90s made once loyal customers think twice about paying two dollars for a chocolate chip cookie. Sales continued to deflate and Mrs. Fields began to mull some very unpleasant choices. These choices were framed by her bankers who had become concerned by stagnant sales, rising costs and the company's increasing inability to service its heavy debt load. They told Ms. Fields that she had to close 97 unprofitable stores. She did and the firm suffered a \$19m loss in gross sales.

In the face of declining sales, Ms. Fields launched her own 'management makeover'. She started to delegate authority and she filled several professional managerial positions in the firm. With the help of a marketing specialist, she repositioned the company as a speciality food retailer in the highly competitive, premium, convenience food niche. To exploit this business model, her company loaded the product pipeline with new 'Ms

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<sup>1</sup> Sources: Alan Prendergast, 'Learning to Let Go', *Working Woman*, February 1992: 42–5; Robin Pogribin, 'What Went Wrong with Mrs Fields?', *Working Woman*, July 1993: 9–11; Harris Collingwood, 'Kitchen Too Hot for Mrs Fields?', *Business Week*, 1 March, 1993: 46.

Fields' offerings. In effect, she was treating her name like a brand and attaching it to as many things as possible! She signed a licensing agreement with the Marriott Corporation, a US hotelier, that allowed it to open Mrs Fields stores along freeways and in major US airports. Fifty new locations were quickly launched. Her company also entered a licensing arrangement with Ambrosia Chocolate to peddle semi-sweet chocolate chips in supermarkets. The company is now opening cookie-bakery-coffee shops which also feature soups and sandwiches along with the signature premium cookies and cakes. Clearly, the mass-merchandising of the Mrs Fields name had begun. Sadly, her lenders were unimpressed by these initiatives and their effects on the firm's share price and bottom line. They forced her out as president and CEO and in a debt-for-equity exchange; her creditors got 80 per cent of the business when she resigned her two positions. Even though she's out of operations she's still the chairwoman of the board and the company's largest stockholder with her 20 per cent stake.

- 1 Was Debbie Fields' hands-on style of management necessary to build the company? Did it contribute to the company's problems soon after the initial public offering?
- 2 Using concepts from the module describe Mrs Fields' use of power and features of her leadership behaviour and style.

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# Organisational Design and New Forms of Service-Driven Organisations

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### Learning Objectives

By the end of this module you will be able to:

- Differentiate between organisational structure and organisational design.
- Link Theory X and Theory Y to mechanistic and organic designs.
- Explain the role of division of labour, delegation of authority, departmentalisation, and span of control in organisational design.
- Explain the principles underlying effective delegation of authority.
- Differentiate between the four basic organisational designs.
- Explain the reasoning behind decisions to centralise or decentralise organisations and their implications for cost control.
- Differentiate between coordination and control.
- Describe the importance of horizontal and vertical coordination.
- Explain the differences between process-oriented and results-oriented control systems.
- Explain how to boost customer service as an aspect of competitive advantage by eliminating the manufacturing approach to service.

- Explain why service quality improvements require the rebuilding of organisational structure and processes from the bottom up to support service delivery employees.
- Show how the manager's job changes when service becomes part of the firm's competitive advantage.
- Explain why service quality training must be viewed as an investment in future earnings streams (and not a current expense).
- Explain how outsourcing of services can jeopardise competitive advantage and customer loyalty if service becomes unsatisfactory.
- Explain why improving service quality is far more time consuming than downsizing, but is more likely to sustain competitive advantage.

## 8.1 Making Sense of Organisational Anatomy

This module deals with the 'big picture', e.g. **macro**, or large-scale issues of organisational structure and design. Here, we are concerned with how managers put people together to coordinate their work and to achieve the firm's goals. Here's an example of what happens when a firm ignores the importance of responsive horizontal and vertical integration (core design issues).

Rex is a senior design engineer who has a good idea for an improvement in a robotic device used to examine the interior of large turbines built by the company. He was told to take his idea to a project manager in the robotics division. The project manager explained that Rex must get written approval from the director of robotics to work on the device. Rex took his idea to that director who informed him that he needed sketches before he could consider giving him permission to work on it further. Rex sensed that he was getting the 'red tape run-around'. Next, he went to the computer assisted design division for approval to create the preliminary sketches. The department head told him that all of his computer design teams were occupied for the near future. Rex lost his temper and lectured the department head about 'obstacles that keep the company from being the technological leader in the industry'.

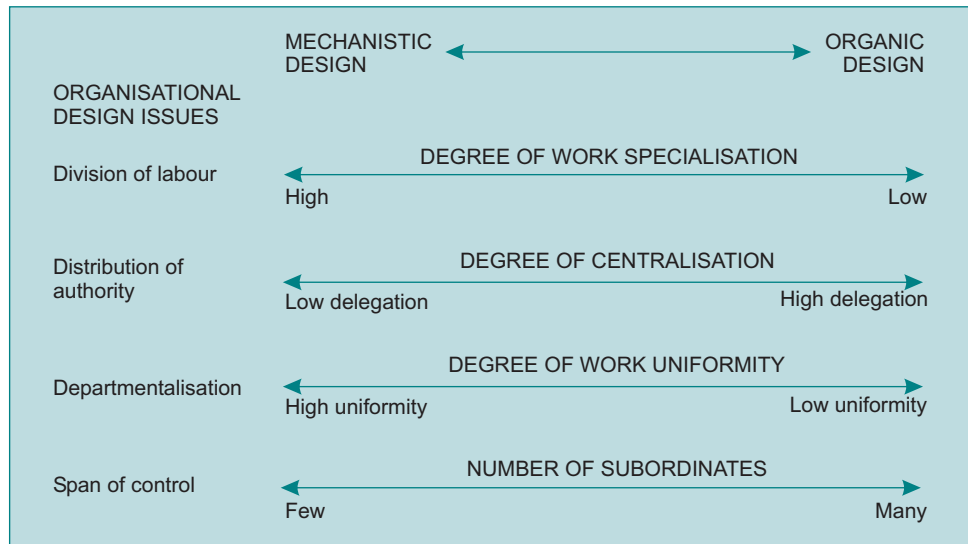
Rex is a highly motivated, entrepreneurial employee (*see* Module 7). It seems clear that the firm's business model rests on the sustained contributions of skilful and committed employees like Rex. What else is clear is that the firm's structure and internal coordination mechanisms can kill brilliant ideas by indecision and delay.

### 8.1.1 Understanding Organisational Design

Professor Mintzberg notes that the structural configuration of a company is the way work is divided and how it achieves coordination among its various work activities. A company's structure resolves two basic work design issues: 1) dividing up the work in the organisation and 2) ensuring the work gets done by providing coordination and control of employees' work activities.

## How Do Managers Tackle the Problem of Creating an Effective Organisational Design?

Organisational design is the product of a series of executive decisions about the best organisational arrangements to achieve the firm's strategic goals. Professors Ivancevich and Matteson note that regardless of the industry or the nature of the firm's business model, the decisions cluster in four key areas: 1) division of labour, 2) allocation of authority, 3) departmentalisation, and 4) span of control. The decision areas are shown in Figure 8.1 and they are our introduction to mechanistic and organic organisational designs.



**Figure 8.1** Fundamental issues in organisational design

According to Professors Burns and Stalker, two British social scientists, firms can have either mechanistic or organic designs. **Mechanistic designs** have: 1) high division of labour, 2) low delegation of authority, 3) departments with great uniformity of work activities, and 4) narrow spans of control. Mechanistic organisations are dominated by Theory X properties and they are represented by the left end of each continuum in Figure 8.1. These designs are breeding grounds for 'X' managers because they promote tight rules, minimise delegation of authority, emphasise specialisation, limit employees' discretion and depend on communications that are highly formalised, always written, and documented . . . in triplicate!

**Organic designs** exist on the right side of each continuum shown in Figure 8.1. These 'Theory Y' enterprises substitute knowledge for specialisation, use delegation of authority, encourage low uniformity among employees in work units and widen managers' spans of control. Engaged employees and managers in organic organisations have fewer standardised procedures to follow and they comfortably practice effective face-to-face communications. These designs encourage the development of managers with strong Theory Y orientations.

## 8.1.2 Aspects of Organisational Design

### Division of Labour

**Division of labour** and job specialisation are about the same thing in a firm. Together they co-act to: 1) specify the type of work performed (e.g., research scientist, computer programmer, production superintendent), and 2) the work method or process to be used (accounting, production, and marketing). Division of labour and specialisation produce rising marginal productivity in work units. To a point, output per employee increases as more employees performing related tasks are grouped together. At some point marginal productivity per employee begins to decline if coordination problems mount (*see* process losses in Module 6). However, advances in Internet communications and reliable global communications systems allow departments to grow in size without accompanying declines in marginal productivity. Because it is possible for one manager to work closely with a number of globally dispersed employees.

To a point, division of labour makes any firm more efficient because managers are able to break down jobs into subtasks – specialisation – at which employees develop expertise through repetition. However, this ‘X’ thinking is giving way to an emphasis on knowledge diffusion and the urgency to apply it to product and service problems. Spreading (rather than hoarding) knowledge and giving employees the authority to quickly apply it cuts through red tape (slow decision making) and reduces division of labour and specialisation.

### Delegation of Authority

**Delegation of authority** is a manager’s decision about how much authority to give to a subordinate. When a manager delegates authority he gives a piece of his job to a subordinate or to a team. This action is within the manager’s discretion and he may delegate for several reasons. Consider this example:

Victor’s superior, Adrian, was concerned that Victor might make costly mistakes if he were given more authority. When Adrian reviewed the types of errors that Victor could make, he determined that the costliest one was £15 000; yet it could cost the organisation as much as £35 000 in executive time, regulatory compliance and other time-consuming activities if Adrian and other managers had to handle the problems that should be assigned to Victor. He decided, after considering the differences in costs, to give Victor more authority.

### Why Must Managers Delegate Authority?

Adrian based his decision to delegate authority to Victor on a sound cost–benefit analysis. It was a sound economic decision to give Victor more authority especially if Adrian was hard pressed to perform all of his chores adequately and Victor was qualified to perform some of them. And so we arrive at a principle reason why managers choose to delegate: they must accomplish goals through the efforts of others.



In addition, they must help their subordinates to become knowledge workers by developing their expertise and job skills. Subordinates recognise that one way to get the attention of their bosses (manage upward – Module 7) is to accept delegated authority. And so it is a coveted pathway to higher-order rewards like promotions, desirable work assignments, etc. The ambitious and self-confident manager must learn to be an effective delegator; especially if he works in a downsized and delayed firm.

Let's point out that the self-confident manager must strike a balance between micro-managing and diluting his authority. An insecure manager, out of fear, must oversee his subordinates' day-to-day tasks to restore his peace of mind. Thus, the challenge in delegation is to know when to be 'hands-on' and when to let go and rely on subordinates: the ever-evolving relationship between helping out and trusting. As you climb the chain of command you must come to accept the fact that your subordinates probably know more about their individual areas than you do. Micro-managing is out and you must listen patiently, reflect on what they say, and then reach a decision: only jump in if you see a problem

**Principles of delegation of authority. First,** match authority with responsibility for tasks. If you give a website designer the responsibility for assessing the needs of customers, you must also give him the authority to act on the assessment and recommend a particular website configuration to meet their needs.

**Second,** delegate to the lowest organisation level possible, i.e., to the level at which employees or self-directed teams who know what to do can act responsibly on behalf of the firm. Effectively exercising this rule is absolutely crucial because it can make the difference between high-quality products and swift, sure service priced to meet the competition or shoddy products which are matched by deplorable service. When well-trained employees have responsibility for product quality and service it is appropriate to give them responsibility for cost control too. Toyota's management systems delegate authority to teams in the areas of production and quality control. These techniques have helped make its vehicles the most reliable in the world.

**Third,** only get involved when a problem arises; i.e., practice management by exception. Micro-managing insults highly trained and professional knowledge workers. Managing by exception is not an excuse to be out of touch or to dilute your authority. Instead, it is a way to help teams or subordinates achieve their potential while you concentrate on facilitating and coordinating work.

**Fourth,** tell your subordinates or teams not only what must be done but also how it must be done. It's not enough to tell them: 'You've the authority to tackle this task'. They need answers to 'what' and 'how'. And so, your delegation chore is incomplete until you are convinced that your subordinates understand what they are going to do and how they'll do it (Is this line of sight?).

**Fifth,** responsibility rests on your desk! You cannot escape it by saying: 'My subordinate did not complete his work on time'. Ultimately, only you are responsible for the work of your subordinates.

When it is widely used by self-confident managers, delegation of authority creates many beneficial outcomes for the firm and its work-force. Over time it leads

to a competitive work climate because employees are evaluated by their ability to handle delegated tasks. Employees have to use their knowledge and experience to solve problems. This creates a more innovative firm that better seizes market opportunities and and more quickly turns them into rising profits.

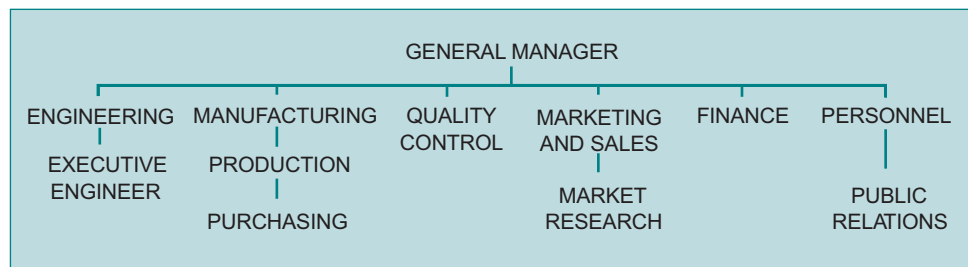
In general, simple corporate structures which rely on delegation characterise many profitable and competitive firms. For instance, Wal-Mart produces \$420bn in global, annual sales with a corporate staff that numbers less than 500. Bank of America threatens to unseat Citicorp as America's largest bank (total market capitalisation) with one-half as many corporate staffers. Toyota's market capitalisation is ten times greater than General Motors' for the same reason.

These firms have lean corporate staffs because their top managers believe that low costs are not incompatible with high quality products and services. Delegation of authority is a crucial cost control ingredient in these extremely large firms because it is the only way to keep employees focused on customers' needs.

## Departmentalisation

**Departmentalisation** refers to how work activities are grouped together. For instance, functional departmentalisation groups work activities around essential, core tasks like manufacturing, sales and finance. Departmentalisation can also be based on technology, product, types of customers, types of distribution channels used, or geographic regions served by the firm and its subsidiaries. It requires common chores to be grouped and assigned to a given manager to create units, branches, divisions and even subsidiaries. Let's begin our analysis of the basic forms of departmentalisation that you will see in various combinations in any mature firm.

All organisations have basic functions which must be performed. For instance, a hospital needs to perform work in radiology, surgery, emergency care, cardiac care, pediatric care, internal medicine, nursing services, and psychiatry and out-patient services. The functions of a manufacturing firm might include production, purchasing, personnel, finance, accounting, and marketing. The diagram in Figure 8.2 shows functional departmentalisation (design) consisting of engineering, manufacturing, quality control, marketing and sales, finance and personnel. The functional design is the most basic and it has a number of advantages and disadvantages that are noted below.



**Figure 8.2** The functional design

1. The structure is simple and it clearly delineates the firm's core tasks.
2. It seizes the benefits of division of labour and specialisation: marginal productivity per employee rises because employees become experts in their narrowly defined jobs.
3. A common language emerges in work units because its workers become familiar with problems that tend to repeat themselves.
4. It minimises duplication of effort if work units do not grow too large (see #2 above).
5. Training of employees is focused, narrowed and simplified.
6. It facilitates tight control and it validates the chain of command.

Several disadvantages do occur in functional designs, however.

1. Overspecialisation is a 'disease' that isolates work units and makes them unwilling to accept change. This is sometimes called the 'smoke stack', 'silo' or 'fortress' mentality.
2. The career development of managers is 'capped' by their narrow, functional focus.
3. Employees identify more strongly with their units than with the firm.
4. The C-class executives may be overburdened by minor, internal decisions that rise to their level.
5. Managers may fail to develop a strong focus on customers, products or markets.

The **territorial design** organises work groups to match geographic areas. The rationale is that all activities in a particular region should be controlled by a semi-autonomous manager who understands how unique features of his region affect the firm's competitive advantage. Its principal advantages are:

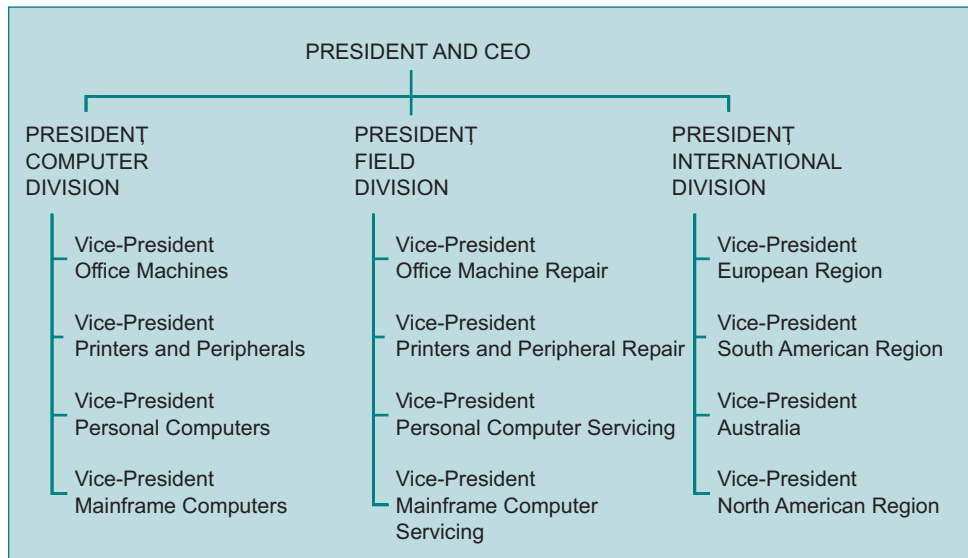
1. It tailors the work of subunits to the features of regional or national markets, i.e. British, Japanese, American, French.
2. It cross-trains managers as they rotate through regional subunits.
3. It accelerates the career development of managers (movement from field operations to company headquarters).
4. It creates work units that quickly detect changes in customers' product and service expectations.

Two disadvantages may occur in territorial designs. The defects shown below occur if corporate managers give local or regional managers too much leeway.

1. Duplication of effort (too many people doing the same thing) drives down marginal productivity per employee. This is 'empire building' on the part of the manager.
2. The firm needs a ready supply of general managers who know how to handle several core activities such as production, sales and human resources.

The product divisional design has been widely adopted by large firms with complex and extensive product lines: AB Brown Boveri, 3M, Siemens, Proctor and Gamble. These firms create divisions to handle all activities associated with

producing and marketing a given product or family of related products. This design is a natural choice for a firm as it expands its product lines to exploit its 'cash cows' – highly profitable products that satisfy large customer groups. Figure 8.3 shows a design which combines the features of the product and territorial designs. The product divisional aspect is represented by the computer division and the field service division. The territorial design is reflected in the international division. The principal advantages of the product divisional design are presented below.



**Figure 8.3 Combined product and territorial design**

1. It balances product line qualities and customer expectations.
2. Changes in the market's driving forces are detected more quickly and translated into product and service changes; unless we are speaking of General Motors.
3. Employees learn to be 'product generalists' – they have deep understanding of product and market characteristics.
4. The structure supports highly competitive profit centres.
5. Judging the performance of various product divisions is less complicated.
6. The design shifts some of the burden for general management from corporate executives to division executives (This reduces the extent of diversity in the CEO's job making easier the management of a large company with complex and diverse product lines).

The principal disadvantages of the product divisional structure are noted below.

1. Like territorial designs, product divisions can also duplicate effort and squander resources as they attempt to solve problems by adding more people. (The

corollary to this is that corporate executives have less day-to-day control over product division operations).

2. Finding and training people to head each division is a difficult job.
3. When product divisions attempt 'joint ventures' conflicts can arise due to sharing resources and agreeing on 'transfer prices'.

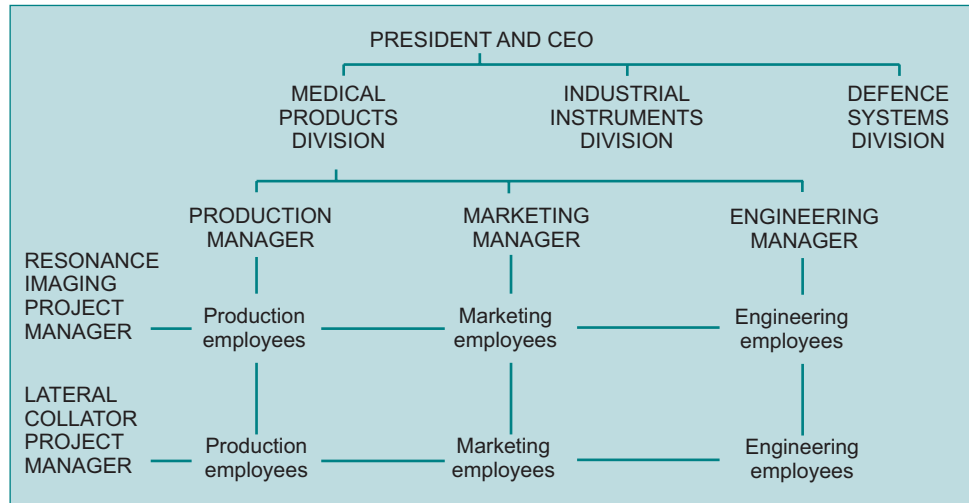
### What Kinds of Problems Can the Complex Product Divisional Design Create?

When product divisions multiply in the firm, severe coordination and communication problems can arise. In some cases, product-oriented divisions can actually work at cross-purposes to each other. Here's a story that captures the problems that occur when a product divisional structure and an aging business model no longer work together to add market value to the firm.

A few years ago at Hewlett-Packard product divisions were producing aging products that did a poor job of meeting clients' needs for data and website management. More nimble competitors like Dell and Cisco Systems were producing 'plug and play' products that zipped around H-P's stodgy and complex products. Carly Fiorina, at age 44, was brought in to teach the aging giant a new way to conduct business. About eight years ago the H-P agenda was clear: make a dramatic move to raise the firm's market valuation. H-P had to change its business model if it wanted to make its stock rally. Realising this, Ms. Fiorina convinced the board that the way to raise the firm's market capitalisation was to shake up the company and its lumbering product divisions by making a major acquisition. After discarding Apple Computer and Eastman Kodak as possible takeover targets, Ms. Fiorina set her sights on Compaq. By October 2002 the deal was done and the firm's new ticker symbol became HPQ. Ms. Fiorina chose to buy a major competitor; she convinced the firm's board to become a consolidator at a time when sales in the PC industry were nearing a peak. It was a bold move and it shook H-P's product divisions out of their torpor.

**Matrix departmentalisation.** Another form of departmentalisation is called the matrix design. An early champion of this configuration was the Phillips, the Dutch electrical giant. In America, this configuration first appeared during WWII in aerospace firms which had to produce new fighter plane designs in very short time periods. These complex projects required extensive coordination that simply was not available in the conventional designs described above. The matrix design overlays a project or product design on a functional design and it creates value by encouraging employees to collaborate – often under considerable time pressure – with others outside their work units. Figure 8.4 shows the basic matrix arrangement in a medical products firm.

In Figure 8.4, the matrix design is represented by the project managers and their project teams which are composed of employees from the functional divisions of production, marketing and engineering. The project manager (PM) position is held by an individual who is thoroughly knowledgeable about his project. Typically he has more responsibility than he has authority. This property of 'asymmetry' is often purposely engineered into the PM's job because it forces him to become a clever



**Figure 8.4** The matrix design in a medical products firm

advocate for his project and his team. Higher management selects employees from functional departments to work on one or more project teams. The teams remain intact for the duration of the project work. The team members have at least two bosses: a PM and a unit boss (function). For this reason, the matrix design is said to violate the 'unity of command principle' which is one boss for each employee.

Now let us examine the advantages of the matrix design.

1. It combines the strengths of the product divisional and functional designs.
2. It adds value because it melds the detection of market changes with product and service design expertise to shorten development cycles.
3. It develops a pool of skilled PMs who are cross-trained in functions and product and service design problem solving.
4. A self-contained project team can devote its undivided attention to the needs of its product, project or customer groups.
5. The firm can focus on specific products and their development without creating permanent units which may outlive their usefulness.

The disadvantages of the matrix design include the following:

1. It can confuse employees because it contains role conflict: 'Which boss should I respond to?' In addition, the PM may fret about the project while functional managers fret over departmental details. This confusion can reduce work focus in the project and functional areas.
2. The design requires excellent planning, timing and resource allocation to ensure that functional work proceeds and projects do not 'starve'.
3. PMs must have excellent technical, political communication, and managerial skills. If a firm 'goes matrix' it must conduct extensive training or hire new employees with PM experience.
4. Overhead costs may spiral out of control if teams become too large.

Table 8.1 summarises the discussion on departmentalisation.

**Table 8.1** Forms of departmentalisation

|   | Functional                  | Product divisional                        | Hybrid/territory                          | Decentralised matrix                      |
|---|-----------------------------|---|---|---|
| Emphasis on:  |                             |   |   |   |
| Profit responsibility                                   | CEO                         | Subsidiary president                      | Regional manager                          | Project / programme managers              |
| Self-directed teams                                     | de-emphasised               | used at unit level                        | customer-driven                           | project expertise                         |
| Cross-training for manager and employees                | de-emphasised               | used at unit level                        | vendor and customer-driven                | emphasised for project managers           |
| Customer relations and service quality                  | de-emphasised               | mostly a product focus                    | balanced emphasis on product and service  | emphasises mostly product                 |
| Broadening of managers' and employees' technical skills | emphasised on process basis | emphasised on a product and process basis | emphasised on a process and service basis | emphasised on a product and process basis |

## Span of Control

The organisational designer must make a decision about span of control: the number of subordinates who report to a given manager. The only practical agreement about span of control is the fact that it is growing (widening) right along with all forms of wireless and Internet-based communications. In the past, experts noted that span of control is influenced by the number and intensity of interpersonal relationships between the superior and his subordinates. In other words, managers who supervised complex work needed more 'face time' with their subordinates necessitating narrower spans. Professors Ivancevich and Matteson think three factors drive the manager's ideal span of control.

1. **Required contact.** In activities like R&D or surgery sustained and frequent coordination between superiors and subordinates is required. Effective surgical teams having low complication rates) need flexible coordination mechanisms to ensure high quality outcomes. Face-to-face contact therefore lowers spans in these environments.
2. **Degree of specialisation.** Lower-level managers have wider spans because they often supervise employees who perform specialised, narrowly defined jobs. Higher-level managers face the opposite situation: less job specialisation among their subordinates narrows their spans.
3. **Ability to communicate.** Managers who clearly and concisely convey company policies, procedures, and work expectations to subordinates can manage a wider span of control. The ability of these effective communicators is exponentially multiplied by wireless communication systems and the Internet. They are unaffected by geographic separation and their spans widen without loss of coordination.



## 8.2 Organisational Structure: Understanding the Basics

In response to strategy formation managers must adjust division of labour, delegation of authority, departmentalisation, and span of control. These four decision areas are under constant review because organisational structure must follow and match organisational strategy. This essential, on-going review (and refinement) process must be conducted to detect and minimise discrepancies between intended and realised organisational strategy. It is fair to say that these on-going 'adjustments' represent changes to the firm's structure: its degree of centralisation or decentralisation. In addition to considering these elements of structure, we will also consider their effects on organisational performance, employees' behaviour and their levels of job satisfaction.

### 8.2.1 Centralisation and Decentralisation

Centralisation is a process that concentrates decision making power at the top of the firm and decentralisation is a process that pushes down decision making to the level where a given problem exists. When a firm is centralised (as all 'X' firms are), all employees follow uniform procedures and policies which are formulated and enforced by higher management. Rules and regulations direct employees to do certain things at certain times in certain ways. Rules and regulations in the centralised firm are supposed to reduce risk and indecision by making tasks and work relationships highly explicit (No confusion allowed!). Standard operating procedures proliferate and we might see a 'means-ends inversion' – the importance of results diminishes in direct proportion to the proliferation of rules and regulations! This may lead to the addition of more layers to the chain of command. This causes the number of managers and administrators to grow faster than the number of employees engaged in value-adding production and customer service. We call this 'rising administrative ratio' and it leads to uncontrolled overhead costs in the overly centralised firm.

Highly centralised firms usually exhibit high formalisation: extensive written documentation of rules, regulations, and procedures designed to guide employee behaviour and organisational decision-making. Centralisation usually triggers standardisation: the degree to which behaviour variation is allowed in a job or a series of jobs. Standardisation proliferates when jobs are discrete and routinised to the point where workers encounter few exceptions or problems. In turn this drives the production of written work guidelines which further reduce job discretion. Over time, these forces contribute to greater centralisation and larger administrative ratios in firms.

Decentralisation delegates authority to employees or to SDTs at lower levels in the chain of command. Managers are increasingly choosing decentralisation coupled with on-demand communications systems to achieve the firm's strategic goals. Their SDT management skills encourage them to further decentralise the firm. It is the organisational structure that attracts the most attention and the most tinkering. Fewer firms are experimenting with centralised designs because they are so hard to adapt to 24/7, global competition.



Global competition is not the only driving force of decentralisation. Impatient shareholders threaten firms with 'dire consequences' if they do not increase market valuations. More sophisticated and equally impatient customers insist on higher quality products and services. And global trade agreements that lower market entry barriers force rivals to decentralise to meet competition. As these forces gather power, decentralisation becomes a 'rule of competition' in many industries: decentralise or die!

### Outsourcing, the Internet and Decentralisation

In the recent past, some firms decided to decentralise product design and marketing while they outsourced other non-core functions such as production, accounting, purchasing, finance, information systems and human resources). Retaining functions and processes within the firm no longer produces a sustainable cost advantage because the Internet is filled with skilful, efficient, eager, independent contractors. Firms erase their cost disadvantages by outsourcing or off-shoring their non-core processes into the Internet's marketplaces. For instance, Nike no longer makes its own shoes: they are all made by subcontractors. It retains only those functions that add the most value: product design, marketing, sales and dealer and sponsor relations.

In the broadest sense, the Internet has unleashed a torrent of new suppliers (IT is one of the most popular) in politically stable developing economies. These firms are eager to earn a profit by reducing a foreign client's costs. The Internet and its unlimited outsourcing possibilities allow a firm to blend the ideal mix of external process/service providers to create the 'best modular design' to facilitate strategy implementation. Outsourcing of human resources (HR) continues apace according to Kennedy Information. It is expected to grow at the rate of 25 per cent per year for the next ten years.

**Outsourcing** is the ultimate end-point of decentralisation. It strengthens a firm's competitive advantage by aligning with a supplier that offers a sustainable process cost advantage. Outsourcing conserves resources and makes it possible for the firm to free up assets which can then earn a higher return.

Outsourcing through the Internet often leads to modular work-forces composed of contract or temporary workers. Executives and shareholders favour these arrangements for reasons other than decentralisation. A modular work-force slows the rise in costs of employment benefits and payroll taxes. These costs represent on average 25 percent of total worker compensation in America and as much as 80 percent in many EC countries. In short, it's cheaper to use contract workers than it is to hire permanent workers. In the cold, cruel world of Anglo-Saxon business, it is much easier to dismiss temporary or contract workers than it is to lay off permanent employees.

If competitive forces were more genteel, firms and their executives would opt to reduce uncertainty by creating highly centralised structures. True decentralisation seems to go against the instincts of 'X' managers as they try to reduce risk and uncertainty. 'X' managers prefer fixed accountability and responsibility for decision making. Centralised designs make these two issues easier to resolve. Robert

Duncan, a prominent management researcher, has summarised the strengths and weaknesses of decentralised organisational designs shown in Table 8.2.

**Table 8.2 Strengths and weaknesses of decentralised designs**

| Strengths  | Weaknesses   |
|--|--|
| 1 Meshes well with rapid change and fast company growth  | 1 Innovation is often restricted to projects or specialised programmes               |
| 2 High awareness for projects, programmes, or products   | 2 Difficult to allocate pooled resources such as computer analysis                   |
| 3 A high task focus which yields control over time, financial and human resources                          | 3 Coordination problems in joint functions such as purchasing                        |
| 4 Customers can determine task responsibilities and project personnel are highly responsive to their needs | 4 Jurisdictional and priority disputes   |
| 5 Concurrent multiple tasks can be coordinated across functional departments                               | 5 Possible neglect of high-level coordination to ensure organisational effectiveness |

When you read the case description of the Hewlett-Packard company found at the end of this module you will find yourself returning to the weaknesses shown in Table 8.2.

### 8.2.2 Interorganisational Designs

Outsourcing is a 'cost-side' phenomenon that will not abate because it holds so much potential for firms to shed their expensive, non-core functions and processes. On the 'revenue side' we see many firms opting for inter-organisational designs that help them extend their competitive advantages to new markets. One such approach to global competition is the conglomerate. A conglomerate is a holding company that acquires many other companies which have entirely different business strategies and operate in diverse industries. This is the strategic principle of unrelated diversification. Here the firm acquires other companies because they are: 1) undervalued, 2) financially distressed; or 3) likely to grow but cannot because they have limited capital. Making a conglomerate successful requires the linking of comparatively autonomous companies into a successful enterprise that increases shareholder wealth faster than alternative uses of capital. Conglomerates are very large and they have widely different, unrelated product lines and services. Also, they are managed through a system of autonomous subsidiary presidents who report to sector or group vice-presidents who in turn report to the conglomerate's CEO. They reduce business cycle risk by operating in many industries (the principle of diversification).

In Germany, Siemens A.G. is an excellent example of a successful conglomerate as is General Electric, its counterpart in America. To achieve overall coordination and control, GE uses 43 strategic business units (SBUs) to group its 190 subsidiaries. A strategic business unit is a grouping of companies that share an important strategic element such as overlapping competitors, have interlocking missions, or a shared need to compete globally. GE's 43 strategic business units are compartmentalised into six sectors. For conglomerates such as GE and Siemens, the SBU concept helps reduce the complexity of integrating corporate strategy (conglomerate-level)

and business strategy (subsidiary or company-level). Further, the integration of strategy obtained through the application of the SBU and sector concepts simplifies the complexity and reduces the number of strategic plans which must be reviewed by the CEO and his staff.

Conglomerates are not confined to North America and Europe. In Japan they are called a *keiretsu* which is a corporate system that links suppliers and manufacturers that are clustered together to take advantage of geographic, logistical, and financial proximity. Mitsubishi is such a firm and it is made up of three leading companies: 1) Mitsubishi Corporation, 2) Mitsubishi Bank and 3) Mitsubishi Heavy Industries. Its 29 companies are organised into 12 sectors including paper, chemicals, food, real estate and construction, glass, electrical and machinery, shipping and warehousing, textiles and fibres, finance and insurance, mining and materials, metals and petroleum. Each sector is highly vertically integrated and it supports the business and trading activities of the other sectors. If Kirin Brewery has container needs for its products, it turns to the other Mitsubishi companies such as Ashai Glass and Mitsubishi Paper Mills (for labels and boxes). Worldwide marketing is handled through the general trading company and internal financing is available through the conglomerate's bank. In general terms, the *keiretsu* provides a reliable source of raw materials and support for each member firm. In addition, the *keiretsu* also provides an internal and controlled market for the products of its subsidiaries.

In Japan, the six largest *keiretsu* represent about 15 percent of the entire Japanese economy, about 4 percent of the labour force, and 13 percent of all corporate assets. In most *keiretsus*, companies hold stock in the companies in other groups. Twenty-five percent or less of the stock in a given *keiretsu* company is held by other members of the conglomerate. Financial arrangements also dictate that no one company in a *keiretsu* hold more than five percent of the stock of another *keiretsu* member. These interlocking financial relationships encourage cooperation and information sharing within the *keiretsu*. For instance, in Mitsubishi cooperation is enhanced by meetings of the CEOs called *kinyokai*. Biweekly meetings bring together the *keiretsu*'s 29 CEOs for the purposes of exchanging new ideas, solving internal problems and reviewing product development. Mitsubishi further encourages integration by practising *amakudari* which is the rotation of executives through firms in the various groups and sectors. This practice broadens the base of knowledge throughout the firm and it deepens the pool of talented managers who become eligible for promotions.

Recently, not all has been well in the ultra-stable world of the Japanese *keiretsu*. The punishing 15-year deflationary period in Japan has forced them to slash expenses to maintain profits. Take Toyota for example, It has become the world's most valuable car company (in terms of market capitalisation) because it has continuously slashed its production costs. The company is now positioned to surpass General Motors as the world's largest car maker. For the past 15 years, Toyota has relentlessly pushed its suppliers to reduce their costs as it builds more plants near its key markets. Toyota's glum subcontractors and suppliers have a term for this trend: *shitauke ijime*, or 'subcontractor bullying'. Professors Shirouzu and Williams note how the unrelenting squeezing of subcontractors by the *keiretsu* threatens the *keiretsu* themselves because it may signal the end of cooperative relationships among companies in the supplier chain. For instance, at Matsushita, some 6000

suppliers have prospered along with the company. In 1932, founder Konosuke Matsushita declared, 'Our primary goal is to eliminate poverty and increase wealth' through the principles of co-existence and co-prosperity. At the height of the Great Depression, he announced a 250-year plan for meeting his goal. In the last five years his goal has fallen on hard times as Matsushita has squeezed suppliers to reduce their prices by as much as 27 percent in an effort to raise its profit margin to 5 percent.

Another problem facing the *keiretsu* is the fact that about 41 per cent of their workforces are composed of women and yet no females occupy top corporate positions. Carlos Ghosn, the CEO of Nissan, describes this condition as 'a waste'. Professional women across industries and firms in Japan lack self-confidence because of deeply ingrained cultural attitudes about a woman's role in society. Japanese women occupy a subservient role in society and their career gains have come much later than those of their American and European counterparts. More and more Japanese women are college graduates but the legacy of subservience continues. Japanese men are hesitant to hire women because they think women cannot handle the responsibilities of corporate work. Because they have so few role models, Japanese women are reluctant to rise to the challenge. The *keiretsu* must address this problem as Japan's work-force ages and birth rates decline.

Japanese customers are also unhappy with their conglomerates and their free rein to fix prices. Small retailers in Japan are failing in record numbers because they cannot compete on price with larger, more efficient, discount-oriented retailers. Business analysts note that after 50 years of 'quasi-legal' price-fixing, Japan's business cartels must lower prices and reduce profit margins. Pressure to lower prices has grown in the industrial sector as firms also shop more aggressively for the best deals on prices. The formerly cosy relationships between manufacturers and suppliers are collapsing as a result. For instance, Nissan Motor Company imports steel from South Korea and, in turn, this pressures Japanese steel suppliers to cut prices. By some estimates, *keiretsu*-collusion cost Japan's consumers more than \$140bn per year.

**A strategic alliance is a form of interorganisational design.** It is a cooperative agreement between two firms that stops short of a merger or full partnership. The basis for alliances is highly varied. For instance, aligned firms can pursue joint product development or research, share production technology or production facilities, market each other's products, or collaborate to manufacture components. Strategic alliances are popular among firms in the same industry but based in different countries. They can compete on a global scale while maintaining their home country independence. Both Japanese and American corporations have formed alliances with European companies to meet the challenge of the European Economic Union.

Professor Porter of Harvard notes that firms entering into strategic alliances expect several beneficial outcomes. They hope to gain economies of scale in production or marketing or they might believe that such a move will fill perceived gaps in their technical or manufacturing expertise. These arrangements are commonly used to gain access to foreign markets by lowering their entry barriers. Alliances have drawbacks because they require exhaustive coordination through meetings

and task forces. Other problems in alliances are: 1) deciding what is to be shared and what remains proprietary; 2) overcoming cultural and language barriers; 3) rising above suspicion and mistrust; and 4) depending too much on expertise and skills in another company. Professors Thompson and Strickland think of strategic alliances as transitional arrangements that can be used to create a short-term competitive advantage in international markets.

### 8.2.3 Organisational Design and Employee Needs

There is no simple relationship between employee job satisfaction and organisational design. Managers in decentralised organisations with fewer than 5000 employees report that they are more satisfied with their jobs than their counterparts in centralised organisations with more than 5000 employees.

Formalisation of rules and regulations (an important aspect of centralisation) often causes job dissatisfaction. An exception to this rule occurs for employees with high security needs who think they are met by formalised and standardised work rules. These employees experience dissatisfaction when they are forced out of their rule-bounded comfort zones. For instance, they would find it difficult to make the transition to providing effective and timely service to customers and suppliers. Each activity is likely to require innovation from the employees: a sure source of stress for these insecure employees! Employees can also experience stress and uncertainty if their manager's span of control is too wide. However, wireless communication systems, e-mail and video conferencing all reduce employees' stress and uncertainty.

### 8.2.4 Coordination and Control

The firm's standardised operating practices (SOPs) are the basis or framework for guiding the work behaviour and work expectations of employees. Abundant and detailed SOPs however, do not ensure focused effort, timely decisions and accomplished goals. These value-adding outcomes only occur when the firm's organisational design achieves coordination and control.

Coordination integrates the actions of subunits to achieve measurable goals that add value to competitive advantage. When a firm is small, the chain of command serves this purpose. With growth its hierarchy overloads – it bogs down – and executives must design other coordination mechanisms to sustain competitive advantage. Before we look into these coordination mechanisms, let's take a look at the 'demand for coordination' in firms.

### How Much Coordination is Needed in Organisations?

Some years ago, Thomas Lawrence and Jay Lorsch, two Harvard University researchers, said the answer to this question was: 'It depends on the amount of information which must be processed during task execution'. They said that the firm's external business environment drove the information load that dictated the number and

complexity of internal coordination mechanisms; the firm's demand for coordination.

The shared experience of firms is turbulent, global business environments that require unceasing improvements in coordination. The volatile brew of high energy costs, fluctuating currencies, terrorism, and 24/7 global competition and production create information processing requirements that must be addressed if the firm is going to maintain its competitive advantage. Maintaining a highly differentiated chain of command will not do the trick because it will quickly be swamped by multiplying, complex decisions.

The quaint oddity today is a stable business environment that does not require many (nor complex) methods for coordinating the work of subunits. Not many large firms have the comfort of operating in stable and placid environments. The few that do need not devote much in the way of resources to building and maintaining elaborate coordination mechanisms and so they need far less information processing capacity to maintain competitive advantage. The burden of coordination declines and the firms can settle into routine operations that are centralised, formalised and standardised. For instance, if a work unit manager knows exactly what needs to be done to coordinate his unit's work with other units, then little information needs to be processed and exchanged to get work done: the hierarchy easily does it!

### What Requirement Must a Coordination Mechanism Meet?

they are supposed to do. When jobs become more demanding – many are now 24/7 experiences – employees react by flocking to the Internet, carrying Blackberries and burying everybody else under mountains of e-mail! These are informal, but effective coordination mechanisms that reflect the hectic pace of modern life. Companies react in much the same way: they install more information processing capacity in their vertical and horizontal dimensions.

Increasing vertical information processing capacity reduces the decision load (number of exceptions) on the hierarchy and its line managers. When the capacity to process information is increased horizontally, the firm is better able to integrate its workflow. Let's look at mechanisms which help firms handle both types of coordination needs.

#### 8.2.5 Vertical Coordination Mechanisms

Vertical coordination strengthens the linkage between hierarchical levels as they reduce uncertainty and shorten decision cycles. Let us consider the coordination tools that firms use to handle increased vertical flows of information.

1. **Teams and task forces** can be used to identify and solve problems which span hierarchical levels. Another way to use groups is to create a collateral organisation: a parallel, co-existing arrangement of task forces which supplements



the hierarchy until a given problem is solved. Professors Cummings and Worley speak of the value of a collateral organisation to solve problems that span vertical levels.

A **collateral organisation** is much broader than a single, temporary task force. It can be composed of, for example, members of self-directed teams, employees who work in a strategic alliance and expatriate managers who have overseas assignments. An example of how a firm could set up a collateral organisation to solve a complex problem is presented below.

Digicourse Ltd. produces digital compasses used in offshore oil exploration. Rapid technological change in the industry and explosive growth in Digicourse have made the firm less able to anticipate sudden product changes. With the help of external consultants, the project started by gaining top management commitment and involvement to speed up the plant's new product development process. The consultants held informational meetings about the need to manage change and to more quickly involve key production personnel in the redesign process. Data were gathered and fed back to management and employees as a way to create solid recommendations for change.

A collateral organisation was set up and it consisted of a steering committee composed of managers and employees from different hierarchical levels and from different departments. Several task forces were created and they reported to the steering committee. Each one was given latitude to experiment with new ideas and methods to improve product design, reliability and production cost control. The steering committee reviewed all proposals submitted by the task forces and all proposals were presented to top management by members of the task forces. Examples of innovations accepted by top management included: 1) using customer focus groups to detect product improvements, 2) giving engineers 15 per cent of their work time to spend on product innovation, and 3) an employee-controlled board to review production cost control suggestions.

2. **Use direct supervision.** This costly form of traditional vertical coordination works only through the chain of command. Supervisors and managers coordinate the work of their subordinates by using standardised work rules and procedures. The added value of this method declines in direct proportion to rises in external uncertainty. Few firms use it now because it slows things down as it adds to indirect overhead.
3. **Use standardisation of work processes.** Much work is so routine that the firm's technology dictates the pattern of coordination as it reduces the need for direct supervision. The sequential work flow dictated by the assembly of cars is an example of technology-driven coordination. Workers do not have to interact with each other. This high-cost coordination method is being swept into the dust bin as firms off-shore these manufacturing operations to low-labour cost countries.
4. **Use standardisation of outputs.** When direct supervision is minimal and work processes are not standardised, coordination can be achieved by specifying the nature of work outputs. Coordination issues shift from how work is done to ensuring that outputs conform to certain physical and economic standards.

When a firm can standardise its outputs and it is locked in fierce global competition, it will outsource its manufacturing function as soon as it finds a foreign supplier that can guarantee product and process quality.

5. **Use PA.** PA is a tool not often recognised as a vertical coordination mechanism. When done correctly it channels and guides employees' expectations and work goals. Good PA work strengthens vertical communication and reduces the decision load on managers. When it is done poorly or ignored [by managers] altogether the reverse occurs!
6. **Create a management information system.** These are sophisticated, often outsourced computerised information and record keeping systems. They provide early warning signals such as product breakthroughs by rivals. They assist in decision making by supplying financial ratios to top managers and they facilitate timely audits and programme reviews. And they can automate routine functions like human resources.

### 8.2.6 Horizontal Coordination Mechanisms

**Horizontal coordination mechanisms** ensure the orderly processing of the company's workflow. When workflow is smoother, fewer work exceptions are encountered causing work units to be more integrated. In turn, managers and executives are more able to concentrate on strategy formulation. Here is a brief review of past and current horizontal coordination methods.

1. **Use direct contact.** The simple and least costly form of horizontal coordination is direct contact among units linked by workflow. If a product design group is behind in its schedule, the manager of the group by using the Internet can contact the engineering department manager to solve the problem. Geographic separation no longer matters. The effectiveness of direct contact is a function of the amount of interdepartmental work experience of managers. Managers with a reliable network of contacts find that they can promote lateral relations to resolve workflow issues. The problem is that network contacts decay over time because managers depart, they ask for transfers, they get promoted, and so on. This erosion must be offset by hiring new managers with the task expertise and interpersonal skills to rebuild lateral relations. Formalised mentor-protégé relationships and the rotation of managers through linked work units can achieve this goal.
2. **Use liaison positions.** The liaison position formalises the link among two or more subunits which must coordinate workflow. Here's a case where a firm needs to formalise such a role.

The marketing staff in an energy firm had trouble coordinating with refinery personnel. The marketing staff knew which products were selling at the highest and lowest prices and the refinery unit focused on providing the products which were the cheapest to produce from available supplies. To facilitate coordination, upper management created a position named 'Oil Products Coordinator' with the responsibility to ensure that marketing and refining worked as a team.



As the firm becomes more complex and it adds new divisions, the demand for skilful liaison managers grows.

3. **Use permanent teams to manage recurring workflow problems.** This idea is based on building competitive advantage by rewarding collaboration over competition. Team work achieving improved horizontal coordination reduces the 'silo' mentality: a management pattern that favours partitions between units. In today's hyper-competitive, global economies, firms need managers who can cross-promote products by sharing knowledge, information and talent across business units. For example, Proctor and Gamble (P&G) and Cisco Systems both use performance reviews to assess how well managers are building and maintaining collaborative work relationships among work units. Up to 20 per cent of managers' bonuses in both firms are based on how well they promote and maintain teamwork-based collaboration. Let's take a look at how hospitals can use teams to facilitate coordination.

In the United States, hospitals receive payments from the government that are capped for various types of health care services that are provided to retirees and to the poor (Medicare and Medicaid). If a hospital exceeds the 'cap payment' for a particular procedure or treatment, the hospital must absorb the extra cost. This forces hospitals to be more cost conscious and market-oriented. To avoid financial losses, American hospitals use service line managers who have total responsibility for a set of related health care functions. They oversee care segments like: cardiology, mental health, wellness, infant wellness, community health and education, emergency, and substance abuse. They maintain service line profitability and they pursue collaborative ways to expand their offerings.

### 8.2.7 Control in the Organisation

We have considered how firms meet their vertical and horizontal coordination needs and now we turn our attention to how they achieve control: the set of mechanisms used to keep actions and outcomes within predetermined limits. Typical control activities include setting of work standards, measuring results against plan, and initiating corrective action. Managers are obsessed with two forms of control: process and results. Let us consider each.

**Process control.** These are methods used by managers to achieve economic efficiency through reductions in the marginal costs of production. Employees of 'X' firms often experience process controls as mindless formalisation (standardisation and specialisation) forced on them by efficiency-obsessed managers who do not understand the nature of their work.

During the last 15 years, externally-based process control (rules and regulations imposed upon employees and over which they have no control) are vanishing because customers expect consistent improvements in product and service quality. As a result, firms shift to internally-based process control or total quality management (TQM). Japanese firms have been very successful at sustaining their competitive advantage by integrating TQM (continuous process improvement) in

their team-based plants. Global rivals have been forced to play catch-up and we see the results: Toyota is on track to overtake General Motors as the world's largest car maker.

Firms that are still relying heavily on external process controls become 'sclerotic', i.e., rigidly inflexible (*see below*). This may be acceptable if the firm operates in a placid business environment. However, if the market is global, turbulent and highly uncertain, then extensive, external process controls limit the firm's flexibility. Forces that drive market turbulence are: 1) knowledgeable repeat buyers who compare prices and product options; 2) shortened product life-cycles that are driven by innovation; 3) production process improvements; 4) global competition; 5) industry and market deregulation; and 6) return-hungry investors.

Relying on internal process control (TQM) applied by collaborating SDTs encourages cross-divisional product promotion. Along the way, TQM simplifies work standards, raises the accuracy of performance measurement, specifies training (skill) deficiencies in the work force and creates line of sight for the distribution of team-based rewards. And, most importantly, it links employee teams to their products' customers.

**Results control.** The most popular results-oriented control system is management by objectives (MBO). In section 4.2, we discussed the motivational aspects of MBO for individual employees. We can also examine this subject from the standpoints of corporate control over the fit between strategy and design. MBO achieves output control because it requires managers to set specific measurable goals and monitor and reward their subordinates' success in achieving them. MBO's output control focuses on desired targets while it allows managers to select their own methods for reaching defined targets specified in the firm's strategic plan. Thus it sustains the importance of delegation of authority.

#### **Table 8.3 Problems caused by external process controls**

**Lack of patience.** External process controls may lead to sub-optimal decision-making as managers search for the first solution rather than a team-generated best solution. This erodes integration of work activities.

**Across-the-board cuts.** Heavy emphasis on external process controls leads to high costs that are then cut across the board (silos) when business conditions deteriorate.

**Confusing documentation with action.** Concern for external process controls and standards may lead to impressive process control documentation but no actual results. This is 'means-ends' inversion: lots of data that means nothing!

**Vague and unrealistic expectations.** A heavy emphasis on how work is done may lessen the concern for clearly specified results and challenging goals.

**Panic.** This often occurs when controls are established in a department which formerly had none. Employees resent the 'sudden' imposition of standards in their work.

**Escalating standards.** To improve productivity, managers may unilaterally raise work standards without increasing resources, rewards, or the number of employees.

### **What Are Some of the Motivational Characteristics of MBO Systems?**

MBO relies on superior-subordinate meetings to establish goals, periodically review activities and results and resolve conflicts by taking corrective action. These three

crucial MBO activities channel and guide employees without any of the insulting features of close supervision. Constructive employee actions in MBO are motivated by three things:

1. **Knowledge of what is expected.** Reduction of misunderstandings leads to common work expectations for employees and their managers.
2. **Knowledge of results.** Successful goal achievement motivates employees to set their sights higher in the future (*see* JCM in Figure 5.2).
3. **Manager–subordinate teamwork creates trust based on performance.** Employees who know they are trusted work harder because they like being treated as adults.

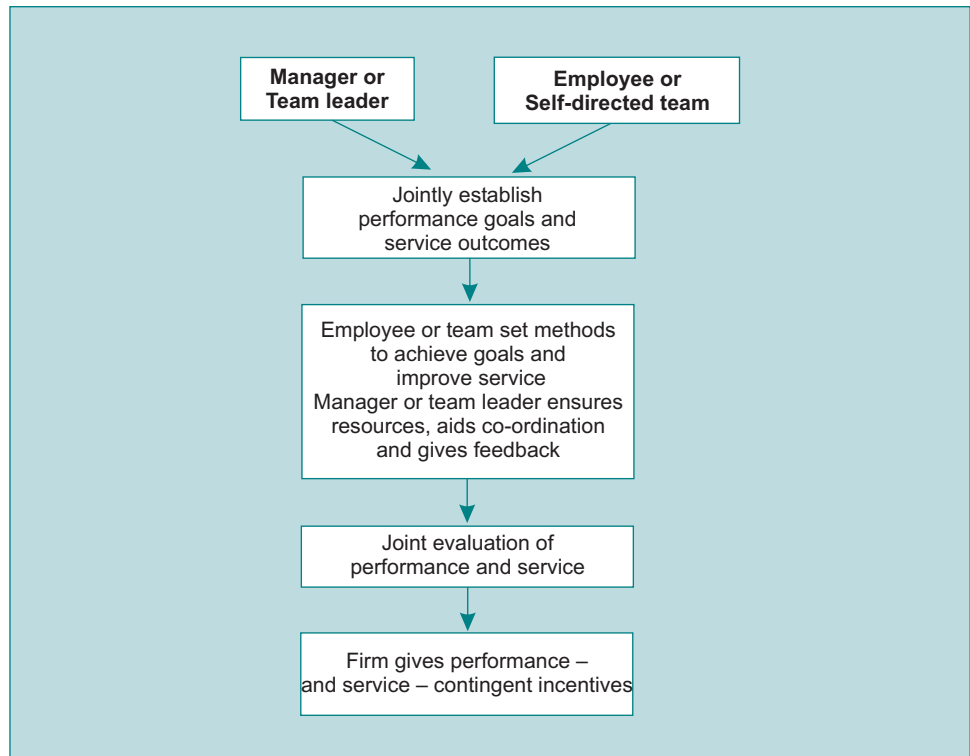
### Steps in the MBO Process

Besides focusing attention on output control, MBO shapes company culture by raising the importance of setting ambitious goals, maintaining high standards and focusing on long-run results instead of short cuts. The characteristics of a typical MBO system are noted below. Please note the emphasis on employee involvement and participation.

1. Managers and subordinates use the strategic plan to select their goals.
2. Discussion of work unit goals ensures that everybody understands them.
3. Employees establish their own action plans for achieving their goals which adhere to the 'SMART' principle.
4. The boss and his subordinates select relevant measurement criteria.
5. The boss conducts formal and informal feedback with employees concerning individual and work unit goals.
6. The system is documented by putting all goals on paper.
7. Goals are 'cascaded' down the hierarchy. They become more specific and quantified at lower levels.

Figure 8.5 shows how MBO creates a results-oriented and team-oriented work relationship between the superior and subordinate. Participative decision-making occurs in all phases of the MBO process: from planning goals to evaluating results. While MBO can greatly improve control at all levels in the firm, overemphasis on goal-setting can lead to certain well-documented problems.

1. Employees become obsessed by results and they take too many short cuts. This can be a crucial defect if the results involve service quality.
2. MBO degenerates into a 'paper chase' if it is linked to external process control mechanisms.
3. Insecure managers rely on a 'punish or reward' mentality.
4. When they have too many goals, employees become fearful (avoid responsibility) and fail to collaborate.



**Figure 8.5** The MBO process in delayed organisations

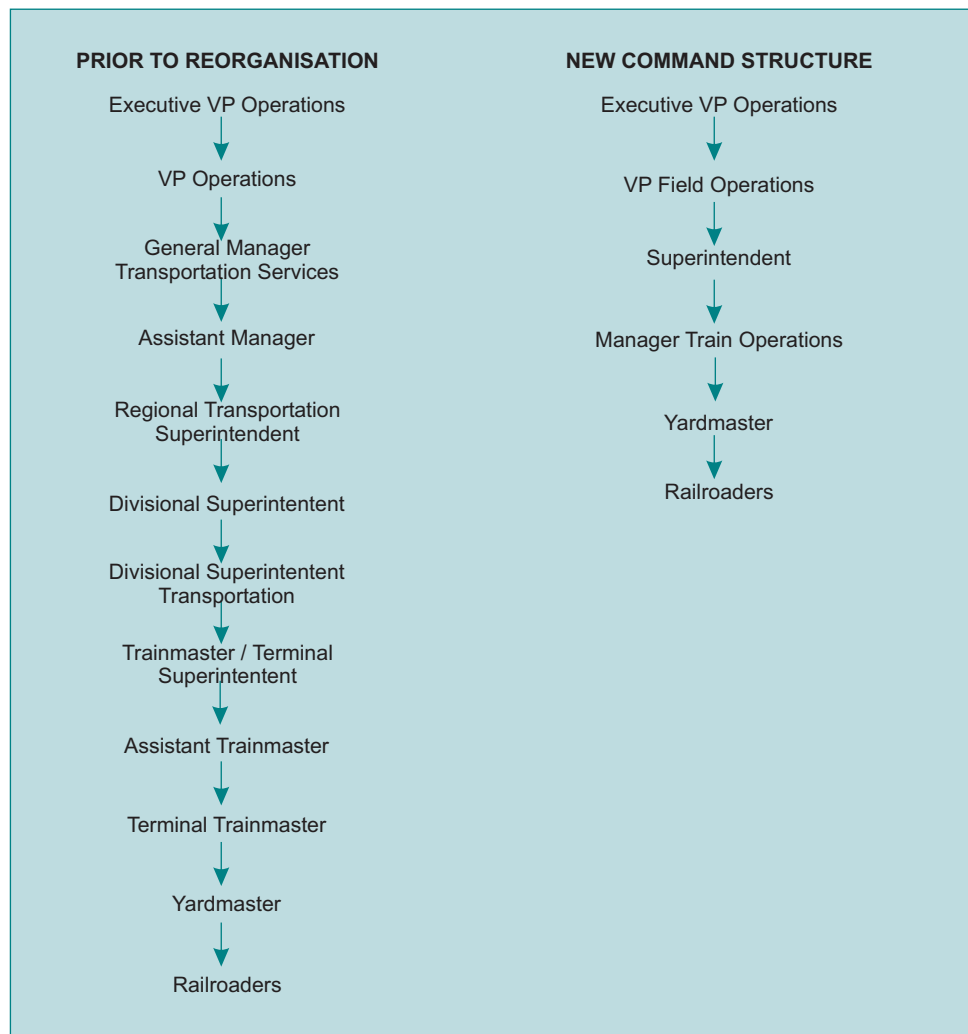
### 8.3 Understanding the Responsive Organisation

We applaud firms when they shed their 'X' characteristics of dense, bureaucratic centralisation. These reconstituted 'Y' firms create excellent returns to capital once they learn how to align differentiated units and direct their efforts toward shared opportunities. This is referred to as managing, 'loose-tight' relationships within and between firms. These arrangements blur the line between 'what's inside and what's outside' because they favour strategic alliances and joint-ventures. The common, crucial theme in the success of these enterprises is how fast they can bring knowledge to bear on market opportunities.

Companies must be designed to respond to new competitors, products, technologies, de-regulated industries and foreign markets, shrewd, price-sensitive customers and tough, global competitors. Conventional management reactions to these driving forces often leads to predictable product divisional structures, perhaps the use of matrix designs, adding vertical and horizontal coordination mechanisms. These initiatives are then jammed into the firm's design by impatient executives who are then surprised when these 'innovations' fail to boost competitive advantage and stock valuations. The problems with these highly disruptive 'quick fixes' are threefold: 1) lots of firms have tried them; 2) they are not well matched to

strategy; and 3) they are easily copied. Let's take a different route and examine how firms can become more responsive to their markets by adhering to these long-term principles.

**Simplify and delayer.** To reduce costs and to speed decision making, companies are simplifying and reducing the vertical complexity of their structures. Simplification and reduction often entail 1) eliminating several layers of the chain of command; 2) widening the spans of control of those managers who remain and 3) reducing the amount of management attention paid to employees by managers (reduce external process control). Figure 8.6 shows how Union Pacific reduced its costs and increased its responsiveness to customers by delayering. Figure 8.6 shows the old chain of command on the left and its new one on the right.



**Figure 8.6** Union Pacific Railroad hierarchy: 1987 and now

CEO Mike Walsh had this to say about the sluggish firm that he took over twenty years ago:

‘Suppose a customer was having difficulty finding a railroad car – it was either not the right one, or wasn’t where the customer needed it for loading or unloading. The customer would go to his UPRR sales representative, who went up to the district traffic manager, who in turn went up to the regional traffic manager. The regional boss passed the problem from his sales and marketing organisation, across a chasm psychologically wider than the Grand Canyon to the operations department’s general manager. The general manager then went down to the superintendent, who went down to the train master to find out what had gone wrong’.

When Mr Walsh reviewed his firm’s rigid design, he immediately ordered the removal of 800 managers in five layers of management shown in Figure 8.6. He believed that a more streamlined structure would deliver superior customer service. According to Tom Peters, a McKinsey consultant who studied the firm’s changes, market capitalisation rose steadily as did customers’ satisfaction with service.

**Reassign supporting staff employees.** Over time, corporations accumulate top-heavy staff components at corporate headquarters. Industrial engineers, staff consultants, human resources specialists and management information experts multiply like gerbils! This produces a rising (and costly) administrative ratio that often must be abruptly reversed by transferring staffs to newly created strategic business units (SBUs) where they learn value-adding operations work. Wal-Mart, the North American retailing giant, is an example of this. It has only 450 corporate staff employees at its company headquarters while it employs nearly one-million people worldwide.

**Widen spans of control.** Delaying in responsive firms often creates spans of 100–200 employees per manager. Wide spans are made possible by 24/7, Internet-based communication systems which deliver current production information to teams of employees that monitor their productivity and take corrective measures without managerial oversight and permission. In these arrangements managers’ jobs shift from oversight and control to facilitating the flow of knowledge and resources.

**Empower and engage the work-force.** In responsive firms with lean structures we find employees and their work teams taking decisions once handled by middle managers. No longer do these employees seek permission from managers before they make decisions. Instead, they leap in to take responsibility for all ‘point-of-transaction activities’. Their responsibilities cover transactions with customers, suppliers, vendors and regulators. Often the changes in empowerment ripple to a company’s field operations. In less responsive structures, field representatives and technical specialists might have to wait for weeks for answers to warranty questions or pricing proposals. Empowered field reps and specialists have the authority to answer warranty questions and to commit their company to make the necessary adjustments.

**Create team-based work system.** Delayed, responsive firms must rely on collaborative structures to assure accountability of results. Firms therefore rely more

on self-managed teams to raise productivity, product and service quality and cost effectiveness. Teams boost responsiveness without adding layers of bureaucracy. Again, we are stressing the importance of having teams make point-of-transaction decisions without direct management oversight. Some of these decisions include:

1. Formulating and tracking a budget prepared by the team.
2. Making capital acquisition proposals as needed.
3. Handling quality control, trouble shooting and problem solving.
4. Developing numerical standards for productivity and quality.
5. Suggesting new products that can be cross-marketed.
6. Working with sales, marketing and product development teams.

### 8.3.1 Experiments with the Boundaryless Organisation

The four principles laid out above unwind rigid hierarchical firms having numerous vertical boundaries which act as obstacles and choke points to rapid and responsive decision-making. Such firms develop highly differentiated departments (silos) which create horizontal complexity and undermine integration. Responsive firms have to 'think to earn their livings'. Composed of knowledge workers, they encourage every employee to consider himself a 'partner in knowledge' who finds ways to improve his corner of the firm. Technology and competition drive this trend. For instance, IBM just held an exercise in mass collaboration, an 'on-line jam' with employees from 75 countries who discussed the firm's values. Facebook, Yahoo, Google and MySpace compete fiercely for managerial and technical workers who can immediately add value to their rapidly changing business models. The CEO of eBay sums it up this way: 'We thrive on 360-degree paranoia!'.

The simplicity of stable markets and routine technologies has given way to rapid product and process change and hyper-competitive pressures from low-cost, domestic and foreign rivals. Neat, clear organisational boundaries are disappearing as firms replace complex vertical hierarchies with loose horizontal networks to link traditional functions such as production, marketing, accounting and product development by using cross-functional teams. Companies gain responsiveness by forming strategic alliances with suppliers (outsourcing), customers and competitors. Outsourcing of sales work to telemarketing firms reduces the costs of goods sold. These profound changes are quickly unravelling years of efforts to integrate vertically. They are creating what management experts call the boundaryless firm.

The **boundaryless firm** is one in which traditional vertical and horizontal boundaries are made more permeable and flexible because it adopts pan-organisational teams, technologically sophisticated communications, responsiveness to customers, joint ventures, outsourcing and strategic alliances. These arrangements demand a knowledge-based work-force made up of members who are capable of performing many more complex tasks than their counterparts in rigid, hierarchically-oriented firms. Strategic alliances and joint ventures degrade the usefulness of traditional structures even as they erode what were thought to be permanent boundaries. Let's consider how Professors Hirschorn and Gilmore explain the erosion of these traditional boundaries.



**The authority boundary** is the natural distinction between leaders and followers in firms. A boundaryless firm cannot have a rigid, centralised chain of command. To achieve responsiveness, the firm must move away from a system which issues orders. Managers must learn to lead while remaining open to criticism and accepting advice from lower ranking employees who are knowledge workers: experts in various processes and products. In the boundaryless firm it is assumed that such knowledge is widely dispersed and its presence neutralises the importance of legitimate authority: knowledge trumps hierarchy!

**The task boundary** is detectable when someone decides who must do what when departments work together. When employees from different departments – and even different firms in the case of an alliance – coordinate work, they create a flexible task network which demolishes traditional silos. For the network to be effective, its teams and members must shed the notion of ‘that task is not in my job description’. Out of self-interest they must recognise that their own performance depends directly on what their peers do.

All managers would like employees to ‘pull together’ to ensure excellent product quality and customer service. And employees say that they would prefer to work in the energised, self-directed team environment. However, the devil is in the details of making these task arrangements productive. The biggest threat to a flexible task boundary is how managers view costs. If managers fully adopt the accounting view of costs, then expenditures in training, integration and coordination must be thought of as annual costs (which are subject to minimisation). This perspective creates a mind set (There’s that ‘X’ again) that favours lower production costs, minimising inventory expenditures and the creation of control systems that track these short-run, ‘bottom-line numbers’.

If, instead, a value-added perspective is adopted, all of the costs noted above become ‘investments in future earnings’. This causes managers to consider the wider effects of their decisions on the firm’s market capitalisation. If this is management’s focus they must then concentrate on future earnings as they are affected by market share, customer satisfaction and improved product and service quality. It is a revenue-driven perspective that cannot occur in firms run by ‘X’ executives who chase cost containment.

**The political boundary** is apparent when various agendas collide! You see it when a firm is divided by conflict and in-fighting. For instance, production wants to make simple products at the lowest possible cost. Marketing wants products that exceed customer expectations but are more costly and complex. These positions harden and we find managers fighting over budgets and personnel. The boundaryless firm creates a culture that emphasises (and rewards) reduced decision cycle times and enhanced collaboration among teams.

Turf battles and political scraps among work units will never disappear. The trick is to have in place the types of performance measurement systems and incentives to encourage collaborative processes among departments and work teams. The measurement systems that hasten the resolution of political battles in firms are those that track and measure customer satisfaction. Here the ‘external customers’ are those who buy products and services and ‘internal customers’ are those that depend



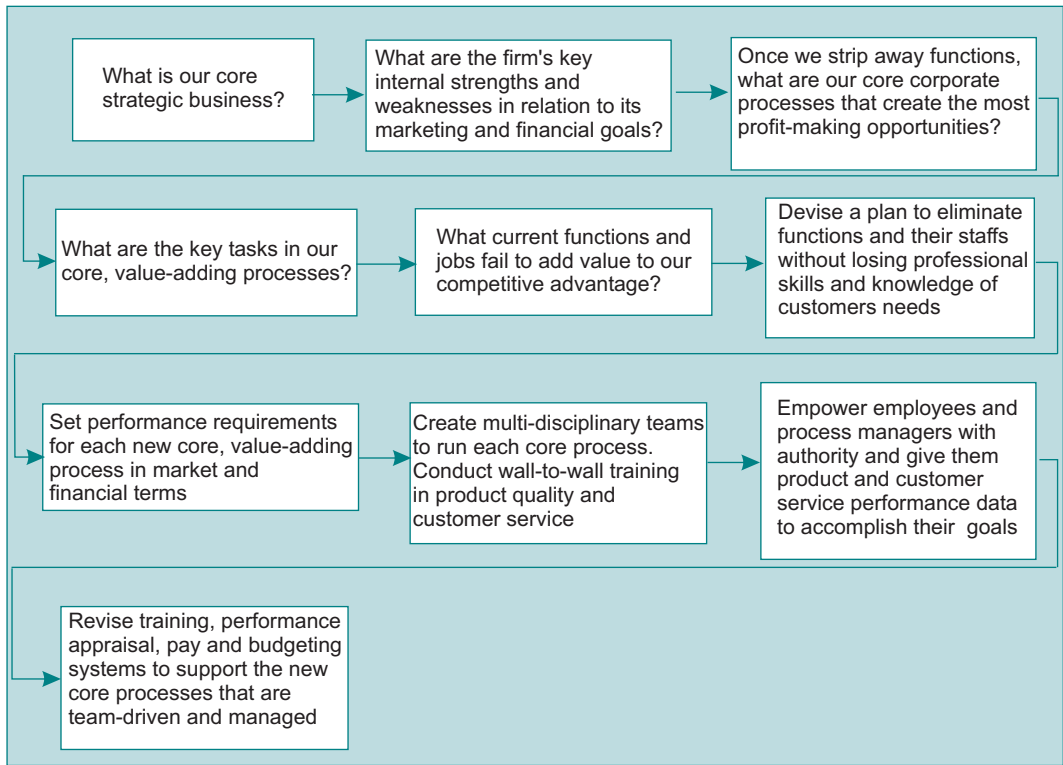
on the work of departments and self-directed teams. Many companies have taken up the challenge of making themselves more responsive to customers by measuring countless aspects of service and product quality from the 'customer's' point of view. Strategic plans reflect these measurements and managers set ambitious customer service goals. The bonuses and merit-based pay rises for self-directed teams and autonomous subsidiaries are linked to improvements in customer service indicators. Only outcome-based measurement systems and meaningful incentives will improve collaboration and diminish the effects of competing political agendas advanced by self-absorbed work units.

**The identity boundary** consists of employees' shared experiences and beliefs which set them apart from the rest of the company. This boundary is often expressed by employees as an 'us versus them' attitude. Those employees affected by it trust each other more than they trust outsiders and it undermines the effectiveness of cross-functional team work and network creation. To overcome it, global enterprises try to convince new employees to identify with the firm rather than a particular subunit. Sending them on challenging and rewarding overseas assignments, and assigning them to teams composed of 'ex-pats' boosts their cosmopolitan perspectives

Reducing the effects of the identity boundary probably contributes to competitive advantage. All firms develop multiple cultures (*see* Module 9). There is really nothing wrong with having multiple cultures or noticeable identity boundaries in a firm if the common thread tying all units together is knowledge transfer that benefits customers. Identity boundaries are 'surface characteristics' which only matter if they undermine responsiveness to customers' needs. Once again, lurking in the background is the danger of managers' passion for cost containment instead of revenue growth. The revenue-driven-market-value-maximisation perspective diminishes identity boundary problems because it stresses the importance of the 'customer-market share' perspective. The 'net-income-cost-containment' perspective magnifies identity boundary problems.

Reducing the effects of the boundaries noted above surely improves the firm's adaptiveness and responsiveness. Command and control give way to collaboration and knowledge transfer. The firm is no longer organised around the functions of business. Instead, it focuses on core processes like: 1) new product development, 2) sales and warranty fulfilment; 3) product quality and 4) customer service. Employees of the boundaryless firm work in cross-functional, self-directed teams which perform one or more of the four core processes noted above. Silos crumble as the firm spreads knowledge throughout its operations.

To become boundaryless a firm adjusts its strategy to a more turbulent environment and travels the path shown in Figure 8.7. At the centre of Figure 8.7 are the difficult jobs of determining the company's core processes, dismantling its functional departments and assigning functional specialists to the correct cross-functional teams. The successful completion of such a restructuring involves significant downsizing in departments which do not add value to the identified core processes. Deciding which units do not add value and making the attending downsizing decisions tests the resolve of senior executives.



**Figure 8.7** Creating a boundaryless (horizontal) design

### A Comment on Selecting the Best Design

Managers have to consider several factors in creating the best design for their firms. These design factors go beyond the traditional ones about division of labour, delegation of authority, departmentalisation, and span of control. Traditional decisions still have to be made; but they have to be made in light of global competition, testy investors and demanding customers. We'll end this section by briefly considering Professor Hymowitz's (2006) 'virtual' organisation; one that is run by employees 'on the fly'!

Bill Green, CEO of Accenture Consulting Company, doesn't keep an office filled with family photos because he doesn't have one! Accenture has no formal headquarters or branches. Its CFO lives in Silicon Valley and its chief technologist lives in Germany. Its head of human resources lives in Chicago and its army of consultants are always on the go, often reviewing projects, negotiating new contracts from temporary offices near clients in 100 locations worldwide. Mr Green says, 'We spend time together in the countries where our clients are, which is more important if you're running a global company'.

At Accenture managers are accustomed to supervising out-of-sight employees. Not that problems don't occur. Time zones cause employees to lose sleep when it's time for a conference call. Everyone agrees that the 'magic hour' is 1 p.m.,

London time. Some matters – perhaps a job transfer – require a personal visit despite the distance. Despite jetlag and these other challenges, Accenture executives say its virtual operations work. Overhead costs for a headquarters are much higher than travel costs. And, clients seem to like it: 85 per cent have been with the firm for 10 years or more.

Seventeen years ago Accenture broke away from the now-defunct Arthur Andersen accounting firm. No one could agree on where to locate Accenture's headquarters so the partners simply agreed to meet regularly. Communications technology keeps Accenture on track. Employees log on to the firm's secure website to record where they are working. They then get access to their files, e-mails and phone messages. If they need to coordinate with other consultants they schedule a video-conference. Accenture employs 129 000 consultants worldwide and added 40 000 more in 2006. Every one of them will conduct business from his home, a hotel suite or over somewhere at 35 000 feet!

## 8.4 Drivers of Growth in Customer Service

We've been tiptoeing around the subject and now its time to jump into a discussion of customer service! Employment in customer service in developed nations such as Canada, Great Britain, Germany and America is growing much faster than employment levels in the manufacturing sectors of those economies. In 1975, about 20 percent of university graduates in those countries entered jobs in manufacturing, construction, agriculture and mining. In the same year, about 22 percent of college graduates found employment in the service sectors. In the 90s, 38 percent of these countries' college graduates worked in services. By decade's end, 62 percent of graduates will be working in services. After several rounds of offshoring and downsizing, those workers who still remain in American manufacturing frequently find themselves in a corner cubicle and not on the shop floor. Seventeen million manufacturing jobs exist in the United States and about 52 per cent are involved in actual production. The rest are jobs like engineering, sales, marketing, consulting, logistics and support – i.e., service jobs.

The line between goods and services is blurring because global competition demands more sophisticated manufacturing and so firms combine production and service. If they fail to do this they put every employee's job at risk because a global rival will be happy to do it for them.

The sections which follow examine why companies are turning to service improvement to increase profits and market share. The nature of the service experience from the customer and employee perspectives is presented and analysed. The distinction between a manufacturing focus versus a service focus as a basis for sustained competitive advantage is examined. Added together, these sections come down firmly on the side of service quality improvement as a path to sustainable competitive advantage for the firm. We will sharpen our focus on the importance of work-force management practices which enhance service delivery and boost competitive advantage. Let's begin by examining the reasons why service quality improvement drives competitive advantage.

**Differentiating service is often easier and faster than differentiating products in terms of their physical characteristics.** The proliferation of pre- and post-purchase service reflects a growing rivalry among mature firms that make established products. Mature firms (and their industries) make standardised products that all rivals know how to make efficiently. In turn, product innovations are more costly even though they are quickly and successfully copied by rivals. Firms will always try to boost their market share by introducing new products. The most competitive and successful firms will differentiate their service mix at the same time.

**Customers demand better quality.** Global firms have addressed this issue by installing TQM systems to reduce product defects and they were rewarded with greater market share and higher profit margins. TQM can be quickly learned and implemented and so it rapidly spread across firms and industries. The quality of every firm's products rose and market shares (among firms) and profit margins stabilised. Like most widely adopted innovations, TQM began to lose its power to add value to competitive advantage because TQM methods and goals quickly diffused through industries. TQM has matured as a method to strengthen competitive advantage and now it is simply a rule of competition. Any company wishing to compete with rivals having excellent products and services must use TQM. The logical next step in the firm's search for strengthened competitive advantage is to add more services to its product mix. Firms can also apply TQM principles to measure and improve their customers' experienced service quality.

**Service improvements strengthen brand loyalty and erect market segment and industry entry barriers.** Companies that offer excellent products and high quality services know that they have a more sustainable competitive advantage than their rivals who simply try to be the industry's low-cost producer: 'our product is a commodity'. In global industries having intense competition, the low-cost producer is vulnerable to rivals with more efficient technologies and better product designs. Firms that can capture the differentiation competitive advantage (our products exceed customer expectations) can better protect their markets segments. They do this by making delightful products that are backed by high quality, customised service. These forces lift customer loyalty and give the firm more pricing power in the market place. Domestic industries composed of firms that skilfully differentiate their products and services will have higher entry barriers (to foreign competitors) than domestic industries that produce commodities subject to intense price-based rivalry among firms vying for the low-cost producer advantage.

**Bad service quickly drives off customers and lowers or erases profits.** Professors Schlesinger and Heskett conclude that a firm's service workers are a crucial link between resolving a complaint on the spot and the customer's intention to repurchase. The Technical Assistance Research Program of the US Department of Consumer Affairs found that when customers experience minor problems, 95 percent say they will repurchase if the complaint is quickly resolved. If the complaint resolution process takes even a little time, the rate drops to 70 percent. As the experts note, 'A spread of 25 percentage points can easily mean the difference between spectacular and mediocre operating performance'. Retaining customers by delivering superior service is the clear conclusion here. Professors Schlesinger

and Heskett calculate that a five percent increase in customer retention (customer loyalty) can raise profitability by 25 to 85 percent.

## 8.5 Designing Service for Customer Retention

The profile below describes a firm that aggressively solved the customer retention problem. It introduces our discussion of customer service and the principles that firms can use to retain customers by raising service quality.

The ByteRight Corporation is a maker of computer and office products. The customer service department in the business products division has responsibilities formerly assigned to the company's product managers. Before these changes, product managers had to develop and launch new products, but they were often swamped by customer enquiries about: product applications, bids, product quality problems and new product features. This resulted in fewer new products and very long lead times. For instance, a product manager, after being gone two days, would often find 300 or more customer and vendor e-mails on his iPhone.

To address the problem, customer service reps were given the responsibility and the authority to handle all of the service issues that plagued the product managers. The reps were thoroughly trained to handle every class of problem and both managers and product engineers enthusiastically agreed to back them up. This support was vital to the service reps because they had to be able to count on management to back their customer service decisions.

The service unit's 'one-stop programme,' tries to eliminate the need for transferring customers to different people in the company. 'Before 'one-stop' customers often did not know with whom they needed to talk or if they had the right people at all,' says Ian Mentor, ByteRight's controller. 'Now, customers can call us and have all of their questions answered. After two years the reps have stopped being order-takers to being territory managers', according to Mr Mentor.

### 8.5.1 Managing Services Differs from Producing Products

Let's think for a moment about how creating service transactions differs from making products. **First**, not until service is demanded is it produced. Service units are consumed immediately and they cannot be stored. **Second**, service is often provided by employees not under the direct supervision of a manager. **Third**, services are provided when and where the customer desires. For instance, banks build near their customers and Starbucks puts a coffeeshop on every street corner. **Fourth**, services are labour intensive. A truly memorable stay in a fine spa or hotel cannot be automated and delivered by a staff of robots (in sharp contrast to some of your own personal experiences no doubt). **Fifth**, services are intangible and therefore more difficult to measure than the performance and reliability of a product. And **sixth**, service is often produced in the presence of the customer who participates in the delivery process. An example of customer participation is the

interaction between you and your personal trainer as you groan your way through your new workout regimen at the health spa.

Clever firms that recognise customers as co-producers of services can more quickly detect deficiencies in their systems and methods. Many firms are surprised to learn that their customers may actually prefer to be involved in service delivery. Recognising this creates opportunities for strengthening customer loyalty, ensuring customers' repeat purchases and sustaining higher prices and profits. Even firms in mature industries find that improving their service offerings – those based on viewing clients as co-producers of service – creates new competitive advantage and rising market share. It is no coincidence that the likelihood of price wars and the intensity of competitive rivalries lessen in industries if firms find ways to improve service that is co-produced with their customers. These strategies improve customer loyalty and they reduce competition based exclusively on price.

To further understand how companies can strengthen their competitive advantage through service enhancement, we can look at what Professor Albrecht calls '**moments of truth**'. A moment of truth occurs when the customer encounters any aspect of the firm and forms an opinion about the quality of its services and products. Two things happen to customers as positive moments of truth accumulate: they reach the conclusion that the firm has their interests/needs in mind and their intentions rise to be repeat customers. If the reverse occurs, customers quickly drain from the firm's market segment.

Here are some moments of truth when you visit your doctor's office . . .

1. You stand in front of a counter or peek self-consciously through a little window to get the attention of a disinterested staff nurse.
2. You complete a dense and confusing 'medical history' form that ends with 'How you plan to pay for this service'.
3. You nervously flip through a few out-of-date magazines in a waiting room filled with other 'magazine flippers'.
4. You fidget for 30 minutes in a clammy and dreary examination room.
5. The brusque doctor sees you and then you sit for another 30 minutes before he returns from seeing another patient down the hall.
6. A staff nurse – not the physician – tells you how to use your medications.
7. You return to the waiting room and peek through the little window again!

These negative moments of truth illustrate how and where in the chain of events any provider can intervene to shape customers' perceptions of service. Isolating moments of truth and eliminating their negative elements can greatly strengthen the firm's customer-service bond. Here are the other pillars that support service-driven competitive advantage.

**A service-driven business model.** Highly competitive firms have discovered, invented, or evolved a unifying idea about what they do. This idea is often a guiding service concept (business value in the firm's mission statement) that encourages and rewards employees to discover the customers' real priorities. It is the consistent search for ways to differentiate the firm's service mix from that of its rivals'.

**Customer-oriented front-line people.** The employees who deliver service are always looking for ways to isolate and improve positive moments of truth. This leads to the customisation of service that surprises and delights customers. In turn, this cements brand and company loyalty in the customers' minds. In your marketing and strategy classes you will learn in considerable detail how these customer-based outcomes erect high entry barriers around the firm's market segments.

**Customer-friendly systems.** The company's systems focus on supporting front-line employees and all system features disappear that were originally designed for staff convenience. This is why Professor Albrecht notes that physical facilities, policies, procedures, methods, and communication processes all say to customers, 'This apparatus is here to meet your needs'.

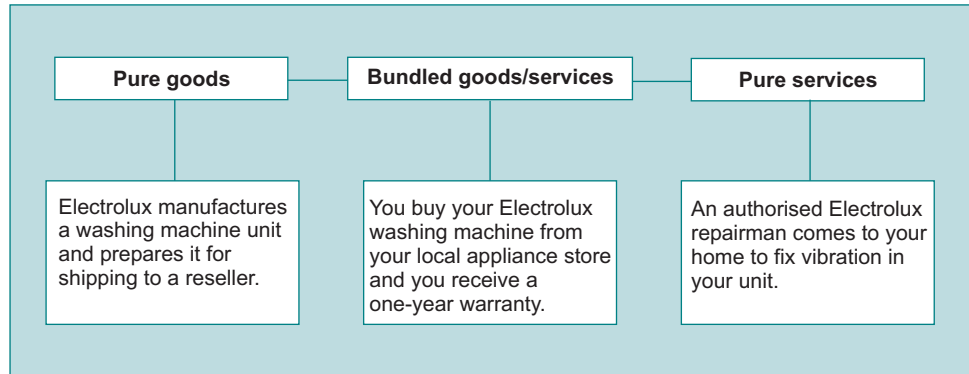
### 8.5.2 Excellent Service Goes Beyond Manufacturing Efficiency

Professors Schlesinger and Heskett want us to clearly see that the needs and expectations of customers drive the elaboration of the firm's service model. Thus, the firm's operating system and its constraints should not steer the development of its service model. Making service customer-friendly requires the firm to concentrate on how and where customers interact with the company (those moments of truth again!). The firm must maximise the efforts of front-line employees to add value through the services that they deliver. It is very difficult to maximise service quality by standardising service outputs (the goal of manufacturing efficiency). Standardising service outputs usually disappoints customers when the goal is the co-production of service. The customer wants unique involvement and all she gets is a set of rigid constraints in return. Service standardisation under conditions of co-production tells the customer, 'We want your business and we want you to be involved in what we do for you, but we want to do it our way'. This undermines the 'three pillars' noted above and it discourages potential repeat customers who reject the 'do it our way' balm.

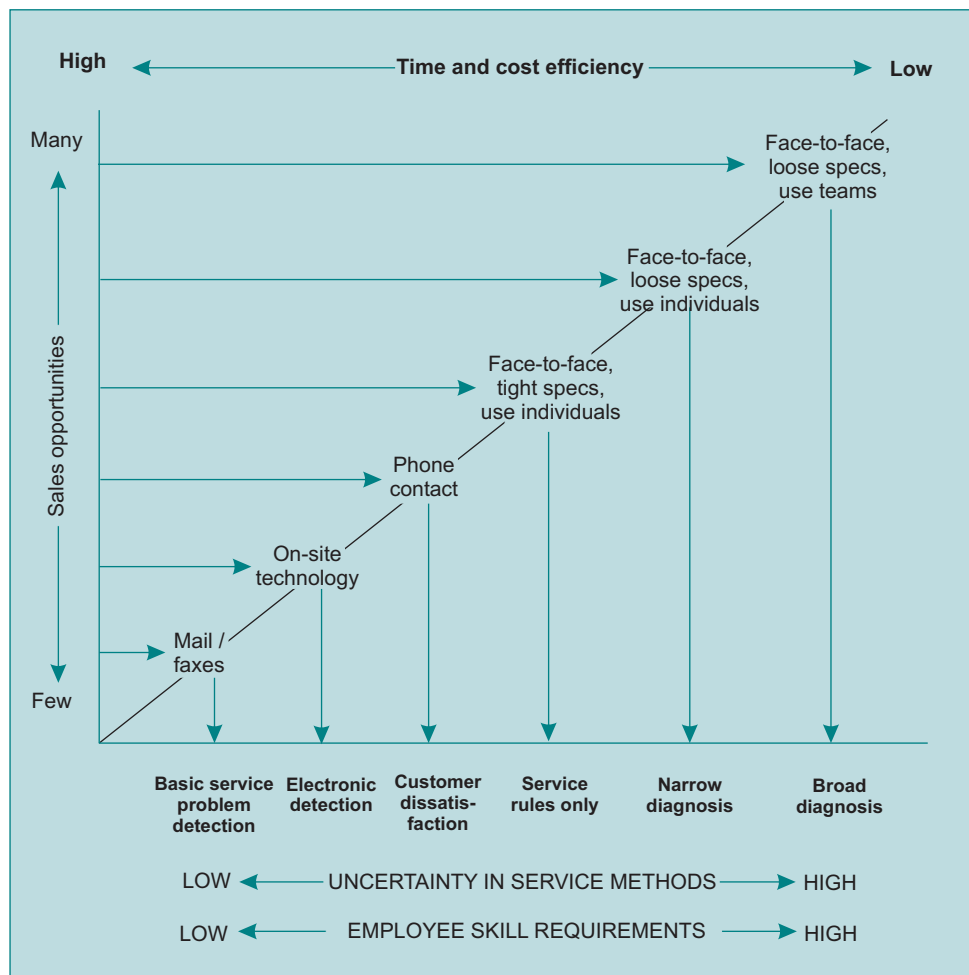
Some 'cheap' enterprises try to improve their service offerings by applying the manufacturing paradigm. After much training and effort to support a more efficient service model, the programme collapses because cost containment and not customers' needs and expectations are really at the centre of the service improvement programme. The seeds for this failure can be avoided by launching service improvement with the goods-services continuum in Figure 8.8. Professor Kreitner stresses the importance of making the distinction between pure goods that are subject to efficiencies in manufacturing (scale efficiencies) and pure services that are not.

Figure 8.8 shows that service delivery work differs from production work. Figure 8.9 classifies service jobs by sales opportunities and production efficiency which are inversely related: as sales opportunities multiply service production efficiency declines. More sales opportunities raise the frequency and complexity of interactions with customers. Companies in mature industries producing standardised products achieve longer lasting gains in market share when they enrich their





**Figure 8.8** The goods–services continuum



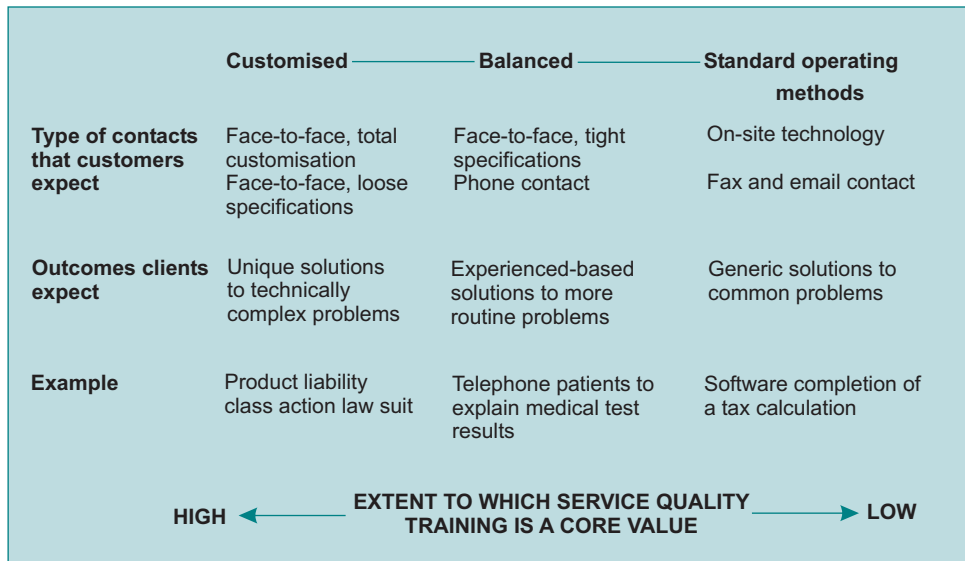
**Figure 8.9** A graphical representation of service design strategies



service mix. Often this amounts to launching a service improvement programme based on the three pillars discussed above.

## 8.6 Organising Principles of Service Quality

Let's get prescriptive and suggest some ways for firms to strengthen competitive advantage through service enhancement. Professors Schlesinger and Heskett start by **classifying the firm's services on the client-customer service spectrum** (see Figure 8.10). Implicit in the firm's location on the spectrum is the importance of building work-force service delivery skills. The firm must match its service strategy to its current service offerings and raise employee skills to support excellent service. Often firms are embarrassed to learn that their service offerings have slipped from unique to routine. If a company wants its service strategy to add value to its competitive advantage, it must custom-tailor services and ensure that employees have the proper skills to deliver them.



**Figure 8.10** The range of services and the extent of service customisation

**Organising to improve service (principle 2)** requires the firm to subordinate relevant control processes to service enhancement. Here the firm empowers employees to customise service (adjust moments of truth) during the service transaction. Subordinating control functions to service enhancement ensures the availability of timely customer data for the front-line employees who deliver service. These workers need to know that relevant operating systems and management actions are coordinated to ensure that they have the needed resources, training and authority to deliver quality services to customers. This highlights the importance of a customer-driven chain of command that emphasises the customer and his needs instead of manufacturing efficiencies as the centre of a company's business strategy.

This approach shifts information systems, incentive plans, training and development, career planning and management training from a 'bottom line' (X-control) to a 'top line' (Y-control) emphasis.

The traditional 'X' control system stresses top-down decision making and communications that strive for manufacturing efficiencies by sealing off production systems from the uncertainty-inducing demands of customers. This bottom-line approach seeks cost reductions and maximisation of net income. Supporting accounting measurement systems track costs as annual expenditures and minimise them by applying rigorous measurement, control and budgeting controls. 'X' managers stress cost minimisation and productivity maximisation, often at the expense of customer satisfaction. A bottom-line, 'X' orientation reflects a preoccupation with building, achieving and sustaining low-cost operations. These firms (with few core competencies in mature industries) grow more ineffective as they fail to reverse declining market share, rising unit costs and plunging customer satisfaction.

Highlighting service improvement (top line Y-control) focuses on expanding market share. Company expenditures for: 1) service training of employees, 2) delaying, 3) redesign of information systems to measure customer satisfaction and 4) enhanced incentive systems to spur sales to repeat customers are 'investments' in future income streams. The primary criterion used to judge these expenditures is 'How much value they will add to customer service'. This is a 'top line' (total revenue) emphasis that leads to customer loyalty, defensible market segment barriers, and lower unit costs. Entry barriers to market segments are composed of loyal customers who are less willing to switch to another producer. This principle is particularly important to domestic industries that face heavy global competition. The industry that builds and sustains customer loyalty protects its profit margins and maintains itself as an attractive destination for new capital.

The third principle of service quality improvement is **using employee engagement (empowerment)** to give front-line employees the authority to make on-the-spot decisions (control moments of truth) to meet (or to exceed) customers' requests for service. Figure 8.9 and Figure 8.10 suggest that investment in employee service training produce more opportunities for repeat sales. Skimping on service training raises customer frustration because untrained employees lack the skills to make service offerings pleasing and surprising. Along with training, the firm must alter several organisational practices to create effective services (*see* Table 8.4).

The fourth principle is **consciously avoiding the temptation to apply manufacturing assumptions in service quality delivery**. If the firm installs new practices (Table 8.4) it avoids the 'efficiency trap'. The consequences of these new practices are soon felt throughout the firm as it begins tracking the financial effects of losing or keeping of customers as well as the performance of employees who deliver excellent service. Employees begin discussing how unit revenues hinge on service. They also see how their pay cheques are related to changes in the quality of service delivery offered by their teams and work units.

Here's an example of our four principles at work in a phone-based service delivery system.

**Table 8.4** Perspectives on empowering employees to deliver excellent service

| Organisational practice   | Manager's perspective  | Employee's perspective   |
|---|--|--|
| <b>Select</b> employees for their interests and values in high quality service delivery                             | Value diversity in the work force  | What you think and believe about service quality is more important than who you are    |
| <b>Revise</b> job descriptions to emphasise teamwork cooperation  | Coach employees and develop a teamwork approach to each job in the company                                     | The customer is at the centre of service delivery                                      |
| <b>Give</b> teams of employees access to real-time data on unit service quality, costs and productivity performance | Decentralise information systems and simplify them to capture features of service delivery and service results | Employees' work to provide service is related to unit                                  |
| <b>Adjust</b> incentive systems to 'pay for performance'  | Develop appraisal system that stresses service behaviours based on service outcomes                            | Employees who deliver excellent service receive incentives                             |
| <b>Base</b> significant portion of manager's pay on quality of unit's service performance                           | Teach employees the relationship between service enhancement and unit market share and profit                  | All employees can be 'entrepreneurial' and find new ways to deliver better service     |
| <b>Move</b> managers to where the service is being delivered  | Interact with customers and model good service work  | Managers are looking for ways to enhance service, not so they can check up on our work |

An appliance manufacturer has abandoned its long-standing practice of licensing appliance repair services from contractors who have been trained in company procedures (outsourcing). Now, it uses its own repairmen (insourcing) and it has completely overhauled the way it delivers repair service.

From its customer service centre in Tennessee, 300 service reps take toll-free calls 24 hours a day from anywhere in the USA and Canada. These highly trained reps use a procedure to diagnose an appliance problem over the phone. Without delay, the rep inserts the customer's problem description into proprietary diagnostic software to produce a repair order made up of parts that are then selected automatically from a warehouse near Nashville, Tennessee. Once the parts are bundled, they are shipped by United Parcel Service (UPS) overnight to the repairman closest to the customer in question. The parts bundles come with a routing itinerary to optimise the repairman's work time for the next day. Two hours prior to the repairman's arrival, the customer receives a 'reminder' call and an e-mail from the rep who diagnosed his appliance problem in the first place.

The repairmen keep a generic inventory of appliance parts in their vans and they all work from their homes. Their parts inventory is adequate to solve about 70 percent of the appliance problems assigned to them. The other 30 percent are solved by the interactive software described above.

The Tennessee town where the customer service centre is located has a capable work force that was overjoyed to be picked for the company's customer service centre. A local college has placed numerous graduates in the company's training programme and surrounding towns are more prosperous because of the influx of high-wage jobs.

The example shows how a company in a highly mature industry (home appliances) reinvented itself to emphasise customers' needs. It shows that communications systems, inventory management, warehousing, parts shipping, repairmen's jobs and community involvement can all support highly customised repair services. The firm altered its organisation practices (Table 8.4) practices to change the behaviour of managers and employees who deliver front line service. The strategy integrated several information streams, rigorous training and highly motivated workers to deliver excellent service.

If customers are the starting point to revenue growth in successful companies, then the employees who create and deliver that excellent service must be valued as much as its customers (Y orientation). Companies trying to improve their market share and raise customer loyalty must train, support and reward employees who provide excellent service. Over time, employees will earn more in those firms that abandon their manufacturing/efficiency focus to service delivery. Likewise, employees' pay gap between firms delivering high and low quality service will widen and become well known throughout the industry. Firms that choose the service quality strategy will benefit by being able to choose new employees from a higher quality applicant pool. Their less service-driven rivals will have to select employees from the bottom of the pool.

## 8.7 Creating a Service-Driven Organisation

Knowing the principles of sound service delivery is certainly crucial. Now, let's look at how firms reconfigure themselves (and their services) to raise their market capitalisations. Here are some 'pro forma' steps on the path to service-driven competitive advantage.

**Step 1: Conduct a service audit.** Audits mean measurement and measurement means tracking customer satisfaction. Isolating the features of service (moments of truth) that are important to customers and how they rank them is the starting point of a customer service audit. The audit's goal is to see how well the firm's service elements compare to those of its rivals. To get you started on building a service audit you might consider customer survey questions like these:

1. What is the maximum service-delivery time you will tolerate without feeling inconvenienced?
2. How long should it take to perform the service itself?
3. How much time can elapse before you take a negative view of our service?
4. What factors should tell us that the service experience has begun for you?
5. How many different employees should be involved to deliver service to you?
6. What components of the service are necessary? Desirable? Unnecessary?
7. What service components must be controlled to ensure your service experiences are excellent?
8. What components of service can vary by service episode without compromising its quality?

9. Do parts that we buy from other companies affect your satisfaction with our service?
10. What aspects of our service reduce your stress regarding delays?

**Step 2: Develop a company-wide service strategy.** A firm needs a 'service mission statement' to show everyone how its competitive advantage is based on service quality delivery. Frito-Lay, a maker of snack foods defines service as '99.99 percent on-time product delivery' to retail outlets. For USAA Insurance Company, the mission is 'Service Comes First'. Scandinavian Airlines System's CEO, Jan Carlzon says, 'service, as perceived by the customer, [is] the number one driving force of the operation of the business. In the simplest terms, the service mission statement should answer the question: 'Why should customers choose us?' All company systems and methods should reinforce the answer to that question. All company operations should focus on how to deliver the service that keeps customers coming back for more.

**Step 3: Conduct 'wall-to-wall' employee training.** Training employees to deliver excellent service invests in future earnings. Managers who believe that service training is a cost to be minimised (hire people for 'idiot-proof' jobs) jeopardise their firms' future earning streams. Idiot-proofing jobs reverberates with the efficiency-driven X orientation because such jobs leave little real room for employees to create meaningful service improvements. This produces at best a standardising service mix delivered by a demoralised work force that has much more to offer customers (if they were only free to).

Managers in companies that deliver excellent service see the link among customer satisfaction, employee morale and service quality training. Retail sector studies conducted by Professor Albrecht show that customer satisfaction declines in stores using part-time workers and having high sales staff turnover. The Marriott Corporation, a large US hotelier, discovered that reducing employee turnover by 10 percent would reduce customer non-repeats by 3 percent and raise revenues by \$50 to \$150m. At Ryder Truck Rental Company, managers found that turnover and workers' compensation claims dropped substantially for employees receiving training in service quality versus employees who did not receive the training. The inescapable conclusion about training is this: customer loyalty depends on employee morale and employees' knowledge of how to deliver excellent service.

**Step 4: Implement the service improvement programme.** By following the employee empowerment imperative in service delivery, firms convince front-line employees that they are free to find ways to improve service quality. The best way to launch the work force engagement imperative is to use temporary project teams to The project teams report to top management and they last as long as it takes to diffuse the programme throughout the company. Project teams can be organised to handle specific aspects of service quality improvement. For instance, the project team in charge of service training and development might design an **application lab** in which service specialists from the project team fan out to company departments to conduct sessions to develop the department's service mission and to identify service operations that the department would like to improve with

the project team's help. Using tools like the goods-services continuum and the service spectrum, the project team shows a department how to identify key moments of truth and how to customise its service mix.

During programme implementation, project teams regularly report their results to management. In turn, management monitors time-lines to ensure that the service quality programme is on schedule and meeting its goals. The implementation phase includes measurements of service quality improvements as well as measurements of implementation success (rising market share and rising market capitalisation). As the work of service quality improvement teams diffuses through the firm, old systems are abandoned or redesigned. Moments of truth can be applied to show where conventional service designs have failed. All of these activities (and tools) break down manufacturing efficiency assumptions. Employees who want to deliver excellent service see the opportunities available to them in a service-driven business model and they adjust their behaviour to the new way of doing things.

**Step 5: Make the service improvements permanent.** To make service improvements permanent, practices such as performance measurement, incentive system design and communication have to be changed. Along with learning new service-focused job behaviours, employees must be rewarded when they succeed in delivering excellent service. Through the use of incentives, excellent training and valued rewards that are tied to service, the firm can create new values in its culture that focus on service quality. When these new values materialise we can say that the service quality programme is institutionalised. Full institutionalisation can take as long as five years. However, rising profits and market share will occur much sooner. Here are some typical indications that a service quality improvement programme has been institutionalised.

1. Employees understand how to produce excellent service.
2. Training for new employees emphasises service delivery and company systems.
3. Measurement of service quality penetrates all company operations.
4. The company commits to 'wall-to-wall' service training.
5. Manager and employee bonuses are based on measured service quality.
6. Recruiting and hiring systems emphasise personal attributes that are related to excellent service skills.
7. Older employees teach new employees the meaning of service quality.
8. Rivals try to copy the firm's service-driven business model.

## Summary Points

- The four key aspects of organisational design are division of labour, allocation of authority, departmentalisation and span of control.
- Mechanistic (X) designs vary in terms of division of labour, allocation of authority, departmentalisation, and span of control. The mechanistic firm has high division of labour, low delegation of authority, uniform departments, and narrow spans of control. Organic (Y) designs have less division of labour, greater delegation of authority, and wider spans.

- Division of labour subdivides work and it creates economies of scale through task specialisation. It sustains the competitive advantage of the low-cost producer in a given industry.
- Delegation of authority gives control of work activities and goals to employees. When done broadly and consistently across the firm, delegation of authority is employee empowerment.
- Departmentalisation is the grouping together of like jobs. The four forms of departmentalisation are: 1) functional, 2) territorial, 3) product, and 4) matrix. Large, complex firms blend all four forms of departmentalisation in their designs. The choice of design is heavily influenced by the extent of environmental uncertainty.
- Centralisation is the retention of authority to make decisions by top management. Highly centralised (X) firms are formalised, standardised and specialised.
- Formalisation is the extent to which employees' work is controlled by written documentation of rules, regulations and work procedures.
- Standardisation limits behaviour variation in a job.
- Outsourcing is contracting with outside firms for goods and services that support manufacturing, accounting functions purchasing, sales, customer service, product development and personnel practices.
- Decentralised firms delegate authority to employees. They exhibit less formalisation and standardisation than centralised firms. Decentralisation has strengths and weaknesses which must be weighed in relation to the firm's business model.
- Coordination is the linking of subunits to achieve a pattern of consistent outcomes. The level of coordination needed is highly sensitive to the amount of information that must be processed to accomplish tasks throughout the firm.
- Vertical coordination is improved by using groups, a collateral organisation, direct supervision, standardised work processes, standardisation of outputs, use of performance appraisal, and management information systems.
- Horizontal coordination is improved by using direct manager contact, liaison roles, horizontal task forces, and permanent teams to manage recurring work-flow problems.
- Interorganisational designs (conglomerates) engage in related and unrelated diversification. Strategic alliances are cooperative arrangements between two firms that are often used to help a company enter global markets.
- Organisational control refers to the set of mechanisms used to keep action and outcomes within predetermined limits.
- Process control standardises task performance by either specifying work methods or setting work standards. Process control often limits flexibility if the firm operates in a risky environment. External process control detects production defects and corrects them. Internal process control relies on self-directed teams to solve product or production problems with total quality management.
- Results-oriented control (MBO) achieves uniformity by specifying the results to be obtained by employees and their work units.
- MBO rests on superior-subordinate teamwork to: 1) establish goals, 2) review goal progress, and 3) resolve conflicts and take corrective action with respect



to set goals. Goals motivate employees by channelling and focusing their behaviour on a useful end result. Some managers undermine goal setting by over-emphasising control (record keeping) at the expense of the goals themselves.

- Responsive firms focus on customers and their service needs. This is a revenue or 'top line' orientation that builds competitive advantage on the firm's ability to meet or exceed the needs of customers.
- The responsive firm stresses employee training, reward system design and improved organisational practices to strengthen its service mix.
- Sealing off company systems from external risk is a hallmark of 'X-based' manufacturing assumptions. They are inconsistent with a strong customer service orientation and the firm must abandon them if it hopes to defend its market segments.

## Review Questions

### True/False Questions

- 8.1 If a manager created a matrix to cope with high hierarchical information loads, he would be practising organisational design. T or F?
- 8.2 The two most important features of division of labour are how the work should be divided and how jobs should be grouped. T or F?
- 8.3 Mechanistic 'X' firms would find the introduction of self-directed work teams to be less cumbersome than organic 'Y' firms. T or F?
- 8.4 Delegation of authority is a principle of decentralisation. T or F?
- 8.5 Once authority is delegated to a subordinate, the manager is not accountable for the quality of the subordinate's work. T or F?
- 8.6 'Manage by exception' is a principle of delegation which requires the manager to involve himself in his subordinates' decision-making only when unusual events occur. T or F?
- 8.7 Firms that practice delegation always have large corporate staffs. T or F?
- 8.8 The functional design develops managers who have considerable knowledge of field operations. T or F?
- 8.9 Departmentalisation can be successful if it combines a product and a customer emphasis. T or F?
- 8.10 The territorial design develops managers with extensive customer knowledge. T or F?
- 8.11 The product divisional structure aids the creation of products to fit market 'niches'. T or F?



- 8.12 The product divisional design lends itself well to the creation of 'profit centres' for a product or family of related products. T or F?
- 8.13 The matrix design violates the unity of command principle. T or F?
- 8.14 Outsourcing improves the flexibility and adaptability of designs and strategic plans. T or F?
- 8.15 As a rule, a matrix has to encourage delegation of authority. T or F?
- 8.16 A *keiretsu* As a rule, a matrix has to encourage delegation of authority. T or F?
- 8.17 Centralised structures are more formalised and standardised than decentralised structures. T or F?
- 8.18 Decentralisation is associated with empowerment and self-directed teams. T or F?
- 8.19 An indicator of decentralisation would be the amount of authority salesmen have to adjust prices. T or F?
- 8.20 As a firm grows, its hierarchy remains the most effective means for ensuring coordination. T or F?
- 8.21 The extent of environmental uncertainty and task uncertainty determine the amount of information which must be processed during task execution. T or F?
- 8.22 Reducing the amount of attention that managers pay to employees (direct supervision) would be a feature of a delayed organisation. T or F?
- 8.23 Combining a management information system with an MBO system would improve vertical coordination and control in the organisation. T or F?
- 8.24 In the product divisional structure we would expect to see liaison roles transform into product or brand manager positions. T or F?
- 8.25 Increasingly difficult work standards are an example of a problem which occurs in process control-oriented work systems. T or F?
- 8.26 Eliminating manufacturing efficiency from service delivery requires the firm to alter the criteria that it uses for selecting and hiring employees. T or F?
- 8.27 Because service cannot be stockpiled or warehoused, it is unimportant to train service delivery employees in effective inventory cost control. T or F?
- 8.28 Making service delivery a major feature of competitive advantage requires more effective use of the line-of-sight principle. T or F?
- 8.29 Employees delivering excellent service would be likely to say that from one period to the next they are unconcerned with how well their work unit is performing. T or F?
- 8.30 Service-driven firms have to improve the quality and amount of upward communication. T or F?

- 8.31 Service quality measurement stresses results-oriented control more than process-oriented control. T or F?
- 8.32 Starting a price war and lowering costs is a faster way to gain market share than by investing in service quality improvement. T or F?
- 8.33 In downsizing, a firm's service quality would not be hurt if employees who delivered experienced-based service for routine problems were laid off. T or F?
- 8.34 Employees of service-driven firms are highly motivated by across-the-board pay rises. T or F?
- 8.35 Delaying and outsourcing, when done without employee participation and employment security, can cause the relationship between job stress and performance to become negative. T or F?
- 8.36 In a service quality audit firms often learn that customers associate cost cutting and outsourcing with lowered service quality. T or F?

### Multiple Choice Questions

- 8.37 Which of the choices below represents the structure of a firm?
  - A. The firm's goals.
  - B. The firm's division of labour and coordination of work activities.
  - C. Only how the firm delegates authority to various managerial positions.
  - D. The firm's pattern of formal communication channels.
  - E. The firm's listing of job titles.
- 8.38 Which of the choices below represents an organisational chart?
  - A. The formal authority lines and manager-employee reporting relationships.
  - B. The informal work groups and their connections to the firm.
  - C. The total size of the firm.
  - D. The number of employees in each department or subsidiary.
  - E. The job requirements for each position in a department.
- 8.39 Which of the following choices represents a flat organisation?
  - A. Narrow spans of control.
  - B. Close supervision and limited delegation of authority.
  - C. Wide spans of control.
  - D. Uniform departments.
  - E. Numerous promotion opportunities and rapid upward movement of employees.
- 8.40 Which of the following choices would work best to create horizontal and vertical coordination in a firm?
  - A. An assistant to the president.
  - B. Cross-functional project teams.
  - C. A technical mentoring programme.
  - D. A management information system coupled with the use of liaison roles.
  - E. A flat structure.

- 8.41** Which of the following choices is linked to a tall chain of command?
- A. Centralisation.
  - B. Matrix designs.
  - C. Loose, organic decision-making structures.
  - D. Informal communication channels.
  - E. Professional bureaucracy.
- 8.42** Which of the choices below would require a manager to have excellent project and team management skills?
- A. Matrix.
  - B. Territorial.
  - C. Functional.
  - D. Product divisional.
  - E. Mechanistic.
- 8.43** Which of the following choices is the most commonly accepted basis for departmentalisation?
- A. Communication patterns that are linked to unit tasks and goals.
  - B. Span of control.
  - C. Required groupings of jobs to accomplish work.
  - D. Length of seniority of members of various departments.
  - E. Production planning and output goals.
- 8.44** Which of the following choices should be used to complete the following sentence? The \_\_\_\_\_ design would be most effective for meeting business conditions that required specialised products to meet variations in customer tastes based on culture and customs.
- A. Matrix.
  - B. Functional.
  - C. Product divisional.
  - D. Territorial.
  - E. Combined product and territorial.
- 8.45** Which of the following choices shows how decentralisation can strengthen the firm?
- A. Reduce the chance of jurisdictional and priority disputes among various departments.
  - B. Smooth coordination problems in joint functions such as purchasing.
  - C. Allow concurrent and multiple tasks to be coordinated across functional departments.
  - D. Prevent innovation from being restricted to specific projects.
  - E. None of the above.
- 8.46** When a firm's problems are ill-defined and managers believe it needs to more effectively handle change, the firm probably would follow which of the following choices?
- A. Create a collateral organisation.
  - B. Set up a matrix design.
  - C. Adopt the product divisional design.
  - D. Recentralise.
  - E. Decentralise.
- 8.47** A results-oriented control system would be most characterised by which of the following choices?
- A. The establishment of output control through goals and objectives (MBO).
  - B. Carefully set work standards.
  - C. Close supervision in the production division of a company.

- D. Quality control work that is separated from production or assembly work.
  - E. Focus on the methods of production.
- 8.48** Which of the following choices should a company select that is trying to improve its service quality?
- A. Make greater investments in technology to speed service delivery by using computers.
  - B. Increase investments in work force training to enhance service delivery.
  - C. Delay and move corporate managers to field units charged with service delivery.
  - D. Downsize and delay the decision to conduct wall-to-wall training.
  - E. All of the above.
- 8.49** Which of the following choices represents one thing that firms delivering poor service have in common?
- A. They have forgotten the central role of customers in revenues.
  - B. They view service improvement as a priority that should be addressed before outsourcing.
  - C. They use project teams to oversee company change programmes.
  - D. They have more employee empowerment as a result of outsourcing and layering.
  - E. They have developed a service mix that is too complicated for the service skill level of the front-line employees.

### Short Essay Questions

- 8.50** Europa Insurance Company operates in several countries in Europe. The firm has experienced stiff competition from rivals recently purchased by Japanese insurance firms. Europa is organised on a 'product line' basis with certain divisions concentrating on types of related policies (group insurance, commercial, maritime, family, auto and health). Customers have complained about policies which do not meet their particular needs. Several have noted that policies are 'designed more for the convenience of Europa than for its customers'. Further, several sales managers have been criticised by customers as 'lacking a customer orientation'. With these considerations in mind, suggest a new design which might improve Europa's capacity to meet market needs.
- 8.51** At a dinner party your friend Phillip asks you about your 'knack' for developing your subordinates into skilled managers who are recruited by other divisions of your firm. You explain your technique as 'constantly pushing authority down the company hierarchy' to see which subordinates can handle it. Phillip is intrigued by your explanation. If he were to try to be a more effective delegator, what advice would you give him?
- 8.52** What are the four design issues that challenge management?
- 8.53** What are problems faced by employees in the product-divisional firm?
- 8.54** What managerial skills would project or programme managers need to be successful in a matrix?
- 8.55** Why do so many managers advocate decentralisation in theory but practise it ineffectively?

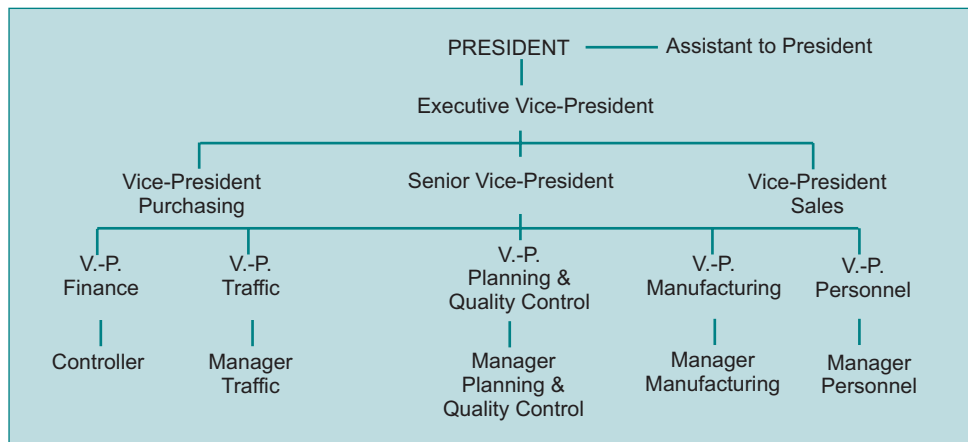
- 8.56** Differentiate between coordination and control. What are some negative outcomes associated with process control?
- 8.57** What are some of the benefits of conglomerate business structures?
- 8.58** What economic forces undermine the strength of Japanese *keiretsu*?
- 8.59** Corporate responsiveness to customer needs is increasingly viewed in terms of new structural arrangements in companies. What are some of the changes that are being made in the design of firms to enhance their customer responsiveness?

### Case Study 8.1: Analysing a Change in Design

Lucien Able has learned he will be promoted to plant manager of Tobric Company Ltd. In this position he will report to a senior vice-president and he will be responsible for all plant functions except purchasing and sales.

#### The Company's Organisation Design

Tobric does business throughout the UK. It was started in 1975 by an entrepreneur/inventor who had patented a system to greatly reduce the costs of making industrial electronic controls. Production operations were overseen by a senior vice-president (Lucien's future boss). Tobric's design is shown in Figure 8.11. For many years, the company had relied on a functional design for its manufacturing division in Manchester.



Source: Adapted from R.C. Dailey, 1988. *Understanding People in Organisations*. St. Paul, MN: West.

**Figure 8.11** Tobric company organisation (old design)

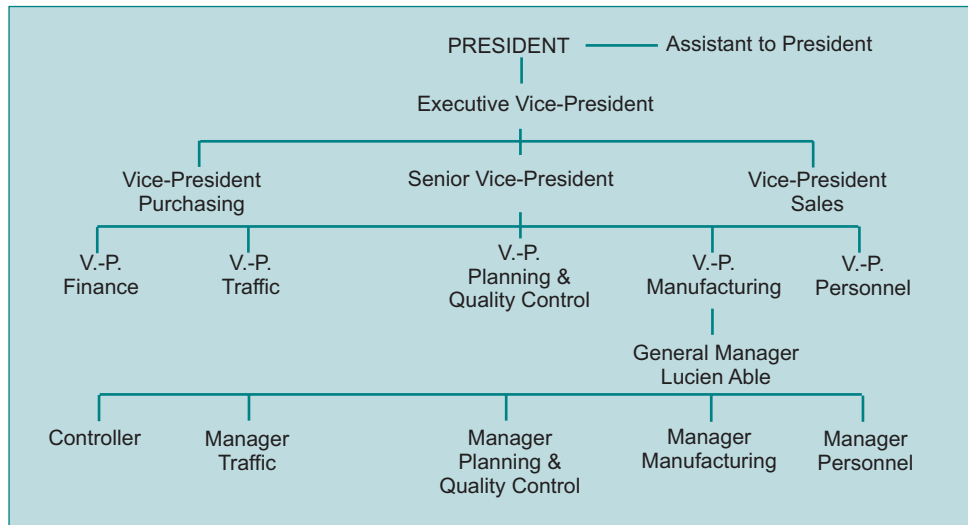
The Manchester centre did not have a general manager. Instead, production managers in Manchester reported to their functional counterparts at company headquarters in London. For example, the manufacturing department manager reported to the vice-president in charge of manufacturing at the corporate office. This practice was followed by Tobric's four facilities in the UK.

The president was disappointed in the company's overall performance. A consultant's report stated that Tobric had to reduce its unit costs which were running 21 per cent above the industry average. The president decided to use the Manchester plant as

a 'test case' for his programme to improve Tobric's financial results. If it worked in Manchester, he planned to roll out the programme in the other divisions.

### New Operations Mean a New Design

The president wanted to pilot test a decentralised design for Manchester. It called for a new general manager position (Lucien's new job) and the overall structure is shown in Figure 8.12.



**Figure 8.12** New design of Tobric (Manchester pilot project)

Here's what Lucien had to say about his new position:

I am going into a new situation with lots of changes. I'm looking at a whole new way of running a plant. Relationships and results will be more important than methods and protocol. Manchester managers reported to their functional superiors in London. Now they will report to me, and I'm a stranger! I've met with the corporate boys and I know how they handled their Manchester subordinates: rather poorly in a few cases... Some have already tossed out their connections with Manchester managers and it's a shame if you ask me. Two London managers take a wider corporate view and they plan to maintain informal contact with their former subordinates. I wish I had a way to handle these relations with London's execs. I really want to build an effective team here in Manchester and I'm worried that our 'test design' will leave all of us 'at sea'.

- 1 Describe Tobric's 'before and after' designs. How can top management ensure the success of the pilot programme?
- 2 How can Lucien ensure horizontal coordination at Manchester?

## Case Study 8.2: How Hewlett-Packard Avoided the Decline Suffered by IBM<sup>1</sup>

Some years ago David Packard and Bill Hewlett remarked 'If we didn't fix things, we'd (H-P) be in the same shape as IBM is today'. As both men approached 80, they stepped back into H-P's management because they didn't want to see H-P slip into a bloated, costly company that produced a wagon-load of high-priced, technologically superior products with declining profit margins.

In the 90s IBM was in the red and its stock price was halved. Management turmoil and work-force concerns were mounting at 'Big Blue'. IBM lost over \$5bn and the company's board dumped John Ackers, its CEO and hired Louis Gerstner, Jr., a former McKinsey and Company consultant and one-time CEO of RJR Nabisco. H-P faced many of the same problems IBM did: years of stellar performance, widespread corporate expansion, eroding customer loyalty and stagnant markets for business products (mainframe computers). Even though IBM pioneered the personal computer, it (and H-P) had lost substantial market share to Dell and its 'direct to the customer' business model.

Unlike CEOs at IBM, Mr Packard and Mr Hewlett had retained their power to cause change in their company. Together, they owned 25 per cent of H-P's stock and they commanded the loyalty and respect of HP's technical personnel and management staff. H-P had grown 10-fold during the last 25 years and it had adopted a no-lay-off policy. H-P was not ready for the wrenching change that was necessary for it to prosper during the next 15 years.

H-P emerged as a redesigned and refocused company well before its competitors because Messrs Packard and Hewlett personally handled the repositioning of the firm. They started the change process by bypassing their headquarters staff and they went to the field to speak to groups of H-P employees. From their conversations they concluded that H-P had grown too bureaucratic and centralised. To reduce these rigidities, they began to move people, power and product development decision-making away from corporate headquarters to field operations.

As these shifts unfolded, managers who were comfortable at corporate headquarters found themselves moving to field operations. For example, Lew Platt, head of H-P's computer systems group, had to transfer from Palo Alto to an office 20 miles away in Cupertino. Once he had settled in, Platt quickly developed a plan to build a new computer workstation in the remarkable time of one year. Significantly, he set out on this course without seeking approval from CEO John Young.

Messrs Packard and Hewlett then engineered a smooth leadership transition by easing out CEO Young and replacing him with Mr Platt. Mr Young served on the selection committee which recommended Mr Platt for the job.

By the late 90s a redesigned H-P was closing in on Sun Microsystems for the top industry slot in the manufacture of workstations. At the same time, it consolidated its domination of the laser printer market by overwhelming Apple Computer Company and several Japanese competitors.

The important ingredient in H-P's successes was the simple difference between action and words. H-P practised what it preached and decentralisation proceeded quickly under Mr Platt's leadership. Taking swift action and dispersing power have always been part of the management culture at H-P. In the company's early days, Messrs Packard and Hewlett practised the simple strategy of dividing in half any division which reached 1500 employees. Each division developed its own marketing, engineering, manufacturing and human resources staff. The founders did not want divisions to grow so large that

<sup>1</sup> Excerpted from J. Pitta, 'It Had to be Done and We Did It', *Forbes*, April 26, 1993, 148–52.

workers and staff lost their sense of pride in their work and their urgency to make their divisions successful. This organising principle was at the heart of the company when it was founded. Messrs Packard and Hewlett, along with their other founding engineers, valued the entrepreneurial spirit and they wanted the opportunity to stay close to all aspects of running the divisions of the company. Thus, divisions in H-P are highly focused and committed to successful product lines which are run by managers with entrepreneurial spirit and technical excellence.

Other computer giants take a much different approach to strategy and structure. In IBM, the organisation and its structure always take precedence over individuals and their product ideas. Organisation men who are well-rounded and thoroughly versed in IBM's culture and operating divisions are highly valued and their careers are put on the fast-track. These individuals are moved and promoted about every two years and quite frequently they begin posturing for their next promotion before they have completely settled into their current job. The inside company joke was that IBM stood for: 'I've been moved'. There was considerable truth to the joke because IBM had a department of 70 specialists who handled the paperwork for IBM employees who were undergoing international transfers.

It isn't that HP doesn't transfer personnel too. However, at HP transfer and personnel movement are initiated by the individual rather than being a reflection of a giant cross-training and promotion programme for executives as in the IBM system. In HP, employees can request transfers to available jobs, but they must compete with qualified candidates from outside the company. At IBM, promotion from within and systematic job transfers have always been a way of life.

In H-P's new design, vertical complexity has been reduced so that four levels of managers separate the CEO from line workers. At IBM this separation swells to eight levels. With its countless executives and managers, IBM does need eight levels in the chain of command to make its management promotion and job rotation system work. However, any reasonable manager realises that in a successful company, market and product strategy, and not the job transfer and promotion systems, should drive the configuration of the chain of command.

Too much divisional autonomy and decentralisation can also create complications for a company like H-P because it can create conflict among product lines and considerable duplication of resources among product divisions. Sometimes the corporate reaction is to over-centralise control of the company's divisions from headquarters. An example of this occurred at H-P when then CEO, Carly Fiorina, tried to centralise product design and development at corporate headquarters. Conflicts among divisions were handled by committees which bargained and negotiated solutions which left neither party satisfied. Under the centralisation regime, one vice-president remarked that it took 19 signatures to institute a one-time change in a pricing plan for a software product. Launching a new networking product required approval from 38 committees.

H-P's current CEO, Mark Hurd, has followed in the footsteps of Messrs Packard and Hewlett. He has transformed H-P into a more entrepreneurial, decentralised company. He has fully integrated the acquisition of Compaq Computer into H-P's business model and he has repaired board relationships which were strained under his predecessor. He is helping H-P to surmount Dell's crumbling lead as the world's number one maker of PCs.

Redesign in the spirit of Messrs Packard and Hewlett still resonates throughout H-P. Under Mr. Hurd's guidance, the firm continues to dominate the printer market; often



selling its machines at below cost to ensure the revenue stream from its highly profitable ink cartridge business. Product development proceeds apace and H-Ps divisions continue to fill channels of distribution with new products.

- 1 Please explain HP's transformation using the concepts advanced in this module.
- 2 In your opinion, could HP's practice of decentralisation go too far? Please explain your reasoning using the concepts advanced in this module.

### Case Study 8.3: Dumbsizing

Shareholder demands for higher returns in the face of aggressive competition have triggered a global downsizing trend that sweeps across firms and industries. Downsizing creates economic insecurity in a work force (see Module 2). Employees who have personally experienced downsizing might be less charitable and call it '*dumbsizing*'. The vignettes to follow show how service quality deteriorates when companies cut costs by downsizing, outsourcing and offshoring.

#### Valuetech Decides to Save Some Money . . .

Valuetech expected to save thousands of dollars when it decided to lay off Ms Lee, a 17-year computer-aided designer was originally hired by a local sub-contractor working for Valuetech. 'I took the project I was working on and finished it here,' she says. But instead of paying her £20 per hour plus fringe benefits, Valuetech is paying her new employer £50 per hour, and Ms. Lee earns £15 an hour without fringe benefits.

According to Ms Lee, Valuetech's downsizing has left its engineering group demoralised, burned out, and disinterested in their work. 'When they send a job over here and we say it will cost X, they just say go ahead', she says.

Executives have taken to downsizing and offshoring with a fervour driven by low-cost global competitors, and impatient, return-hungry investors. They hope their efforts will yield quickly rising profits and impregnable defences against hostile suitors. Sadly, many downsizing decisions are hasty and they return to haunt the executives who make them. The hobgoblins that emerge are: poor public relations, no change in the bottom line, customers who are unhappy with service, vendors who leave and never return, and employees who do the same or who stay on the job and worry constantly about the next layoff.

#### Synergeticum Company Tries to Benefit from Downsizing . . .

Synergeticum recently announced across-the-board cuts in its health-industries group that sold computer equipment and services to hospitals. The cuts disrupted long-standing ties between its veteran salespeople and major customers because their accounts were transferred to other divisions. It also outsourced hundreds of smaller accounts to a sub-contractor in India without telling its customers. The experience of a company marketing manager who recently resigned from Synergeticum paints this picture: 'I had customers coming up to me and saying, I haven't seen a Synergeticum sales rep in nine months. Whom do I talk to now?'

Resellers of the company's equipment have also complained about diminished technology and sales support. 'There were months when I couldn't find anyone with a Synergeticum badge,' complains a client who had grown used to Synergeticum salespeople accompanying him on sales calls. 'They walked away from large numbers of clients,' says Richard Cysco, CEO of Itrain systems, a company that used to have an exclusive

arrangement with Synergeticum. So far, the winners in this industry segment have been Synergeticum's rivals. In fact, many laid-off employees simply took jobs with Synergeticum's competitors and with them came their customers.

### **Global Biscuit (GB) Tries to Boost Profits through Cost Cutting . . .**

The crushing debt incurred in the leveraged buyout of GB has found many divisions under extreme pressure to cut costs and improve profit margins. Highly paid consultants recommended that the Snack Food Sales Division (SNFD) be merged with the Crackers and Hard Candy (CH&C) sales forces. This essentially combined mustards and condiments with pet treats candies, salted pretzels and nuts. Unfortunately, the divisions sold vastly different products in remarkably dissimilar markets. SNFD supplies grocery stores and CH&C supplies chemists and convenience shops. A former CH&C executive comments, 'They have distinctly different outlets. To expect sales reps to wrap their minds around all the products and represent everything in a bundle is overly simplistic'. Inadequate sales force service drove CH&C customers away and buyers felt abandoned. Compounding that mistake, GB also slashed advertising expenditures for CH&C products by 70 percent.

### **Northern Natural Gas Decides to Save Money by Outsourcing . . .**

By replacing its 35 experienced veteran meter-readers with cheaper contract workers, Northern hoped to save about £1m per year. 'We thought we would be able to get the same quality by outsourcing as we would with our own employees,' said Edward Lott a spokesman. That happy thought burst and turned into a public relations nightmare for the UK-based company when one of its new contract meter readers was accused of rape by a customer. Soon 6000 customers who had given keys to their homes to their meter readers were on the phone . . .Northern forked over £100 per customer to have their locks changed. Meanwhile, the company has stopped reading meters altogether as it tries to decide if it should: 1) buy wireless reading equipment; 2) hire another contractor or; 3) bring back all the veterans. At the moment, Northern is suing Infomax, PC. the supplier of the alleged rapist-meter reader, for failure to conduct proper background investigations on its employees. No doubt, Northern is hoping that its assaulted customer will not get the same idea . . .

- 1 Create a diagram to show how the companies described above could develop a customised service focus as a basis for regaining their competitive advantage? Please add an explanation to accompany your diagram.

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# Managing Transitions: Organisational Culture and Change

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### Learning Objectives

By the end of this module you will be able to:

- Characterise organisational culture and explain its contribution to the firm's mission, strategic plan and goals.
- Explain how the founder (or CEO) preserves a strong culture.
- Discuss the features of a strong organisational culture.
- Develop the concept of the organisational life cycle and describe how organisations change throughout the life cycle.
- Describe the process of planned change and the key problems which can surface in each of its phases.
- Describe the key elements of a multi-method and multi-level diagnosis.
- Develop methods to ensure the benefits of change in the firm.
- Differentiate: 1) interpersonal and group level change, 2) system-wide process change and 3) Grid OD.

## 9.1 Organisational Culture: Its Meaning and Relationship to Successful Strategy

This module takes up organisational culture and strategies for planned change in the firm. Your grasp of terminology and the assumptions that support effective change in the firm will help you to analyse the firm's defects in its systems

and why it loses its competitive edge. The concepts presented in this module fully integrate your previous learning in OB. This module is the 'course capstone' because it presents the crucial topic of organisational renewal in the context of the organisational lifecycle. Let's begin with our discussion of organisational culture.

### 9.1.1 What Is Organisational Culture?

Most executives would agree that organisational culture is a difficult concept to define. When asked, they frequently define their firm's culture as the company's style, atmosphere or personality. If we were to ask customers and competitors about the culture of a particular company, we would probably get a different list of nouns. Professor Smircich, an expert on organisational culture, tells us it is the beliefs and values which are understood by employees. If that is the case, how do firms get their employees to understand these things? Most companies attack this problem by using training and development, performance appraisal and orientation programmes to transmit values ('What is important about us and what we stand for') and beliefs ('Here's how our systems work') to employees. Communicated, understood and accepted values and beliefs become the employees' shared expectations, or organisational culture. The dimensions of organisational culture below will round out your understanding of the concept.

1. Culture indicates the 'way of life' for workers who often take its influence for granted (they simply accept it). The firm's culture becomes obvious when an aspect of it causes a corporate setback (it must change).
2. Culture is stable over time and it resists quick changes (the status quo prevails). Once a culture is entrenched, it can resist change despite turnover, changes in product line or merger.
3. A culture involves internal and external aspects. Internally, a culture might encourage product quality, cost effectiveness and accuracy. Externally, the culture may promote customer service, timely distribution, price competitiveness and social responsibility.
4. Culture can be measured, evaluated and perfected.
5. Culture can develop in a random fashion or it can be managed to support the firm's strategic plan. We will have more to say about this important point in a moment. If culture is ignored by executives the firm will 'forget what it does well'. In this sense then, culture is learning: the accumulation of experiences that ensure the survival of the firm.

### 9.1.2 Multiple Cultures in Organisations

Because of geographic dispersion and variations in business environments and product lines, firms develop subunits with distinctive cultures. For instance, computer manufacturers find that their subunit workers describe each other as 'hardware types' and 'software types'. Hardware types subdivided further into engineers and technicians and software types subdivided into software engineers and computer scientists. Professor Gregory notes that each subunit has its own

values, beliefs and assumptions about the proper way to design computer systems. Subunit culture mirrors these specific, professional orientations and skills. Workers adopt the unit's professional orientations and reshape (differentiate) unit culture as they bring new skills and training into the unit.

### 9.1.3 Understanding Contributors to Strong Organisational Culture

The importance of organisational culture appears when we consider the quality of the fit between it and the firm's strategy. Professor Lorsch of Harvard believes the successful integration of subunit and occupational cultures leads the firm to sustainable competitive advantage over its rivals. Over time the business models (strategy) of all firms begin to show evidence of advanced fatigue. Executives must take into account the firm's culture as they tinker with the firm's business strategy. An example of this is the growing tendency for companies to compete on the basis of service quality excellence. These firms empower frontline employees to customise service offerings that exceed customer expectations. To accomplish this, companies invest heavily in service-improving technology and employee training. While these investments in a new business model are being made, the companies must undo aspects of their organisational culture which reinforce old practices based on manufacturing and economic efficiency. Failure to adjust culture to the new business model may undermine the firm's effort to become more competitive.

Second, strong cultures may not mix well when one firm acquires another firm. The managers in the acquiring firm expect certain changes to occur to bring the new subsidiary in line with 'company rules'. H-P purchased Compaq Computer Corporation in 2003. The expectation was that the merger would create a computer giant that could go head-to-head with Dell Computer. H-P's CEO, Carly Fiorina, bet her corporate reputation on the benefits of the \$19bn merger. Ms. Fiorina is no longer H-P's CEO, but her acquisition of Compaq is working. H-P's market capitalisation now exceeds by 47 per cent the combined market caps of the two firms before they merged. By way of contrast, the Daimler-Chrysler merger has failed to produce a market capitalisation that equalled those of the two firms before the merger took place. In fact, the combined firms have seen total capitalisation shrink by \$13bn: the price Daimler paid to acquire Chrysler in the first place! It is no wonder that Daimler dumped Chrysler as soon as it could!

Similar merger strains show in the acquisition of the British brokerage, Smith New Court plc, by Merrill Lynch & Co. About 10 years ago Merrill Lynch paid \$794m for Smith and the merger has helped Merrill Lynch to become a global company. Unfortunately, the merger has created a culture clash that resulted in the high-profile departures of Merrill's head of research and Smith's head of research. Smith veterans complain about the Merrill executives' tendency to pat themselves on the back and their obsession with regulatory compliance. Merrill employees who had once been big fish in its small London office are now little minnows swimming in Smith's much larger trading and sales operation. The two companies' cultures could hardly be less similar. Smith is a rough-and-tumble trading house while Merrill Lynch is a white-shoe Wall Street brokerage that serves a vast private clientele across the USA.

Tensions between employees were at their highest in research. Merrill had about 20 analysts, most covering pan-European business sectors, while Smith had more than 100, who targeted UK sectors or individual countries on the Continent. The styles and attitudes throughout the two firms were also very different. For instance, Merrill had separate floors for research and trading and the communications between the two were highly formalised. Smith kept analysts and traders cheek-by-jowl and their communications were loaded with punning headlines, provocative pictures and clear 'buy', 'sell' or 'hold' recommendations. When the Merrill and Smith teams finally occupied the same building, an 'us-versus-them' mentality broke out. A Smith veteran decorated his computer with a miniature American flag at half-mast. Others named the coffee machine 'André' after Merrill's head of strategy, André Sharon. Asked why, the analysts replied that the machine was short, square and you couldn't get much out of it. Mr Sharon responded with a terse e-mail: 'The coffee's on me. Get it while you can'. Staffers on both sides of the merger left their jobs. They cited fears of the coming turmoil. The beneficiary of this rocky marriage seems to be Goldman Sachs International which has picked up several stars from Merrill and Smith. Altogether, 10 Merrill and 10 Smith sales people have left since the merger was announced.

Despite the upheaval, Merrill executives say the enlarged firm has kept Smith's approximately 20 per cent market share of London's equities. The combined firm now tracks far more business sectors on a global basis, with inputs from Merrill analysts in New York, London and Asia. Senior executives say the effects of the merger on the bottom line are still murky. Insiders insist that the culture clashes in London will peter out because the merger helps Merrill be more global.

Third, a strong culture can undermine goal attainment because interest groups and coalitions fight, promote rumours, and operate behind a veil of secrecy. In short, if the firm is too political then political gains diminish strategic performance. This is particularly true in family businesses which do not properly prepare for the orderly transfer of control to successors. Family businesses in their first generation of management are often ruled by founders who are blind to the importance of succession planning. While the existing culture may reinforce the founder's urgency, entrepreneurship and marketing expertise, the firm can be highly vulnerable to a period of extreme turbulence if the stubborn founder 'dies in the saddle' without preparing for the orderly transfer of control to a successor.

## Factors which Contribute to the Development of an Organisation's Culture

The firm's culture depends on two things: the role of the chief executive (or founder) and the close nurturing of the firm's socialisation process: learning the ship's ropes. Let us consider each.

### The Chief Executive or Founder's Role

Extremely successful companies owe a lot to their dynamic founders or charismatic leaders. Strong cultures of very successful companies reflect the personal values of the founder. The imprint of Watson on IBM, Gates on Microsoft, Jobs on Apple,



and Michael Dell on his eponymous computer company is obvious. Let's take a look at how one executive reshaped organisational culture at his own peril.

Robert Nardelli, the ex-CEO of Home Depot (HD) Corporation, a \$30bn building materials company. In 2007 Mr. Nardelli left his post running HD under fire for is too-generous compensation packet, strategic blunders and command-and-control management style that he learned as a General Electric executive. During his six years at HD he dismantled a culture in which store managers had wide latitude to make market-based decisions. In its place he erected a culture that stressed centralisation and uniformity. While at the helm, he imported GE's Six Sigma Programme (SSG) which generated massive paperwork requirements for store managers. Quickly becoming dejected by SSG, managers complained that they spent more time filling out forms than serving customers. As these market-savvy managers quit in rising numbers, they were replace by former military officers who were more comfortable following orders. It's no surprise then when a former HD store manager says, 'HD used to be a great place to work. Now I wouldn't go around the block to shop in a HD!'

The example above shows clearly that employees are more likely to support a CEO with a new business model if he refrains from trampling the existing culture. The problem is most new CEOs (even those who are promoted from within) are often too impatient to learn about their firm's existing culture: its traditions, philosophy and purpose. If a leader changes any one of the three, the firm will feel like a different place to employees. CEOs need to advocate for culture change if they believe it is necessary ingredient of success. Failure to do so encourages the formation of the toxic 'us versus them' mentality and the uncomfortable outcomes of lower work quality and declining productivity. The new business model that is anchored to improved customer service requires the CEO to tread softly through the firm's existing culture. Rejecting core aspects of the firm's culture while insisting on improved customer service is well-trod path out of the corner office!

## Socialisation

Socialisation transmits an organisation's culture from one generation of employees to the next. Firms that successfully integrate strategy and organisational culture try to avoid haphazard employee selection, unchallenging job assignments and fragmented career paths which all erode culture and cause the firm to badly underperform its rivals. Professor Pascale claims that firms with strong cultures go to great lengths to teach employees how to thrive in their work surroundings. Consider the reverse:

For six months after being hired, Lily, a new project manager did not check her e-mail over the weekends. Eventually a considerate co-worker told her; 'We're expected to read and respond to e-mail 24/7'. Poor Lily could only reply: No one told me'.

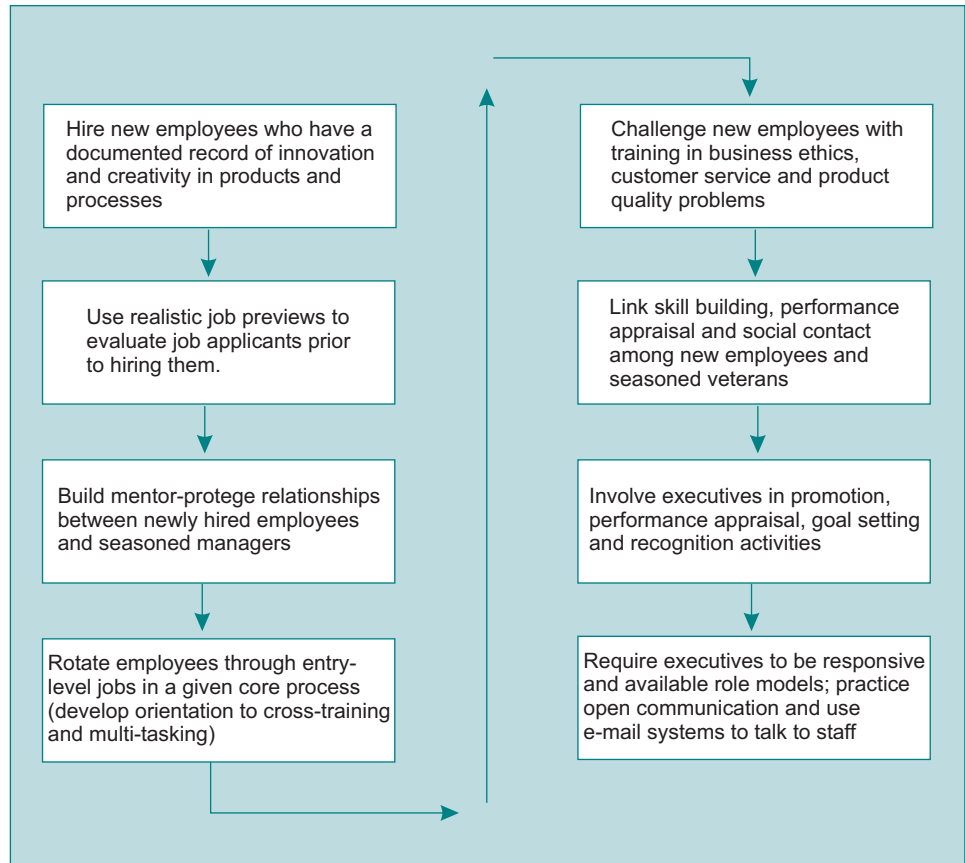
We are referring to the importance of socialisation; shaping employees' work expectations so that they understand and accept the written and unwritten rules that reflect effective behaviour on the job. Looking at socialisation from the

employee's perspective, it makes sense for the newcomer to ask lots of questions in their first months on the job; a little embarrassment now beats ignorance later (something that managers will not tolerate when the stakes are high). The newcomer can also observe closely the behaviour of successful employees. Finally, the newcomer can seek guidance from seasoned veterans. Consider Lily again. She asked her assistant to set up meetings with her staffers and she was surprised to see that they were scheduled to take place in the subordinates' cubicles – not her office. 'That's how it's done'. Lily recalls her assistant telling her. Grateful for her assistant's timely advice, Lily realised if she had insisted on meetings in her office, it would have signalled to her subordinates that she did not know how things worked and that she was not much of a team player. The bottom line: Learning company rituals is a big piece of a new job.

The company can also refine and speed the socialisation process. Realistic job previews can effectively communicate the firm's expectations before job candidates are hired. Once on the job, new employees can learn the importance of core culture values (perhaps customer service) by learning how to make and deliver the firm's key products and services. Job rotation and cross-training (*see* Module 5) are frequently used by firms for this purpose. Top managers can also speed the socialisation process along by reflecting in their own behaviour and decisions the firm's core values. There is no substitute for being a good role model! Last, using mentor–protégé relationships can personalise and speed the socialisation process through the power of interpersonal attraction and cohesiveness (*see* Module 6).

Building a strong organisational culture is always a work-in-progress; just ask Toyota. The firm has 580 different companies around the world, 51 factories outside Japan, and sells cars in more than 170 countries. The head of Toyota's European operations, Takis Athanopoulos, says the firm's strong culture welds the firm's far-flung operations together. Toyota's culture has five distinctive elements. *Kaizen* (continuous improvement) is more a state of mind than a business process and it is why Toyota's employees come to work each day thinking about how to do today a bit better than what they did yesterday. *Genchi genbutsu* (GG), the second element of the company's culture, encourages workers to 'go to the source and get the facts' rather than rely on hearsay. This facilitates team consensus around well-supported arguments that carefully define the problem (rather than leap to premature solutions). The third strong culture element is challenge; e.g., problems are not undesirable, so view them positively! Toyota's fourth element is teamwork which is driven by sharing knowledge through cross-training. Respect for other people and their skill is the last element of culture. Observing this Theory Y principle ensures that different opinions will come forward because their owners know they are respected.

Once Toyota's values are socialised into its workers, they govern decision making at the level where problems occur. Thus, there is no need to refer matters up the chain of command or to ask higher managers; 'What should we do?' This needless circularity is eliminated and decisions are made quickly because everyone knows what solution needs to be adopted. When asked about these features of culture, Toyota's employees claim that they increase their resolve to solve problems and their confidence in their solutions. In sum, Toyota makes its culture a powerful



**Figure 9.1 Building a strong performance-oriented culture in the firm**

contributor to its competitive advantage; one that most of the world's car companies have failed to successfully copy. Keep our Toyota example in mind as you think about how to sustain a strong organisational culture.

A firm's success at anchoring its strategy in a strong culture depends heavily on top management's core assumptions (Y-orientation) about: 1) an employment relationship based on respect for workers; 2) their willingness to be approachable role models and 3) being open to information from customers and employees about ways to improve the business.

Try completing the brief questionnaire shown in Table 9.1. It will give you an idea of your company's current commitment to a strong culture. Total your score and then read the interpretation below for the range into which your score falls.

**Strong culture score: 33 to 44.** Your company has successfully built a strong culture that supports the firm's competitive advantage and its socialisation process actively sustains team-based decision making, produces mature, stage 4 teams and links team cohesiveness to the firm's strategic goals. Your firm probably has a profit advantage over your rivals and admiring companies in other industries look for ways to copy aspects of your culture!

**Table 9.1** Company commitment to a strong culture

|  | Always | Often | Seldom | Never |
|--|--------|-------|--------|-------|
| 1 Can you state the company mission?   | 4      | 3     | 2      | 1     |
| 2 Do 90 per cent or more of your co-workers display commitment to the company mission?                     | 4      | 3     | 2      | 1     |
| 3 Do employees willingly place the company's goals ahead of personal interests if required?                | 4      | 3     | 2      | 1     |
| 4 Are you personally committed to continuous improvement on the job?                                       | 4      | 3     | 2      | 1     |
| 5 Can every employee describe how the firm's culture supports its competitive strategy?                    | 4      | 3     | 2      | 1     |
| 6 Are employees committed to high standards of individual and team performance?                            | 4      | 3     | 2      | 1     |
| 7 Does the company reward and promote employees who excel in team-based problem solving?                   | 4      | 3     | 2      | 1     |
| 8 Do customers and competitors admire your firm's commitment to product and service excellence?            | 4      | 3     | 2      | 1     |
| 9 Are employees thoroughly screened to ensure a match with the company's commitment to excellence?         | 4      | 3     | 2      | 1     |
| 10 Does the company deal swiftly with a new employee's lack of commitment by providing training or by him? | 4      | 3     | 2      | 1     |
| 11 Do senior executives act as mentors to promising young employees?                                       | 4      | 3     | 2      | 1     |

*Average culture score:* 18 to 32. You believe your firm is not consistent in its efforts to link organisational culture, strategic goals and competitive advantage. In this regard, top management may be remote, communicate ineffectively and may be putting their personal interests ahead of the firm's. You see, top management is usually to blame.

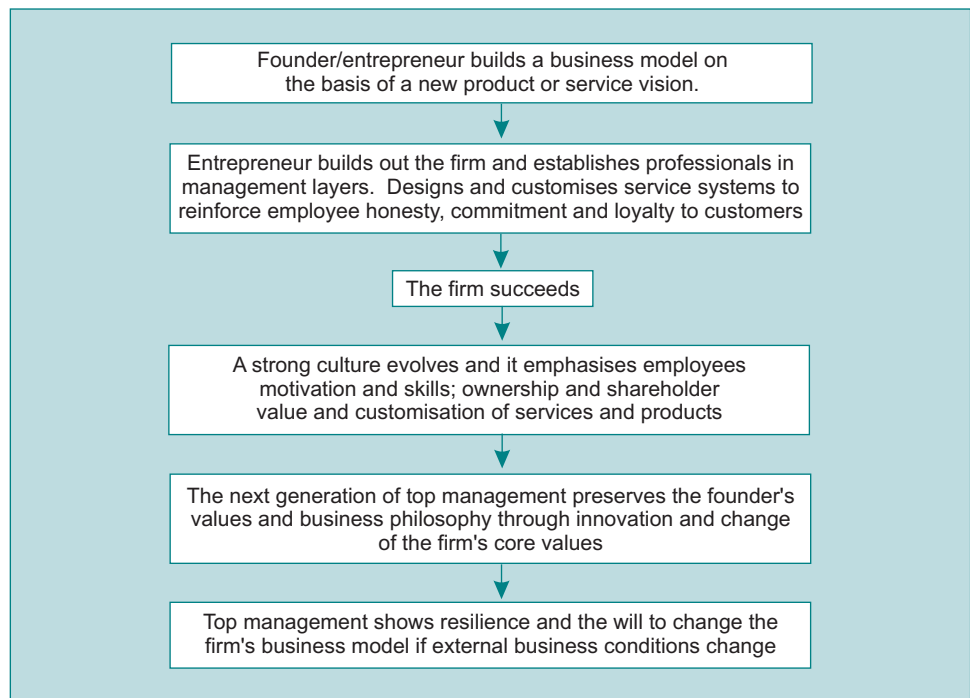
*Weak culture score:* 0 to 17. Your firm has a weak culture, socialisation is ineffective or nonexistent and competitive advantage is threatened or lost to rivals. Symptoms of weak culture include: 1) incoming employees aren't properly trained; 2) veterans cannot describe the firm's core competencies; 3) employees do not have clear line of sight; and 4) upper management is openly distrusted or ridiculed by proven problem solvers.

#### 9.1.4 Developing Adaptive Organisational Cultures

Now we need to step back a bit and recognise that a strong culture is not always a proven support to competitive advantage! For example, a strong, change-resistant culture may impede growth, earnings and competitiveness. For years, IBM emphasised organisational secrecy, a multi-layered bureaucracy and an outdated production and market emphasis based on its domination of the large, mainframe computer market. It watched helplessly during the 1990's as it lost over \$7.5bn while its stock fell 50 per cent. Throughout the plunge, IBM retained its strong culture. If companies pursue a high-performance culture they must be concerned not only

with the strength of their cultures, but also with the degree to which the culture adapts to and fits the firm's financial goals and its strategic goals. Examples of financial goals include return on investment, return to equity, return on assets and earnings before interest, taxes and depreciation. Strategic goals that should be supported by culture consist of market share, industry rank, recognition for product and services, and customer satisfaction.

Over the years, research studies have confirmed the superiority of adaptive and strong cultures in sustaining competitive advantage. A strong culture that adapts to changes in the firm's financial and strategic goals ensures that the firm detects and responds positively to profit-making opportunities. When the firm excels we see strong evidence of adaptability, support for financial goals and support for strategic goals. How can a firm develop a culture that is simultaneously strong and adaptive? Figure 9.2 lays out the general thinking of culture experts who have pondered this question.

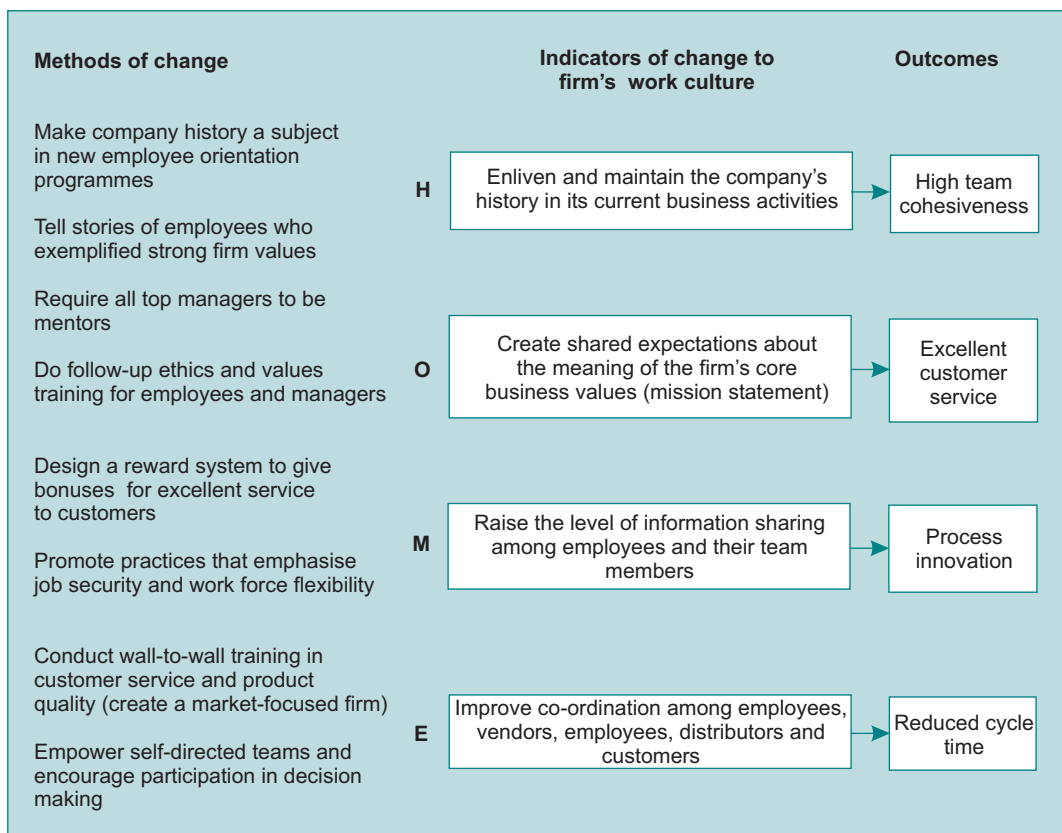


**Figure 9.2** How to build a strong, adaptive work culture in the firm

As we noted earlier, the CEO or founder sets the firm's vision and strategy and from his or her personality emerges the dimensions of the firm's culture. As the business succeeds and grows, its adaptiveness and strength are nurtured by more leaders and managers who share (and believe in) the CEO's vision for the firm. The founder/leader who remains committed to pursuing a reasonable number of key priorities – instead of a rigid and archaic planning process that reviews 'scores for business units' – helps to build adaptiveness into his firm. Walter Shill, managing director of Accenture, says, 'Being strategic today is like being a whitewater rafter.'

You have to react immediately to opportunities or moves by a rival – or risk being overtaken!’.

All firms try to adapt to changes in markets, products and technology. Managers should guide the adaptation of culture to optimise the support for the two sets of goals noted above. Professors Gross and Schichman liken their model of culture to a smoothly-functioning family. Their acronym ‘HOME’ represents these aspects of an adaptive culture: **history**, **oneness**, **membership** and **exchange**. These aspects of an adaptive culture can put powerful support under the firm’s efforts to achieve financial and strategic success unmatched by rivals. An important underlying assumption in HOME is management’s tangible trust in and respect for the work-force (remember the Toyota example). Therefore, applying the methods of Figure 9.3 in a firm riven by labour-management strife is folly.



**Figure 9.3** Ways to change a firm’s culture

Another principle supporting HOME is improving the quality of the employment relationship in the company. The management team that wants an adaptable (and strong) culture must make investments in labour force training and development. Right along with this, the management team must find ever-faster ways to bring teams together to resolve problems (Again that Toyota example intrudes!). Facebook, the new social networking company has successfully ‘localised’ its websites to

various languages and national cultures by inviting users on a country-by-country basis to help Facebook teams customise its websites. What once took months to complete is now finished in a matter of days by enthusiastic users (without the overhead costs of outsourcing the design problem to language and Internet specialists). Facebook's clever use of devoted users is a reflection of the firm's highly adaptive organisational culture and it showcases the application of service co-production (see Module 8).

Figure 9.2 and Figure 9.3 show that the most central (and enduring) aspect of organisational culture is adaptation. Business strategies and top managers come and go, but successful companies adjust to the driving forces in their industries. One of the 'facts of life' for any company is its stage of development in the 'organisational life-cycle'. As much as, or more than culture, this driving force influences the strategic and financial success of companies. We will take this subject up next.

## 9.2 Organisational Life-Cycle Theory

Like the people who work in them, organisations progress through stages. Organisations are started, and if they avoid early failure, they expand and mature. Through these various stages, the challenges and questions they face change. Understanding the firm's life-cycle helps managers to recognise signs of an aging and less relevant business model. They need to realise that the kind of structures and activities which work in one stage of a company's life-cycle may not work in another. Therefore, the criteria used to judge success and competitiveness may vary with a company's stage of development. Organisational life-cycle theory has four stages of development shown in Table 9.2.

**Table 9.2** The life-cycle of the firm

| Characteristics              | Stage 1: Inception and start-up ops                    | Stage 2: Rapid growth and market expansion               | Stage 3: Steady growth and market maturity                         | Stage 4: Consolidation and decline   |
|------------------------------|--|--|--|--|
| Structure                    | No formal piecemeal                                    | Decentralised, more layers                               | Centralised, formal more layers                                    | Rigid, top heavy, complex  |
| Communication pattern        | Informal and face-to-face, few barriers                | Budgets, audit trails, emerging rules and regs           | Formal, long-range, formula-driven                                 | Breakdown, poor downward communication                                     |
| Decision style               | Individual and entrepreneurial                         | Professional and managerial                              | Professional and managerial  | Emphasis on process vs. results, boss-centred                              |
| Rate of growth               | Uneven, rapid or episodic (with product introductions) | Rapid, positive and sustained by product line expansions | Slowing or stopped and emphasis on process gains (cost reductions) | Shrinking in core business areas; profit and market capitalisation decline |
| Hierarchical complexity      | Low  | Increased vertical complexity                            | Excess vertical complexity and rising administrative costs         | Significant layering and excessive administration costs                    |
| Age, size and responsiveness | Young, small and flexible                              | Larger with separate divisions (no diversification)      | Large, product divisional structure and diversification            | Shrinking and unwinding of diversification                                 |



The changes shown in Table 9.2 underscore the fact that organisations, as they age, become more formalised, complex and differentiated (*see* Module 8). These qualities need not culminate in the firm's decline and failure however. The table does not show it, but it is possible for a highly successful firm to stay nestled between stages 2 and 3 if it is blessed with perceptive executives who know how to nurture the adaptive (and strong) culture we described earlier. Professors Lorange and Nelson note that there are no hard and fast rules governing the duration of various life-cycle stages. For instance, some firms trigger a fad (*see* Case Study 7.2: Mrs. Field's Cookies), grow quickly and then decline just as rapidly. Others stay in the maturity stage indefinitely by employing product and service line extensions to build customer loyalty and high entry barriers (keep rivals out of market segments).

The types of changes experienced by organisations and their leaders also differ according to the stage of the organisation's development. For instance, Dell Computer is, now, after 25 years of growth, a very different company from the one founded by Michael Dell in his University of Texas dormitory room. The same goes for Apple Computer; who would have thought that it (with the help of the Internet) would single-handedly end the global music business's monopoly control of our music selections. The list of 'upstart' companies is long indeed: Google, YouTube, Facebook all fit the description of incredibly successful stage 2 firms. Not all firms survive and prosper under the individuals who founded them. Often new and highly successful companies grow beyond the capacity of the founder to manage them successfully. In other cases founders lose interest in the challenges of being an executive (instead of a product innovator or designer) and major stockholders or creditors of the company force them to step down when the company encounters a period of poor performance. More often than not, a restless entrepreneur welcomes the change and simply goes on to build another successful company.

While decline is shown in the model, it is not inevitable for mature companies. Rather, it may happen to any company in any life-cycle stage when it loses its adaptive (and strong) organisational culture. Managers who suspect their firms are in decline should look for Professor Baardwick's warning signs:

1. Excess personnel and too many job classifications.
2. Tolerance of incompetence (failure to dismiss poor performers).
3. Cumbersome administrative procedures (too much red tape).
4. Powerful staff who deride line managers as being too conventional and unsophisticated (paralysed hierarchy of authority).
5. Form over substance – strategic planning rules are more important than strategic results.
6. Few clear goals and criteria for measuring organisational success (realised strategy falls short of intended strategy).
7. Intolerance for conflict (harmony at all costs!).
8. Deteriorating downward communication and excessive centralisation.
9. Outdated organisational structure (form fails to follow strategy).
10. Independent corporate directors fail to exercise effective oversight.
11. Resistance to change by vocal coalitions (unions in particular).



12. Poor service delivered by demoralised employees.
13. Decreased product and service innovations.

The indicators of decline should stir action by any firm's board of directors and its CEO. Certainly the shareholders of General Motors, Ford Motor Company Société Générale, and CitiGroup would approve of this recommendation! The bottom line for decline is the fact that it always sits at the feet of an overconfident and out-of-touch management team that may try to blame others. But, shareholders and employees know the truth when they ask: Why didn't the management team stop it in the first place? Simply put, the best way to ward off decline is by building an adaptive and strong culture during inception and growth.

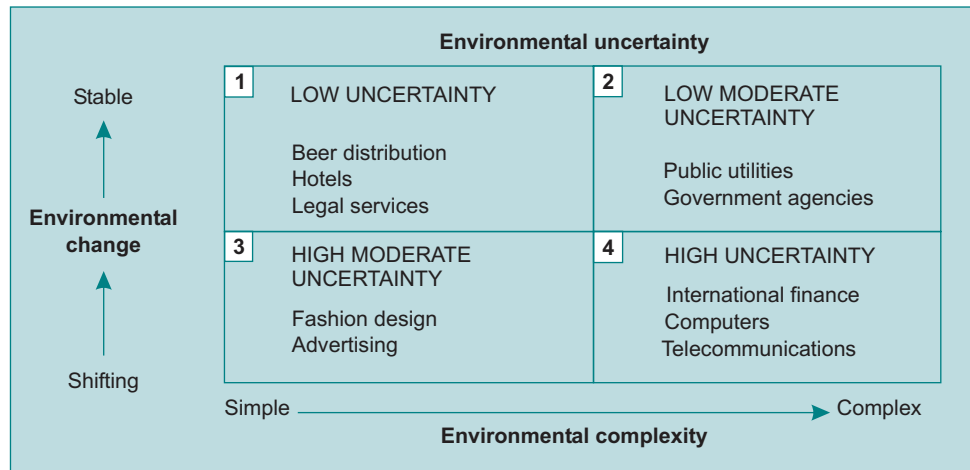
## 9.3 Organisational Change

We know from personal experience that all firms adapt and change (not necessarily for the better). For instance, your favourite sports team adds new players, changes coaches and woos politicians to build a new area for the local heroes. Likewise, companies acquire undervalued or poorly managed firms and soon begin removing unproductive staff, selling unprofitable assets and improving customer service. Firms evolve and these changes are often simple economic and painful necessities. However, the way the changes are implemented raises or dashes the hopes of employees and retains or drives away customers and investors. So now we should turn our attention to the nature of organisational change and the best way to sustain employee productivity, customer loyalty and rising share prices during the sometimes difficult search for improved competitive advantage.

### 9.3.1 Why Do Organisations Have to Change?

All firms must engage a task environment composed of suppliers, customers, competitors, regulatory agencies and social interest groups. All task environments present two sets of risk to the firm: environmental complexity and environmental change. **Environmental complexity** is the sheer variety and number of external agents with the potential to affect the firm's strategic results. **Environmental change** refers to the stability of the external agents and whether or not they change rapidly or slowly over time. These two dimensions of the task environment are shown in Figure 9.4.

Figure 9.4 shows that riskier task environments demand continuous revisions of goals, plans, processes and designs to manage external risk. Firms in box one can rely on standard operating procedures and hierarchies to handle easily foreseen contingencies. Box 4 reflects a geometric increase in risk or environmental uncertainty. Firms in such environments must develop the core competencies to constantly monitor their environments for new threats and new profit opportunities. To thrive in box 4, firms must anticipate rather than simply react to external risk. Here are some recommendations in that regard:



**Figure 9.4 Understanding environmental uncertainty**

1. **Change goals and strategies.** Examples are new product launches, aggressive market segmentation, roll out of new services, enter new distribution channels, and such.
2. **Adopt technology.** UK hospitals using the Internet to have CAT scans and MRIs analysed by physicians in India is an example of using new technology to dramatically lower costs and speed medical diagnostics.
3. **Fine tune design.** Firms can modify themselves by changing from a functional to a product or territorial design while shifting from centralised to decentralised decision-making. Accenture, the global consultancy, manages its far-flung consultants and projects with a 'virtual design' that keeps consulting teams close clients and their projects at all times.

Change can also be provoked by sudden shifts or declines in the firm's internal environment. Examples of such shifts include diminished productivity, increased customer complaints (created by a demoralised and sullen staff), increased absenteeism, rising grievance rates and strikes. All of these forms of decline are rooted deeply in employee job dissatisfaction. We see these symptoms in firms that are run by out-of-touch executives that continue to support business models that fail the test of competitive advantage. The internal shifts noted can be detected early and a thoughtful and resourceful management team can usually turn the situation around by making changes in the areas noted below.

1. **Job design.** Redesign work to make it more challenging and team-based. Conduct extensive cross-training and give teams the authority to solve problems at their level (Think of Toyota's internal culture).
2. **People.** Adjust the employment relationship to show that the firm is committed to the long-term security and support of the work force. If hard times come along, management should freeze its own pay or reduce it before it tries something as irreversibly demoralising as downsizing. A few considerate acts in a

moment of stressful organisational change can inject commitment in a dispirited work force.

3. **Control systems.** By adjusting its appraisal and reward systems the firm can encourage more entrepreneurial behaviour in its employees. For instance, targeted team-based bonuses can super-charge innovation and shorten product and service development cycles. During periods of internal turmoil, respected leaders have to come forward to encourage employees to abandon the status quo by experimenting with new ways of creating value.

Professor Beer, an expert in organisational change, argues that no corporate transformation can occur without causing shifts in organisational culture and subsequent changes in employee behaviour. Consistently successful firms – like Toyota – more or less manage change as a continuous process. Successful firms which are less versatile than the Toyota's of the world find they are jolted or perhaps surprised by the need for change. With a bit of superficial probing, their managements soon learn that employees are dissatisfied with one or more aspects of how the firm functions (precursor #1). In short order this dissatisfaction resolves as determination to launch a plan of constructive change (precursor #2). If the work force is committed and management is responsive we soon see the emergence of a unique and detailed change management process that involves employees in it and tracks progress along the way (precursor #3).

Planned change is a generalised process which differs from specific techniques of organisational development. Professors Cummings and Worley use Table 9.3 to highlight the core characteristics of any planned change effort. The table makes it clear that successful programmes of planned change share a number of common features. They are holistic, detailed, integrated, often wide-spread, and driven by periodic data gathering and the measurement of results.

**Table 9.3** Qualities of planned change in organisations

|   |  |
|---|--|
| 1 | It focuses on a whole work unit (team, department, division or the entire firm).       |
| 2 | It uses behavioural science knowledge to launch new methods at micro and macro levels. |
| 3 | It is not associated with business planning (strategic planning) or sales forecasting. |
| 4 | It relies on the tracking and measurement of results (its data-driven).                |
| 5 | It may rely on structure and process changes in the organisation.                      |
| 6 | It has the primary goal of making the business model stronger and more versatile.      |

### 9.3.2 The Planned Change Process (PC)

The three precursors noted above necessitate that organisational change follows a predictable sequence. Kurt Lewin, the late expert on how human social systems change, suggested that planned change, to be successful, must move through three phases. Let's take a look at them.

#### Unfreezing

Unfreezing occurs when both management and employees feel dissatisfied with the old culture and processes in the organisation. Unfreezing is the beginning

of the ‘constructive destruction’ of ineffective company processes and features. It is afoot when management realises that core aspects of the firm (structure, work processes, performance appraisal and reward) will not fit required changes to the firm’s business model. Unfreezing broadens when employees learn that ‘we can’t be profitable by doing things the way we’ve always done them’.

Organisational crises trigger unfreezing because they demand immediate attention. For instance, BP, an international oil giant was virtually bankrupt in the early 90s when Lord (John) Browne, head of the firm’s oil-exploration division (BPX), set out to restructure his unit. He saw the choice as a stark one: radical change or extinction. Lord Browne immediately redrew the horizontal and vertical boundaries of the firm to focus on strategic results. To compress the decision cycle, Lord Browne created self-directed teams at the oil field level. These teams had the authority to solve problems and they were given new performance measures that tracked their productivity and factored into their incentives. What was once a highly centralised firm became ‘disaggregated’ as Lord Browne cut head office staff by 80 per cent and pushed decision making authority down to 90 new semi-autonomous business units. By the time Lord Browne became BP’s CEO; his changes in BPX were standard practice throughout BP.

## Changing

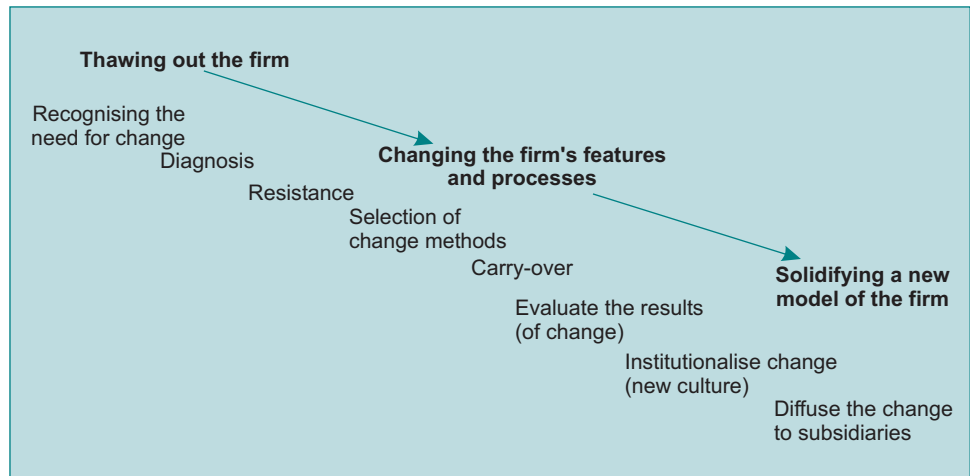
Changing occurs when the action plan (AP) identifies new behaviours for employees and new features of organisational culture and work processes. A successfully implemented AP can be as simple as a product training seminar for sales staff or it can be as complex as a shift from a centralised functional design to a decentralised service-oriented one. Crucial to the changing element of PC is a new model of how the firm should function; a model that management communicates clearly, concisely, and uniformly to all corners of the firm. No less important here is the fact that employees understand and accept it.

## Refreezing

Refreezing occurs if new behaviours, designs, and processes are adopted by managers and employees as permanent parts of the firm and its culture. Shortening and strengthening refreezing is aided by the timely tracking of financial and strategic results, measuring employees’ behavioural and attitudinal changes and identifying AP elements that need to be quickly reconfigured to succeed. When we discuss diffusion and institutionalisation of change in upcoming sections, we’ll have more to say about key aspects of refreezing.

## Key Issues for Managers in the Change Process

To achieve successfully implemented change managers must confront several key challenges. Figure 9.5 shows the phases of PC and their attending management challenges. Let’s take them one at a time.



**Figure 9.5** The key features of the organisational change process

### 9.3.3 Diagnosis

Diagnosis is the process of collaborative problem solving between a firm and a change agent who brings the firm's structural and process problems to the surface. A change agent applies the PC model and he or she is a specialist in diagnosing a firm's underlying process and structure defects. Diagnosis is an integral part of the unfreezing process and it is usually triggered by an adverse internal or external event. Diagnosis should always be deliberate, objective and problem-focused. If these qualities do not exist, then it is nothing more than a politically expedient disguise for blaming and scapegoating. Some firm's make diagnosis a permanent feature of their cultures because they want to routinely solve problems before they threaten competitive advantage (see our earlier example of Toyota).

An effective diagnosis accounts for problems at the organisational, group and individual/job levels of functioning (multi-level analysis). Using the multi-level approach to diagnosis is reasonable because symptoms of problems manifest throughout the firm. If the diagnosis fails to capture all of the reasons for poor functioning in levels of the firm, then the subsequent AP will disappoint or fail in implementation (a threat to competitive advantage). Table 9.4 shows the features which should be diagnosed at each level of the organisation.

A diagnosis can be made more effective if the change agent uses a steering committee to guide it. A steering committee is composed of members who are high performers, are respected by their peers, have an interest in the effectiveness of the firm and have excellent communication skills. It is indispensable for sustaining an effective diagnosis and for moving successfully through the stages of PC. The steering committee is temporary and it lasts as long as the PC programme. It reports to upper management and it has latitude to make decisions about the change process shown in Figure 9.5.

**Table 9.4 Multi-level diagnosis in planned change**


---

Diagnosis at the organisational level examines:

- 1 The history of the organisation including critical events which shaped it.
  - 2 The product and service mix.
  - 3 The task environment and relevant threats and opportunities.
  - 4 The organisation's resources in terms of capital, technical capability and people.
  - 5 The strategic plan.
  - 6 The extent of vertical and horizontal differentiation.
  - 7 The extent of vertical and horizontal integration.
  - 8 The characteristics of the organisational communication system.
  - 9 The characteristics and number of output measures.
- 

Diagnosis at the team level examines:

- 1 The basic tasks of work teams.
  - 2 The systems that currently back up work teams (PA, reward, goal-setting).
  - 3 Teams which manage core processes.
  - 4 The effectiveness of team problem-solving processes.
  - 5 The management of conflicts among teams.
- 

Diagnosis at the individual/job examines:

- 1 The diversity of the work-force.
  - 2 The leadership styles of key executives.
  - 3 The motivational basis for job performance.
  - 4 The level of job satisfaction.
  - 5 The extent of employee engagement (involvement/participation in decision making).
- 

### 9.3.4 Resistance

Resistance happens when employees fear that the personal and organisational costs of change will exceed the benefits. This is an emotion-packed response to the fear of the unknown among workers. When this fear is widespread we find that employee sentiment crystallises to support the status quo; 'We've always done it this way'. The amount of fear or emotion about change sets the level of resistance to change throughout the firm. The status quo is often much like an old slipper; so comfortable – despite their threadbare appearance – that they cannot be tossed out. Thus, the visceral/emotional resistance of employees to change who can only think of 1) economic uncertainty, 2) knowledge obsolescence, 3) loss of personal power, 4) increased conflict or 5) changes in work relationships. Resistance is often asymmetrical in power terms because the 'resisters' are often better organised and more vocal than their opponents (the 'changers'). In all cases, the 'burden of proof' always falls on the 'changers'.

Resistance to change can be reduced by co-opting some of the highly vocal 'resisters' and turning them into advocates for change. Giving employees a voice (ownership) in PC also lessens resistance because it fosters unity and resolve. An effective steering committee helps to reduce resistance by making PC participative. In previous modules we've extolled the virtues of participation in our examples of 1) PA system design (BARS); 2) customising fringe benefits programmes; 3) setting up group-based cost savings plans; 4) MBO design; and 5) installing SDTs.

All change programmes need not be participative and we see its value and importance decline if: 1) time is crucial or a crisis exists, 2) top management has all the information necessary to implement the change, 3) the outcomes of the change programme will have little effect on employees, 4) employee acceptance of the change is not crucial for success and 5) employee skill development is not a significant focus of the change programme. These aspects of participation management are at the heart of the Vroom–Yetton–Jago Normative Model that was presented in section 6.6 and they apply to participation in PC.

### 9.3.5 Carry-Over to the Work Setting

Aspects of change programmes are often conducted off the work site. Participating employees learn new methods and behaviours in these settings and they are supposed to sustain these improvements back on the job. Your firm may send middle managers to university-based training programmes to learn new inventory control methods, lean production methods, self-directed team design and measurement-based service quality improvement. In other cases, employees acquire training in new methods and behaviours in other company divisions. For instance, a division may have effectively applied skill-based compensation to improve work force flexibility. Other divisions may wish to implement the same programme so they send employees to the divisions to learn how to be change agents.

In these situations, the transfer of learning is imperilled if the newly learned behaviours, methods and procedures are not reinforced in the work setting where they are required. The key question is: ‘How do we transfer new methods, behaviours and skills to the work environment?’ Experts state that successful transfer depends on:

1. The elements of change match elements of the work environment.
2. The change is immediately useful in the work environment.
3. The changes are supported by others in the work environment.

To illustrate the three points, assume that management believes that a Scanlon programme needs to be developed to reduce waste and to improve product quality. The programme would have a greater chance of success if all affected employees believed that waste and product quality were serious problems (dissatisfaction with the status quo). Further, if employees think a set of measurement criteria could be developed to assess their effectiveness in lowering waste and raising product quality, then the change would have a greater chance of success. Finally, if employees and managers in other work units liked the programme and inquired about their eligibility for a similar one, the chances for success in all work units would rise.

### Overcoming the Carry-Over Problem

The carry-over problem is solved by managers and co-workers who reinforce the new behaviours and methods. Thus, managers must understand and value what’s



new and they have to champion the changes. This can be accomplished by creating action teams (workers and supervisors) who track implementation and close the gap between the 'learning environment' and the 'work environment'.

Experts like Professor Henkoff note that a number of companies use unique methods to overcome the carry-over problem. Motorola Corporation of Schaumburg, Illinois uses 'Motorola University' to conduct all of its employee and executive training in-house. All Motorola employees receive 40 hours of refresher training annually. Motorola University customises its training programmes by simulating managerial systems, production methods, customer satisfaction systems and work team processes. The faculty is made up of consultants, engineers, scientists and former managers. In 2003 the company spent \$250m on education, or about 3.8 per cent of total payroll. It is hard to argue with the results of Motorola University; since 2001 profits have increased 59 per cent and sales per employee have tripled. The company estimates that every \$2000 spent on employee training returns \$50 000 in increased productivity over a three-year period. Such production upgrades and the elimination of waste resulting from training have produced savings of \$3.3bn, and a highly motivated and committed work-force.

### 9.3.6 Evaluation

Once the benefits of change begin to take hold, delighted managers sometimes forget to learn why the successes occurred. Eager and enthusiastic managers sometimes judge programme success based on the 'good reactions and warm sentiments' of employee participants. We call this anecdotal success. And while it is a reliable indicator of sentiment, it tells us little about the soundness of the improvement programme's goals or the quality of its implementation process. Often times, through word of mouth, eager managers try to quickly copy change programmes which have become popular in their industry. As you may well imagine – or perhaps you have seen it for yourself – the adoption of such 'fads' never leads to thorough programme evaluation. Fad change methods have a 'tent revival fervour' quality and they are usually launched without any diagnosis. Some fad change techniques may superficially 'skim the surface' of symptoms of poor organisational functioning. Like overweight people who try fad diets eager managers jump on every change bandwagon: 'Lean Production in the 24th Century'; 'The Engaged Work-force'; 'Implementing the New Paradigm Shift for Speedy Profits'; you get the picture! Table 9.5 shows the target areas for programme evaluation. Under the control of an engaged steering committee, a strong AP would spell out in advance the measurements to be tracked and a disciplined firm would zero in on a 'profile of programme outcomes' which measures gains and losses using the categories noted in Table 9.5. These categories can be adjusted to fit the specifics of any company's PC programme.

One final distinction regarding programme measurement is necessary. All of the outcomes shown in Table 9.5 refer to typical outcomes of PC. None of them captures the effectiveness of the implementation process. Therefore, an effective steering committee would want to also measure the quality of a planned change process. Such measurements might include programme costs, the time necessary to meet



milestones, employees' satisfaction with elements of the process and management's judgement of the programme's ease of installation.

**Table 9.5** How to tell if the OD programme did any good

| Desired change areas            | Indicators of successful change  |
|---------------------------------|--|
| Employee attitudes and feelings | Employees say the programme is worthwhile and they stay involved with it and with their jobs<br>Employees are more committed to the firm (more respect for management too) |
| Employee knowledge              | Employees demonstrate new skills and they describe each other as more skilled and capable  |
| Employee behaviour              | Employees have more problem solving skills and they readily use new methods on the job and in their SDTs   |
| Customers                       | Customers praise improved services, note faster response rates (problem resolution), and acknowledge improved work attitudes in the firm's service workers                 |
| The firm                        | Rising productivity, lower costs, less absenteeism/turnover, fewer defects and faster decision cycles  |

### 9.3.7 Institutionalisation

If a promising change programme looks like it will achieve favourable outcomes, the firm will want to make its features a permanent part of its systems, culture and structure. Cementing or making permanent the benefits of PC (in terms of competitive advantage) is called institutionalisation. Not all positive changes reach this point even as some negative changes manage to persist and damage competitive advantage. Here are some threats to institutionalisation.

1. No formal evaluation of the change action plan.
2. No multi-level diagnosis is performed.
3. The change programme takes too long to complete.
4. The change programme ignores external driving forces (customers, suppliers, investors).
5. Promised rewards are not provided.
6. The change programme generates unrealistic employee expectations which go unaddressed (or are ignored) by management.
7. The PC ignores new members or fails to involve them in change.
8. Champions of change leave the firm.
9. An erupting crisis ends the PC.

### 9.3.8 Diffusion

Most change programmes do not initially embrace the entire firm. They start small, build a sequence of successes, and gain momentum as they avoid the problems noted above and approach institutionalisation. If the PC spreads throughout the firm due to internal promotion and word of mouth, then diffusion is occurring. Professor Walton has studied the diffusion of change in Volvo and Shell UK. These

programmes were very extensive, broad-based and they shared several common features that are noted below.

Both firms embraced new job designs that retooled job content, compensation and PA. Hierarchical layers were reduced in both firms and responsibility for decision making was pushed down to SDTs. Both firms altered their cultures by stressing individual responsibility, skill-based training and the use of techniques to customise service and to shorten the resolution of customer problems.

Professor Walton found that Volvo's programme produced significant diffusion, and changes became an operating characteristic of the company's culture. It also did not hurt to have the CEO, Peyr Gyllenhammer, fully behind the programme. Mr. Gyllenhammer was a strong supporter of change and his 'change champion' role greatly aided diffusion. Improvements were also made at Shell, U.K. but they failed the diffusion test; perhaps because they did not have a visible champion. Here are the obstacles which short-circuit diffusion of PC.

1. **Low support and commitment from top management.** Permitting change is not the same thing as persistent and intense involvement.
2. **The work methods in the focal unit differ from other units, prompting participants to conclude 'It won't work here'.** An effective steering committee might head off this problem.
3. **No rewards are provided for successfully managing the change programme.** Those who risked their reputations and stood up for change are not rewarded; shame on top management.
4. **Labour undermines change because it believes the programme will weaken its hold on employees.** Put reps on the steering committee!
5. **Change begun in non-unionised sites flame out in unionised sites.**
6. **7. Conflict between new methods in the changed unit and the bureaucratic machinery in the rest of the organisation.** This is the 'failure to adopt' problem in the home office. Only top management can defeat this obstacle!

## 9.4 Methods of Change in Organisation Development

Organisation development (OD) is a science, an art and a set of methods for changing how organisations function. Managers get confused by OD because they do not think all three elements can coexist in a change programme. With this disclaimer made, OD is a system-wide application of behavioural science knowledge to the planned development and reinforcement of organisational strategies, structures and processes to support a new form of competitive advantage. OD emphasises the importance of interpersonal and group processes (Theory Y orientation) that are strengthened through the application of behavioural science knowledge. This distinguishes OD from other change strategies which might rely on the use of knowledge in accounting, engineering or marketing. It is possible, however, that change projects in accounting, marketing or engineering could also use behavioural science knowledge. An OD programme follows our model of PC and it is subject to the challenges noted in Figure 9.5. OD emphasises improvement in managerial

style and the effectiveness of work group problem-solving. Finally, OD rests on the assumption that all organisational change affects employee behaviour.

Change agents generally help firms manage their OD projects. Professor Jick notes that most change agents adhere to a set of humanistic values that support their methods. The thinking goes that employees seek higher-order need fulfilment (*see* Maslow's hierarchy) and that they thrive under Theory Y's principles of organisation and management. Thus, change agents advocate for delegated authority, open and honest communication and sustained trust and respect between management and labour.

Some change agents relax these values a bit and state that their focus should be less assertive and more objective. These specialists often prefer to help 1) a firm generate valid data about its current operations, 2) employees clarify their desired outcomes and 3) a firm make strategic choices based on a diagnosis (*see* Table 9.2) of their current state and desired outcomes. Change agents in the 'first camp' think they should guide change while those in the second camp are 'helpful' (we're in this together) partners in the firm's change process.

#### 9.4.1 Examples of Change Methods in OD

When dissatisfaction with the status quo is widespread or top management thinks the business model is tired, firms find that they can choose from: 1) interpersonal and group (OD's origin), 2) systemwide process changes and 3) Grid OD. Large scale programmes like merger or acquisition, re-engineering, delaying, or shift to a service driven model always include methods from all three categories.

#### 9.4.2 Interpersonal and Group Change Methods

Interpersonal and training group (T-groups) OD techniques were initially developed by the National Training Laboratories in Bethel, Maine after WWII. According to Professor Marrow, Kurt Lewin and his colleagues under the sponsorship of the Office of Naval Research and Massachusetts Institute of Technology, developed the T-group procedure to build cohesiveness and flexibility in elite naval teams.

T-groups (sometimes now called sensitivity or encounter groups) concentrate on the authenticity of interaction among members of face-to-face groups. Professors Cummings and Worley note that during T-group training, a facilitator provides members with realistic experiences in interpersonal relations. If the group's purpose is to help members gain deeper personal knowledge and development (accurate self-awareness), then the group is referred to as an encounter group. While encounter groups are uncommon in industrial applications, they are widespread in society. They are used in group psychotherapy and drug rehabilitation programmes. Support groups are problem-focused and they unite individuals who share a common and chronic problem. Examples of support groups are Alcoholics Anonymous, Weight Watchers, groups composed of divorced parents and groups of parents with handicapped children.

## Typical T-Group Procedures

T-groups begin in an intentionally unstructured manner. A facilitator starts the process by stating that the purpose is to help members learn more about themselves and the processes which govern the group. After this orientation, a T-group follows this pattern: 1) small talk (to relieve unease) begins and ceases fairly quickly because members conclude that 'the group is going nowhere', 2) frustration sets in and the group tries to establish a leader who 'announces' an agenda of activities, 3) frustration builds further because the task is still ambiguous and the leader is ineffective (he or she steps back into a membership position), 4) hostility is directed at the facilitator for 'not doing his job', 5) the facilitator uses the process of 'frustration ventilation' to focus on the origins of hostility in the group and 6) the facilitator encourages a process of member feedback about interpersonal styles and members' perceptions of others in the group. This sequence of events can produce much anxiety for members; especially the shy ones! The facilitator may try to protect these individuals by slowly engaging them in interactions. However, most facilitators agree that some sustained level of anxiety (a state of cognitive dissonance or imbalance) is necessary to cause change and personal learning. Table 9.6 shows what commonly happens when the T-group method is used in firms – why it can fail.

**Table 9.6 Why T-groups do not work in firms**

|  |
|--|
| <b>T-group goals may not align with the firm's business model (financial and strategic goals):</b> |
| 1 Stresses feelings and emotions instead of profit and performance                                 |
| 2 Personal awareness is more important than improved work methods                                  |
| 3 T-group influence processes ignore team performance goals  |
| 4 Rising T-group cohesiveness may not support the firm's performance norms for SDTs (see Module 6) |
| <b>T-group applications may trigger these problems in profit making firms:</b>                     |
| 1 Negative, personal feedback among T-group participants may undermine existing work relationships |
| 2 The learning in the T-group environment may not transfer well to the work setting                |
| 3 Few studies document how firms have benefited from T-group applications                          |
| 4 T-group applications maybe useful in wellness and stress management practices                    |

Observers and T-group facilitators argue that the method can improve organisational functioning if the T-group is structured and problem-focused. Further, the method seems to add value when it is part of a large-scale OD programme. Some specialists defend their use in firms if the method is used to unfreeze the firm (create dissatisfaction with the status quo). Finally, there may be more benefit to using the method if there are flexible and open attitudes among employees about the usefulness of conflict confrontation rather than suppression (a feature of organisational culture).

Team-building has been developed in response to the problems shown in Table 9.6. It focuses on SDTs, cross-functional teams, service teams and new work units created through acquisition or merger. Team-building aims to improve how a team solves its problems in its on-going work environment. Team-building objectives are summarised in Table 9.7.

**Table 9.7 Objectives of team-building**

- |   |   |
|---|---|
| 1 | Developing methods to make decisions and set goals.             |
| 2 | Handling conflict between teams and functional units.           |
| 3 | Improving leader-member relationships.                          |
| 4 | Solving product or service quality problems.                    |
| 5 | Integrating new members.  |
| 6 | Clarifying job requirements and work expectations for members.  |
| 7 | Attacking departmental or organisational coordination problems. |

### Typical Steps in a Team-Building Programme

According to Professor Kimberly and Nelson, team building (TB) procedures follow the planned change model described earlier. TB creates dissatisfaction among team members in its early stages because data is gathered, analysed and feedback to team members. This data-based approach has the advantage of creating dissatisfaction that is objective (steps 1–3 below) rather than emotion-based as we would expect to find in the T-group method. The remainder of TB focuses on identifying key process losses which prevent the team from achieving stage 4 maturity – steps 4–6 (see Module 6).

1. **Workshop.** Off-site structured team exercises unfreeze attitudes and prepare them to accept change.
2. **Data collection.** Measure team norms, leadership style, cohesiveness and members' facets of job satisfaction.
3. **Data confrontation.** Change agents present teams with step 2 data. Using perhaps the NGT (see Module 6) teams list and rank order useful changes.
4. **Action planning.** Teams develop specific plans to bring about the changes isolated in step 3.
5. **Attack process losses.** Barriers to effective team decision-making are isolated and solutions are developed.
6. **Integrate teams.** Interdependent teams establish collaborative problem solving methods and integrated goals.

Firms which regularly assess the fit between culture and mission, goals and strategy, find that TB is an excellent tool for sustaining integration among financial and strategic goals and competitive advantage. When TB is done properly and continuously in responsive firms we find that their competitive advantage does improve for several reasons. First, TB fits with the philosophy of continuous improvement. Secondly, it is a ready and flexible platform for cross-training activities that drive the principle of service quality enhancement deeply into the normative structure of teams. Third, TB embraces employee engagement because it relies on delegation of authority.

### 9.4.3 System-wide Process Change

Survey feedback, a widely accepted form of system-wide process change, relies on broad, managed participation by employees to move the firm through the process

of planned change. Much like TB, but on a much wider scale, survey feedback relies on data, diagnosis and analysis to create objective dissatisfaction (rather than irrational emotion/fear) with the firm's status quo. Because participation is so widespread, we find that survey feedback suppresses rumours, dampens fear and energises large numbers of employees to become involved in finding ways to make their firms more competitive. Let's take a look at the steps in survey feedback that move the firm through the planned change process.

1. Top management sets up a steering committee which is helped by a change agent to develop a valid survey and interview process designed to uncover process problems and deficiencies throughout the firm.
2. The survey is pilot-tested on the steering committee and selected employees. After modification, it is administered to the work-force to gather process and procedure data during a specified period of time.
3. Off-site, the change agent analyses the data (to ensure the confidentiality of participants).
4. Following a 'cascade procedure', results are fed back first to the steering committee followed by top management, division and department managers, SDTs and ending with individual workers.
5. Division and department managers along with their employees construct action plans to address process and procedure problems identified in their units.
6. Using the collected action plans, the change agent and the steering committee present top management with a prioritised list of problems and solutions (note how change is a bottom-up phenomenon here.)
7. The steering committee and change agent work with individual units to install their action plans and track the results of change.
8. Company-wide programme evaluation is conducted to assess the depth and durability of change in relation to key elements of the firm's competitive advantage.

Survey feedback experts Professors Taylor, Bowers and Jick often recommend an off-the-shelf (pre-packaged) organisational survey. One of their favourites is *Survey of Organizations* developed by the Institute for Social Research, University of Michigan. This survey covers communications, decision-making, leadership style, employee satisfaction and other features of the firm that are thought to be connected to competitive advantage. The danger in using pre-packaged surveys is that they may overlook unique features of the firm under study and members may devalue the information from the survey because it misses key issues. This is the validity issue and it should not be ignored by any earnest steering committee that wants to improve how its firm functions.

Survey feedback is much more than the techniques of questionnaire design, data-gathering, survey analysis and feeding back results. Effective survey feedback assumes that meaningful TB activities will facilitate the process through each step noted above. The biggest flaw in most survey feedback programmes is the mindless, uncreative or mechanical application of each step. Change agents and steering committees sometimes respond to requests to conduct a survey only to be dismayed

when top management chooses to ignore uncomfortable results. Let's take a look at an example of how survey feedback can lose its way.

Two change agents were asked by management of an Internet-based social network startup to help them improve product and service innovation. The change agents interviewed top managers and concluded that communication patterns throughout the firm were ineffective and driven by rumours. The change agents advised top management to authorise the formation of a steering committee composed of respected, innovative and concerned employees who believed in the firm's viability. Management rejected the change agent's suggestion and told them instead to 'gather data as quickly as possible'. The change team selected a pre-packaged 'communications audit' to speed things along. Four top managers reviewed it and noted several weaknesses, none of which were addressed. The change team hurried through survey administration and, in their haste, forgot to have top managers participate.

Two months after the survey was administered, the change agents finished their analysis and prepared to feed back the results to the firm. During that time, company sales had fallen sharply and several key department heads had resigned. Top management continued to back the survey feedback programme despite these setbacks. The change agents launched the bottom-up feedback process and they struggled to convince department managers and their subordinates of the importance of acting on the data to improve unit processes and procedures. The change agents, with management approval, developed action plans to address communication problems in each work unit. Implementing the action plans was difficult so the change agents reported these problems to management.

1. Department heads ducked responsibility for change by saying to the change agents, 'Just tell us what to do'.
2. With employees the change agents found themselves defending the project at a time when action planning should have been completed.
3. During feedback sessions, employees criticised questionnaire items and expressed doubts about the survey's validity.
4. Some supervisors believed that the owners were not personally committed to planned change because they failed to complete the survey.
5. Supervisors and their employees complained the feedback meetings lacked direction.

The change agents failed to implement any action plans and the remainder of the project was shelved by management. The change agents did a *post mortem* on the project and reached several conclusions. First, they should have been more directive and insisted on the creation of a steering committee to oversee the project and to develop a relevant survey containing valid items written in understandable language. Second, the change agents thought they should have insisted on top management's direct involvement with the different phases of the project. Third, they should have adjusted the survey feedback process to reflect changes in sales and employee turnover. More effort should have been made to involve middle management in action planning so that they would have a stake in project outcomes.

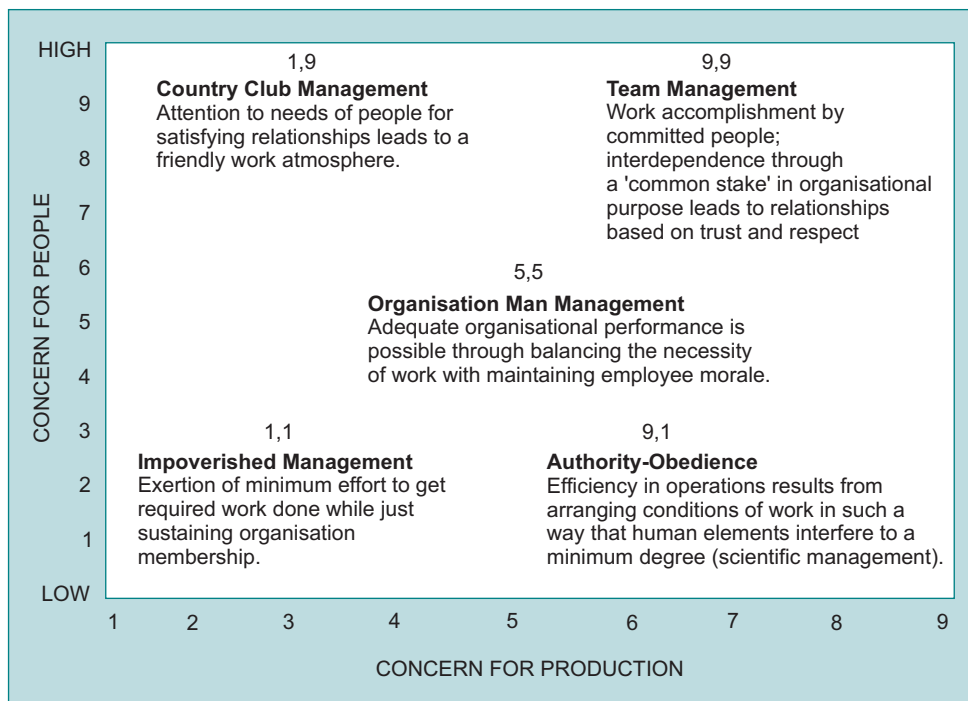
The example illustrates how easy it is for change agents (and a firm) to get caught up in the technology and milestones of a survey feedback programme and forget



that survey feedback is designed to unleash the benefits from the firm's objective (data-driven) self-examination. The change agents also overlooked the importance of top management commitment and involvement. When change agents are caught up in the 'technology' of survey feedback and top management is looking for quick results, the self-examination portion of the change process is lost.

#### 9.4.4 Grid Organisation Development

Grid OD is a comprehensive, long-term effort directed at changing the entire organisation. It was developed by Robert Blake and Jane Mouton of Scientific Methods Inc. The basic assumption of the method is that company success can be achieved only if there is a simultaneous company-wide concern for high performance and a psychologically healthy work environment. The Grid OD programme is called a pre-packaged OD method, because it follows a diagnostic procedure which always leads to emphasis on concern for performance and concern for people (*see* Figure 9.6). It has its origins in the behavioural model of leadership that appears in Module 7.



**Figure 9.6** The managerial grid

Grid OD follows a six-step procedure and a large firm may take several years to complete all six steps. The first three steps remove communication barriers – create a healthy environment – while the last three foster better planning and goal-setting – create a performance orientation. The steps are briefly described below.



1. **Grid seminar.** This TB phase encourages the firm to unfreeze through the diagnosis of managerial style. Top managers specify the core aspects of realised strategy (actual financial and strategic results).
2. **Intragroup development.** Teams attend seminars designed to extend Grid concepts to improve team decision-making processes. This step includes an analysis of team decision-making capabilities and organisational obstacles to effective team decision-making.
3. **Intergroup development.** Teams which have high coordination needs work through a set of structured activities to break down communication barriers that impede intergroup cooperation.
4. **Development of an ideal strategic model.** In this step top management specifies the firm's ideal financial and strategic goals (intended strategy). The model also sets goals for levels of employee satisfaction.
5. **Attaining intended goals.** Teams develop action plans to close the gap between realised and intended strategy.
6. **Measurement and process critique.** Gaps between realised and intended strategy are isolated and process changes are initiated to eliminate them.

The longevity of Grid OD suggests that management must substitute sustained commitment for interest in a fad that they hope will produce quick results. Being a pre-packaged programme, Grid OD does have some weaknesses. Clearly its 'one size fits all' quality may not readily suit all firms. For instance, it may be unsuitable for family firms in transition to second-generation ownership. Also, given the time span that must be allotted to Grid OD, it is not surprising that pressing problems can intrude and cause managers to suspend Grid work. The Grid method cannot be easily adjusted to meet such contingencies. Finally, the complexity of its phases and their content makes it difficult to isolate and measure the most salient elements that lead to positive change.

#### 9.4.5 Does OD Work?

We have reviewed several OD methods. A successful change programme depends on matching the method and the depth of the intervention. The depth of the intervention refers to how personal and behaviour focused (as opposed to impersonal and organisation focused) the intervention is. Any management should be wary of the claims in all-purpose, pre-packaged OD programmes that ignore the depth of intervention. If the change required is broadly based (i.e. changing an organisation's culture) then intervention should be multi-method and contain action plans that affect all levels of the firm's hierarchy.

Professor Nichols notes that multi-method approaches (while being more complex) generally have longer lasting positive effects on the firm's performance than single-method interventions. Recent reviews conclude that T-group, team-building, job enrichment and survey feedback methods were not stand-alone successes. Results improved dramatically when methods were combined. A successful sequence of change methods might be: 1) employee engagement in goal setting and delegation of authority; 2) introduction of SDTs and cross-training; 3)

service-quality training roll out; 4) quantitative tracking of service quality; and 5) introduction of team-based bonuses that are contingent on service metrics.

## Summary Points

- Organisational culture is the shared beliefs and values which produce stable norms for employee behaviour. Large firms have multiple cultures which should be integrated. Organisation culture reflects the personality of the founder or the CEO and is sustained by the socialisation process.
- Organisations learn to manage planned change because they face risky external complexity and change (driving forces). When firms detect external risk they typically alter goals and strategies, technology or structure. If firms detect internal risk, they may alter job design, select different people, adopt new training methods or rearrange PA and reward systems.
- A strong organisational culture drives financial and strategic success as long as it remains adaptable.
- The life-cycle model of organisations covers inception, growth, maturity and decline. Many useful interventions can delay decline.
- Planned change unfreezes existing patterns and processes, changes them to better match intended strategy and refreezes the improvements. For change to take hold, employees must be dissatisfied, the firm needs a model for the future and the process must be objective and orderly.
- Diagnosis is a collaborative process between a change agent and a firm to identify the underlying causes of problems. It is part of the unfreezing process and it should be multi-level in nature.
- Resistance to change is a widespread belief among employees that the costs of change will exceed its benefits. Resistance springs from employees' fears of: 1) knowledge obsolescence, 2) loss of personal power and 3) altered work relationships.
- The carry-over problem occurs when new methods and behaviours are not reinforced in the on-going work environment. The transfer of new learning can be increased if: 1) the change process corresponds to the work environment, 2) changes are immediately useful and 3) new attitudes and behaviours are measured and supported.
- Institutionalisation is making a planned change a permanent part of the organisation's culture.
- Diffusion is the horizontal transfer of planned change across units. For it to occur top management must promote the benefits of change and cut through obstacles like red tape (bureaucracy) and union resistance.
- OD is a system-wide application of behavioural science knowledge by change agents to the development of new strategies, structures and processes. It includes methods like team building, survey feedback and pre-packaged programmes like Grid OD.

## Review Questions

### True/False Questions

- 9.1 The demographic features of a company's work-force frames its culture. T or F?
- 9.2 Organisational culture is 'intangible' and it cannot be measured. T or F?
- 9.3 The fit between organisational culture and strategy depends on the property of adaptability. T or F?
- 9.4 If an acquired firm has a poor fit between its culture and its strategic plan, then it will be easier for the acquiring firm to alter the culture of the acquired firm. T or F?
- 9.5 If organisational culture fits the strategic plan, the founder or CEO can be less concerned about his role in maintaining a strong culture. T or F?
- 9.6 From an operational standpoint, the centre of a strong organisational culture is an emphasis on service to stakeholder groups. T or F?
- 9.7 Without effective training and development and employee orientation programmes, it is still possible for a company to have a strong organisational culture. T or F?
- 9.8 Since the quality of the employment relationship is a key contributor to an adaptive organisational culture, it stands to reason that downsizing and layering may undermine organisational culture in the short run. T or F?
- 9.9 Organisational life-cycle theory suggests that managers must be alert to signs of organisational decline and that strategy must be adopted to stave off organisational decline. T or F?
- 9.10 Sustaining a strong, adaptive culture depends on an active socialisation process. T or F?
- 9.11 Mentoring can effectively transmit organisational culture from one generation of employees to the next. T or F?
- 9.12 Changing structure is one way for a firm to address external risk. T or F?
- 9.13 Altering job design and process controls would not be indicated if managers detect rising external risk. T or F?
- 9.14 Planned change can succeed in the absence of employee dissatisfaction in work units targeted for change. T or F?
- 9.15 Resistance occurs in the 'refreezing' phase of planned change. T or F?
- 9.16 Effective diagnosis focuses on top management and ignores the group and individual/job levels. T or F?

- 9.17 If a planned change focuses on the individual/job level, it will still be necessary to manage the change process with a steering committee. T or F?
- 9.18 The most important component of evaluation in the planned change process is the assessment of employee reactions to the change programme. T or F?
- 9.19 TB does not directly target the nature of interpersonal relations in a work group. T or F?
- 9.20 If employees judge the benefits of a change programme to exceed its costs, then diffusion has occurred. T or F?
- 9.21 In a unionised work environment, a change agent can help ensure diffusion of planned change by having a union representative serve on a steering committee in charge of overseeing the change process. T or F?
- 9.22 The T-group method enjoys considerable support as a method of organisational change. T or F?
- 9.23 The carry-over problem is more likely to affect interpersonal and group-based change processes than system-wide change processes. T or F?
- 9.24 Frustration venting is a feature of the process of change in the T-group method. T or F?
- 9.25 TB lessens the carry-over problems in T-group training. T or F?
- 9.26 Data collection is a feature only of the survey feedback approach to OD. T or F?
- 9.27 The 'cascading of data' in the firm is a critical aspect of survey feedback. T or F?
- 9.28 Survey feedback could be a standing feature in a programme to assess employees' acceptance of organisational culture. T or F?
- 9.29 If a change agent adopts a pre-packaged survey to assess current features of an organisation, he is less likely to need a steering committee to govern the change programme. T or F?
- 9.30 Grid OD works best when managers know the firm's problems. T or F?

### Multiple Choice Questions

- 9.31 Which of the following is not an important component of a firm's culture?
- A. short history and recent changes.
  - B. shared norms and organisational values.
  - C. symbolism.
  - D. employee socialisation and indoctrination.
  - E. pervasiveness and durability.
- 9.32 Which of the following is probably **not** a result of organisational culture?
- A. shaping employee behaviours through social control.
  - B. reinforcing corporate ethical values.
  - C. building unquestioned employee support for new corporate goals.

- D. enhancing the value of social, group-based rewards.
  - E. helping new employees make sense of organisational systems.
- 9.33** A strong culture reflects:
- A. employee beliefs which are intense and positive about the firm.
  - B. a restriction on employee creativity and innovation.
  - C. widespread bureaucratic rules and regulations.
  - D. the value of intense competition among employees.
  - E. the importance of personal traits commonly associated with leadership success.
- 9.34** The most unlikely basis for firm's culture would be:
- A. the vision of the CEO or founder.
  - B. strong mentor–protégé relationships in the firm.
  - C. the number and size of retail outlets.
  - D. reward and promotion systems throughout the firm.
  - E. the personal values and business ethics of the founder.
- 9.35** An example of an external force for change is:
- A. an increase in the grievance rate among employees.
  - B. an increase in the rate of requests for job transfers.
  - C. government regulation.
  - D. installation of a new system for selecting and hiring job applicants.
  - E. a new structure which relies on a matrix design.
- 9.36** A person who manages the process of change in a firm is a:
- A. project manager.
  - B. OD Grid manager.
  - C. group facilitator.
  - D. change agent.
  - E. consultant.
- 9.37** Organisation development:
- A. is a single-shot programme to change the way a firm functions.
  - B. is a systematic application of behavioural science knowledge to change the way a firm functions.
  - C. works primarily to change individual employee behaviour and attitudes.
  - D. uses exclusively principles of BMod to cause change in firms.
  - E. is confined to interventions which alter either the firm's strategy or design.
- 9.38** All of the following would be subjects in a diagnosis except:
- A. job design.
  - B. job analysis.
  - C. organisational structure.
  - D. organisational communication systems.
  - E. pay and promotion systems.
- 9.39** When a change agent wants to reach as many employees as possible to assess their opinions about how the firm functions, he should use \_\_\_\_\_.  
A. management by objectives  
B. total quality management  
C. survey feedback

- D. team-building
  - E. the managerial grid
- 9.40** When an outside change agent provides task oriented assistance to new teams or project groups charged with achieving organisational goals, he is most likely to be using \_\_\_\_\_.  
A. T-groups  
B. BMod  
C. job redesign  
D. group-based incentives  
E. TB
- 9.41** A support group targets:  
A. task performance issues and group work goals.  
B. the quality of face-to-face interactions among group members.  
C. stable membership and improved cohesiveness.  
D. problems shared by all group members.  
E. integration among groups which must cooperate to get the job done.

### Short Essay Questions

- 9.42** Explain organisational culture and its most prominent features.
- 9.43** What differentiates a strong culture from a weak one?
- 9.44** Organisations adopt programmes of planned change when they detect rising external risk. Their responses can include changing goals and strategies; altering technology; restructuring; setting up new work systems; attracting and hiring new people; or altering the control systems. Regardless of the approach taken, what characteristics must underlie any planned change programme?
- 9.45** Lewin's change model stresses unfreezing, change and refreezing. What problems can surface in each phase?
- 9.46** Discuss the assumptions which govern change agents' professional work relative to the module's definition of OD.
- 9.47** What prevents the T-group method from being an effective way to change firms?
- 9.48** How does survey feedback differ from the Grid OD programme?
- 9.49** Strategy should match competitive advantage and both should be supported by the firm's culture. What are the primary fits between strategy and culture that help assure a hard-to-copy competitive advantage?
- 9.50** Entrepreneurship (innovation) is abundant during inception and growth. Why does it diminish so much during firms' decline?

### Case Study 9.1: A Turnaround at Tentex

Adrian designs management systems for Tentex, a manufacturer of computer software and peripheral computer equipment. Recently the company has been experiencing low sales growth, high sales manager turnover, quality assurance problems with products

and stagnant market share. Adrian was placed in charge of a task-force with these goals: 1) improve sales, 2) cut sales manager turnover and 3) design a plan to reduce customer complaints.

Adrian's task-force investigated each of the problems by interviewing sales managers to get their view of the sales and turnover problems. They learned that salespeople and sales managers had little control over pricing and 'too much red tape between them and customer complaints'. Sales personnel criticised the current system requiring them to address sales problems by going through a customer complaints department. Sales managers also believed that their pay system was unfair because many salesmen earned more because managers were 'locked out' of commissions. To correct the pay imbalance, many managers had gone back to sales or had left the company! They also noted that salesmen really had no incentive to personally act quickly on customer complaints that were routinely handled by the complaint department.

### **A Look at Operations**

The task-force interviewed plant employees to investigate product quality problems. These problems were uncovered: 1) materials scarcity and frequent purchase of inferior component parts, 2) a 'who cares?' attitude among equipment assembly personnel, 3) widespread belief that a lay-off was imminent due to sluggish product demand, 4) distrust of management by employees and 5) lingering bitterness among production workers for a bonus freeze. Oddly, production managers had received bonuses but they had been smaller than in previous years.

Adrian's task-force studied the problems and decided to launch a programme of planned change with a set of 'change committees' composed of members who wanted to solve problems. In sales he set up a committee composed of five salespeople and two sales managers. Adrian also had representatives from five valued customers meet with sales committee to provide input. He created a second committee made up of several sales managers, the VP of sales and the COO (chief operating officer) to address sales manager turnover and pay incentives. He also empanelled a production committee composed of managers, experienced workers and two union officials to develop plans to address problems in that unit.

Next, the task-force set up an internal review mechanism for all of the ideas and proposals generated by the above decentralised committees. This work was divided into two phases: 1) assessment of ideas in terms of their impact on the entire corporation and 2) create resources to back approved changes.

Adrian's group kept membership on the committees to under 10 members. He launched a two-day 'task-force retreat' with his group and the committees. The committees spent the first day brainstorming their individual problem assignments. Adrian's task force gathered all of the committees' ideas and summarised them for re-distribution to all committees. During the morning of day two, the committees re-evaluated their ideas in light of those proposed by the other committees. During the afternoon of day two, the task-force managed separate sessions with each committee to help them develop action plans for correcting the identified problems. At the end of the second day, the task-force presented its reactions to the proposals generated by the committees.

Two weeks after the retreat, Adrian's task-force issued a report detailing an action plan for correcting all of the problems in sales and production as well as the steps for achieving the goals given to his task-force at the beginning of the project. The report was distributed to the committees as well as those employees affected by the action plans. Task-force recommendations are summarised below.

### Sales Manager Compensation and Customer Complaints

1. Sales manager bonuses would be installed and tied to target goals for market penetration, sales growth and specific annual targets for increased levels of customer satisfaction.
2. The customer complaints department would be abolished and its employees would be offered the opportunity to retrain as sales personnel.
3. Authority for pricing decisions would be decentralised and authorisation for price changes up to five per cent would be made jointly by the salesperson and the sales manager.

### Production System Changes

1. The production managers would launch a programme to educate suppliers regarding: 1) delivery times, 2) acceptable supply defect rates and 3) pricing of parts. After suppliers completed the training, they would be given six months to conform to requirements or they would be dropped from Tentex's list of 'preferred suppliers'.
2. A Toyota-like programme of continuous improvement would be launched to raise quality and to lower costs. Production teams could earn team bonuses equal to 50 per cent of the cost savings generated by their improvements.
3. The *TENTEX WORLD* newspaper would be launched in production. It would contain updates on sales, production output, compensation policies, continuous improvement success stories, etc.
4. A liaison team composed of the plant manager and key production managers would be created to match PA and rewards to measures of product quality and cost reduction.

Top management authorised all of the changes noted above. Adrian's task-force measured programme success in: 1) employee reactions to the programme, 2) employees' knowledge of all programme changes, 3) changes in employee behaviour and 4) changes in hard measures (turnover, sales, customer complaint rate, and product quality and cost reductions).

The task-forces acted as liaison to work units teams tasked with installing the changes. Top management was kept abreast of programme developments by Adrian who became the change programme coordinator. At this point his task-force members went back to their functional units. They were involved in implementation issues on an 'as needed' basis.

- 1 How was Tentex culture impeding progress in sales and production?
- 2 How does Adrian's programme address the problems which usually surface during the phases of planned change?



## Case Study 9.2: One Man's Values Force a Company Into Bankruptcy: The Story of Wang Laboratories<sup>1</sup>

The story of Wang Laboratories makes for great theatre. Through the leadership and vision of a Chinese immigrant named An Wang, Wang Laboratories rose to \$3 billion in sales before it went through bankruptcy proceedings. Its failure have left unresolved many of the questions surrounding publicly held companies which were run as family businesses and the obligations that managing families had to employees, customers and shareholders.

After leaving Shanghai and earning a PhD at Harvard, An Wang invented a magnetic storage device which became the centre of computers prior to the advent of the memory chip. By 1964, his company had scored a huge market success with the first version of the desktop calculator. Wang personally oversaw the development and market introduction of this product. With its success, his judgement of products and markets would go unchallenged as he took his company to public ownership and numerous sales records. Since he quickly understood the importance of the commodity-like qualities of calculators (low margin, many competitive models with similar product features), he created a new product called the Wang Word Processing System. Aligning Wang Labs hardware and word processing software gave the company an early and formidable lead in the software data and word processing wars which are still raging. By the mid-80s the firm's sales grew tenfold and the employees rose from 4000 to 25 000.

Wang's optimism about his company's potential was neatly captured by his belief that he would overtake IBM by the late 90s. During his company's highly successful run, he ignored his advisers' warnings that he should emulate IBM and produce an all-purpose computer to run any software and to launch a computer services (consulting) division. Wang's specialised word processors and midsize computers were soon to be smoking rubble due to the 1980s onslaught of personal computers developed by Apple, IBM, Dell and HP. Wang's market share plunged and once-loyal users complained that they wanted versatile computers that were compatible with all available software. No longer did they want Wang's proprietary equipment which worked only with Wang software. An Wang stuck to his rigid business model and the firm never recovered.

Another critical An Wang mistake was traceable to Chinese tradition. He wanted a corporate culture which reflected his Chinese, family-centred beliefs. 'As the founder, I would like to maintain sufficient control so that my children might have a chance to demonstrate whether they can run the company,' he wrote in his autobiography. In a management decision which symbolised his traditional values and his willingness to ignore the advice of the company's board of directors, he appointed his son Fred as president of the company in 1986. Many board members expressed privately their belief that Fred lacked the experience and maturity to handle the job. An Wang responded to the critics of his decision by saying: 'He is my son, he can do it'.

In Fred's short three-year tenure in the job, the magnitude of An Wang's error became painfully clear. During this time, the company did not introduce a single new product and it accumulated nearly \$1bn in new debt. By the early 90s cash reserves had vanished, creditors resisted lending the company any more money and An Wang made a very tough decision. He fired his son. A year later An Wang died and analysts predicted the imminent failure of the once high-flying computer company. Most agreed that the

<sup>1</sup> Sources: A. Serwer, 1993. 'Wang Laboratories – Can This Company Be Saved?' *Fortune* (19 April): 86–90; 'An American Tragedy', *The Economist* (22 August 1992): 56–8; C. Kennedy, 1992. 'Fall of the House of Wang', *Computerworld* (17 February): 67–8.

Chinese tradition of keeping the business, regardless of its size, in the family was a fatal mistake.

Richard Miller, a former high-level General Electric executive took charge of Wang Laboratories and he immediately took steps to make its culture more adaptive. He sold non-core businesses, initiated the company's first lay-offs and led the company into the production of compatible personal computer manufacturing. In a deal struck with IBM, Wang Labs agreed to resell IBM machines in exchange for cash. After investors poured \$25 million into this joint venture, funding was curtailed and Miller had no choice but to take Wang Laboratories into bankruptcy. That decision spelled the end of Miller's tenure as company CEO.

Joseph Tucci was recruited from Unisys Corporation to lead the firm out of bankruptcy. The firm had lost over \$2bn and demand for its products was at an all-time low. Tucci recognised that Wang's tradition as a maker of integrated hardware and software was over so he rebuilt a smaller firm (1800 employees) as a provider and servicer of imaging software capable of storing computerised documents.

An Wang was a brilliant analyser of markets and developer of products. He built a successful company with a culture that revolved around his personal values and beliefs. That strong culture and its rigid values developed over 40 years of leadership under Mr Wang. Many would argue that what made Wang Laboratories so successful also caused its downfall.

- 1 Using strategy-culture fit, explain why the firm became so dysfunctional.
- 2 Use the symptoms of organisational decline to show why the firm was headed for bankruptcy.
- 3 How closely does Wang Laboratories conform to the life-cycle theory of organisations? Please explain.

### Case Study 9.3: Engine Solutions Acquires JNC

In early 2005 the sounds of a spirited and active debate filled the ES board room and executive offices. Roland Marks, a recently hired British ex-pat executive, had unleashed a lively discussion when he opined that ES needed its own production facility in Europe. The debate had an element of urgency because Roland knew that the Germany-based Jurgen Nemer Company (JNC) was about to go up for sale. JNC is a small German auto parts firm located in Essen, Germany. The business was founded in the 1960's by Mr. Nemer, a former Porsche engineer who saw an opportunity to make high-value replacement parts for Europe's popular high-performance sports cars. Roland knew Jurgen personally and he had admired for years the quality of his company's products. Roland believed that Jurgen might sell JNC because he had a growing interest in running his family's humanitarian foundation that was dedicated to providing medical assistance to poor African nations. Roland pressed his case by telling board members – at every available opportunity – how the European car parts industry was experiencing profit declines and this was creating pressures for consolidation throughout the industry. Roland's arguments about the timing for acquiring JNC convinced the founders and the board that conditions were right for ES to move beyond its 'distribution only' European business strategy by acquiring a fairly priced JNC. Roland had a large personal stake in this decision because he was in charge of

the firm's European distribution operations and he yearned to link it to a high quality production operation. To further his economic agenda, Roland enlisted the support of Byron Nichols, ES's highly competent CFO, who strengthened the 'buy now' argument by convincing the board that inevitable appreciation of the euro would greatly increase the costs of German corporate assets down the line.

The founders and the board authorised Roland to open direct talks with Jorgen to convince him that now was the time for him to sell his company. The founders (Joe Leman, Phil Anderson and Warner Nunner) were delighted when Jorgen invited them, Roland and Byron to come to Essen during May 2005 to discuss a reasonable purchase plan. In their three days of meetings, Jorgen took them on a plant tour and the ES executives met with their JNC counterparts. Joe Leman studied the plant layout and he conducted five meetings with 45 of JNC 380 employees. Roland was completely familiar with JNC suppliers and he also understood JNC's wholesale and retail environments because ES competed with JNC in those wholesale and retail markets. Using his supplier and vendor contacts, he determined that JNC had excellent relations with its suppliers and its vendors. His research convinced him that an ownership change would do no damage to these key relationships. Under ES ownership, he knew that he could streamline and improve vendor relations because ES European parts distribution system was already much more efficient than JNC's semi-antiquated distribution system.

Back in Detroit the ES team explained the technical details of their findings to the company board. With Jorgen's approval, ES's outside accountants and its legal team conducted a thorough review of JNC's physical assets and the regulatory requirements governing the purchase of a German business by one of its American competitors. By August, 2005 the consultants reported their due diligence results to the ES board. After reviewing the reports the founders and board voted to frame an offer to buy JNC. They approved an all-cash offer of €155.5 million. The offer included a handsome two-year executive contract for Jorgen, a no-layoff promise to JNC's workers, and a promise to retain the JNC executive team. Government and labour council approvals were obtained and by December 2005 JNC was a wholly-owned subsidiary of ES.

### **Making Changes at JNC**

Dieter Cohen, JNC's chief financial officer knew that aspects of JNC operations would have to change now that the company was a subsidiary of ES. For years, every Friday afternoon was 'bier and bagels' for JNC 380 employees. Jorgen started the practice in the 1980s and he believed that it helped build team work. Over the years, Jorgen worked hard to retain the employees who had helped him start the business so he had protected their incomes (and company work style) through 'thick and thin'. Jorgen prided himself on knowing all of the family members of these employees and it was not unusual to see some of their younger children wandering around the office hallways during the latter part of each bier and bagel day.

Jorgen's generosity had not stopped with bier and bagels. Just about every month the company paid more than €3000 for lunches and strudel to recognise employees' birthdays. When Dieter had once asked a salesman about the history of this practice, the salesman told him, 'It is a fun place to work and we accomplish a lot of things while we have fun'. Even during the sales negotiations with ES, Dieter had noticed that production losses were mounting and several salesmen were hardly working at their jobs. He was particularly troubled by several employees who insisted on watching soap operas on portable TVs during work hours.

To Dieter, these practices represented the uncontrolled byproducts of an out-of-touch and paternalistic management system that would not be tolerated by the company's

new American owners. He believed that the loyalty that had developed over a fifteen-year period between Jurgen and the JNC work force had slowly hardened into a form of stagnant paternalism that had slowed net income growth and new product introductions. With JNC under new ownership, he believed that soon internal conditions would be right to initiate a turn-around and he wanted to be the one to steer JNC to a position of first-level product leadership in its markets.

To achieve his goals to improve JNC sales, he knew that he needed the support of Amanda Short, Director of ES's Sales Fulfilment Support division. With Roland's permission, he contacted Amanda for her input on his proposal to improve JNC sales. He asked for her support and participation in a meeting that he wanted to arrange with Joe Leman and Roland. He set the meeting up for February 2006 once Amanda reviewed his plans and offered her unqualified support for his sales turn-around proposal. Dieter and Roland contacted Joe and discussed the general features of the plan to boost JNC's market share for its core products. Joe liked Dieter's proposal (and his initiative) and he was pleased to learn that Amanda and Roland both strongly supported Dieter's proposal without reservation. He had confidence in both executives and so he explained Dieter's plan to Randy and Phil (the other two ES founders). After a thorough presentation of Dieter's plan by Roland, Byron and Amanda, the board unanimously approved a decision to send the three executives to Essen to work directly with Dieter.

At JNC headquarters Dieter launched his planning session by reviewing JNC financial performance for the last four years prior to the company's purchase by ES. Through 2005 sales growth had been slipping in JNC core product areas. This came as no surprise to Joe and Amanda; they had seen the problem coming – in fact it had been discussed in several ES board meetings before the acquisition was made. Dieter summarised his approach to tackle the sales declines – he wanted to perform 'radical surgery' on the sales management and compensation program. Prior to meeting with Joe and Amanda, Dieter, with input from Roland and Amanda, refined his plan to reshape the compensation practices that had grown throughout JNC's sales division like a 'weed patch'. Dieter wanted corporate approval to adjust JNC's generous salary and year-end bonus package for its sales staff. He showed them the most recent sales numbers in relation to 'cost of sales' and, they immediately climbed on board to support his 'radical surgery!' Everyone agreed that now was the time to replace the old system with one that tied sales compensation and bonuses to 'stretch sales goals' for core company products. Based on salary research that he and Amanda had conducted, Dieter knew that JNC paid some salesmen as much as E90k a year with potential bonuses of E17k or more. Joe and Amanda agreed with Dieter when he said,

Our old system kept our salesmen complacent and unmotivated. The money we paid one salesman under our old system will cover the incentives for two hungry go-getters in our new system. We can easily hire younger, ambitious salesmen who will work hard to develop new sales accounts and deliver better customer service. We have to shake up JNC to prepare it for the competition that will inevitably come from North America and Asia.

The sales philosophy proposed by Dieter had been part of the long-standing goals in Amanda's department. Amanda and Roland knew that Joe and the other founders would recognise the value of Dieter's proposal because it was 'a good fit' to the sales approach that had helped ES penetrate many segments in its North American markets. Joe, Roland and Amanda liked Dieter's plan because he projected a 20 per cent decline in cost of sales as a percent of revenues. On top of that, he proposed to double the

size of the sales force without terminating any salesmen! Dieter explained to the 'Yanks and the Brit' that his new compensation plan would pay salesmen base salary of £38t and eliminate their bonus ceiling in light of his new 'stretch goals'. This would make it possible for any ambitious salesman to easily exceed the maximum level of compensation under JNC's old incentive system. Amanda was enthusiastic because she used a similar approach to compensate her North American sales force.

Dieter knew that he had to address the 'no layoff' clause in the ES purchase agreement. As the executives considered the clause, they recognised that there was nothing in the agreement that limited their discretion to make changes to sales compensation. Amanda and Joe saw the potential in Dieter's program, and they believed that any German salesmen who could not produce results under the new incentive plan would find their own way out the door and new, highly motivated salesmen would gladly take their places. Amanda added her support by stating that she believed that under Dieter's program the JNC sales force would probably double in size within 18 months.

On their flight home Joe asked Amanda and Roland if they had any unvoiced reservations about Dieter's plan. She indicated that she had worked with Dieter from the beginning and that she had found him to be quite receptive to her suggestions. Both executives knew that Roland wanted ES to have an immediate impact on Europe's production distribution channels. He voiced this goal by telling the executives that Dieter's plan would absolutely dovetail with ES's superior product distribution system. Amanda's and Roland's unqualified support for Dieter's plan erased any of Joe's lingering objections and he resolved to seek quick approval from the ES board of directors. Just prior to implementation, ES flew Jurgen and Dieter to Detroit for a one-day meeting to evaluate the plan and to explain it one last time to the founders and the board prior to implementation. Jurgen sensed that the decision had been made, but he appreciated being briefed on the plan prior to its roll out. He was receptive to the changes and he gave his word that he would reassure his long-time employees that the incentive proposal was not a 'downsizing plan in disguise'.

Dieter was given the 'go-ahead' by the board and he launched his change programme in May of 2006. He soon found that implementing the plan was a more difficult than the job of explaining it to Joe, Amanda, Roland and Jurgen. For instance, at a weekly staff meeting after the plan had been in effect for a month, a senior salesman complained loudly about Dieter's role in the process. The disgruntled rep accused Dieter of being a 'lap dog' for his American bosses and that he should show more loyalty to the old way – 'the German way' – of doing things at JNC. Dieter, remembering the 'no layoff clause', chose to explain how salesmen could earn much more under his new system than under the old one. After the meeting he resisted the temptation to pull the salesman aside in the hallway to put him on notice that he was a 'non-producer'. At another meeting a salesman said that he would only accept the plan if he received a laptop computer and a new company car. Once again, through clinched teeth, Dieter reminded himself of the no layoff clause.

After three months, the paternalistic and indulgent atmosphere was fading fast at JNC. The salesman who wanted the laptop and the fellow who requested a new car moved on to greener pastures along with three of their colleagues. Their positions were quickly filled and Dieter hired four more salesmen. Those who departed lamented that 'JNC had lost that family feeling'. At the three-month point, Dieter reported to his boss, Roland, and ES management that JNC's net income for third quarter 2006 was 38 percent higher than the previous year. Dieter, Roland, and ES management had few regrets about the staffing changes triggered by the sales incentive plan – a 38 percent gain in net income exceeded Dieter's projections by 18 per cent! A few JNC employees still wanted to believe that the business focus should return to the paternalistic family

practices of the past – after all, who doesn't like to take the relaxed and leisurely approach to business? Dieter and his Detroit colleagues knew that continuing those practices would slowly cede JNC's market share to its rivals and over time it would slip into the 'no-profit red zone'.

ES executives were optimistic that JNC's motivated sales-force will have the incentive to find all sorts of ways to improve customer satisfaction and service quality. JNC's reps found new meaning – and motivation – in their larger pay-for-performance bonuses. By January 2007 most JNC employees had come to think of 'bier and bagels on Friday and birthday lunches' as quaint footnotes in JNC history. In their place the company gives multiple E35 gift certificates to local department stores and restaurants to any employee who suggests a service or productivity improvement suggestion that can be immediately adopted. Two weeks ago, Astrid Fulda, a new customer service associate, walked away with five gift certificates for her suggestion to pool common warranty claims to speed their processing. After her idea was adopted, she was awarded four more certificates because she was named 'JNC Super Star' employee of the month. According to Dieter, even some longtime employees have enviously watched new employees haul in gift certificates and they have begun to make more contributions while 'grousing less and less'. When asked about the veterans' 'change of heart' Dieter said, 'They no longer have such a hard time seeing what was wrong with the old way of doing business'.

On a final note, the ES founders, Amanda, Roland, and Dieter were greatly cheered by Jurgen's support for their initiatives. They agreed that it was absolutely critical to the transformation from old-style paternalistic practices to a goal-driven, professionally managed subsidiary. Dieter's career at JNC received a boost too. On August 31, 2007 ES announced his promotion to President of JNC after Jurgen gracefully retired to run his family foundation.

### OB clues in the case

The challenge in this scenario is to sustain ES growth and to strengthen its competitive advantage by expanding its global operations. A vital aspect of sustaining growth is delicate job of integrating the two firm's core competencies – those things that both firms know how to do well and the two firm's organisational cultures. The challenge of global expansion was met by paying a 'fair price' for JNC so that ES can realise improved earnings streams in a reasonable time after the acquisition. If ES had paid too much – 'the price premium was too high' – then the founders and the board would have struggled and probably would have forced JNC and Jurgen to adopt 'American methods' that would have been stoutly resisted by JNC's employees. In turn, JNC's work climate would have sunk into 'low morale' and employees would have resented the 'heavy-handed Americans'. These are the usual outcomes in a global acquisition when the foreign acquirer 'pays too much'.

The founders and the ES board did their 'homework' and paid Jurgen a fair price for his company. Of equal importance to the success of the acquisition was the ES decision to keep Jurgen on the job through the period of transition and systems integration. This move signaled a 'peaceful transition' and it kept the transition on track because the right JNC people stayed in their jobs. Dieter Cohen is a perfect example of this effect.

In several ways the JNC story is similar to the ES story. Both companies were founded by capable entrepreneurs who believed in hands-on management. ES had grown faster than JNC because ES used a combination of retained earnings, debt and equity to expand. Mr. Nemer appeared to be less comfortable with this pathway so his firm was limited to growth based only on retained earnings. Both firms emphasised product



quality and innovation but ES better managed product innovation costs than JNC by spreading them over more product lines and markets. This was borne out by the fact that ES's product development costs as a percent of net sales were 50 percent less than JNC's.

When he was close to retirement and his personal interests had changed; Mr. Nemer decided to sell the business rather than to create a clear plan to help his company prosper after his departure. This fact made his company an ideal take-over candidate for a firm with superior productivity and control systems. ES shrewdly kept him on as a paid senior executive for two years and this created the necessary time to change JNC's culture without triggering a mass exodus of employees and customers. The anticipation of these contingencies was why the ES board and the firm's executives agreed to clause in the sales contract that specified a 'no layoff policy' during Mr. Nemer's transition to retirement.

The founders' instincts to delegate decision making authority to JNC's executives (especially Dieter) were validated. Dieter proved to be an able transition manager who was loyal to his new superiors and capable of taking timely and independent decisions to strengthen JNC's market penetration and net income. He proved his worth (he adds great value to competitive advantage) by making JNC a better-managed company. He was a perceptive entrepreneur and he seized his opportunity to earn the top job by attacking the problem of low market share for JNC's core products. Wisely, he did not try to do it alone. He solicited the advice and assistance of key managers from ES divisions and he kept them apprised of his progress after the founders and the board approved his plan for change. Dieter is an excellent 'transition leader' because he smoothed the merger, kept Jurgen involved in company decisions and built a strong working relationship with the ES founders and their key executives – relationships that sped up the merger of the two firms' core competencies.

No company has a crystal ball when it comes to acquiring a business overseas. The problems are formidable and it is not surprising when such ventures fail to meet the test of improving competitive advantage. The JNC acquisition meets this test because ES kept key JNC executives and found a way to make them part of the ownership transformation process. Keeping key executive talent and knowledge in the acquired firm ensures a successful merger if the acquisition is fairly priced. ES did pay a fair price for JNC and the merger took off (added to competitive advantage) because Dieter stayed on board. He saw an opportunity to become the president of JNC and he achieved his goal by reversing the slide in JNC net income. He met internal resistance from the 'old guard' in JNC but he stuck to his plan and he made the required changes to JNC operating systems.

### Analysis warm up

Choose the answer that is most consistent with your understanding of the concept in each statement. Record your answer next to each statement according to the following scale:

- |                  |                     |
|------------------|---------------------|
| 4 Strongly agree | 2 Somewhat disagree |
| 3 Somewhat agree | 1 Strongly disagree |

- \_\_\_\_\_ 1 A firm can combat stagnant profit margins in its domestic market by expanding overseas.
- \_\_\_\_\_ 2 Rapid transfer of the buying firm's organisational culture to an acquired foreign firm is ill-advised and impractical.
- \_\_\_\_\_ 3 ES has an established distribution and sales operation in Europe, therefore the timing of its acquisition of JNC is appropriate.
- \_\_\_\_\_ 4 Roland can be thought of as an idea champion concerning the acquisition of JNC.
- \_\_\_\_\_ 5 JNC's new system of incentives encouraged high performers to join JNC as its poor performers voluntarily decided to move on to 'greener pastures'.
- \_\_\_\_\_ 6 Dieter's personal values and his managerial style merged smoothly with its peers and his bosses in Detroit.

### Interpretation of your score

If you scored over 18 then you recognise the underlying factors that made the acquisition of JNC a success for ES. The company hired the right consultants and experts to perform due diligence. Therefore, the financial offer was fair and ES knew exactly what it was buying in terms of the value of JNC's hard assets. The experts laid down a fool proof plan to help ES overcome legal and regulatory requirements in Germany. You recognise that these front-end activities are actually the easy part of acquiring a foreign operation. The harder part was finding the best way to merge the two firms without making JNC employees feel (and act) as if they were 'second class players' who played for the losing team. Going forward, you see that the key to the acquisition's success was Dieter Cohen's personal decision to stay on at JNC and to change its culture. He did this not by firing employees but by changing the incentive system in the sales division. He correctly judged this to be the part of the firm where he could have the fastest and the biggest effect on revenues without increasing JNC's direct costs. You sense that Dieter knew that his power bases rested on his proximity to and knowledge of JNC systems and its key contributors. He sought collaboration with his ES counterparts and he stood up to criticism from some of JNC's marginal employees during the early days of the transition. And, he pulled off his 'hat trick' without alienating his old boss.

You see that Dieter uses his managerial knowledge of JNC's strengths and weaknesses to emerge from the shadow of the company's founder. He doesn't exhibit the qualities of a rebel or a trouble maker. Rather, he functions like an entrepreneur who has detected a significant opportunity and he seizes it – just like any of the ES founders would have done. You may have detected that Dieter is actually Roland's counterpart in Germany. He spots the weakest element in JNC and sets out to fix it – he fixes it because it needs to be done and he knows that it is the crucial prod that will help merge the cultures of the two firms. He doesn't do it merely to please his new bosses. He's aware that he has an ideal opportunity to show his bosses in Detroit that he's quite capable of making JNC more competitive. He does not give his Detroit bosses any reason to look for his replacement. You have concluded that Dieter makes himself indispensable with his brilliantly executed plan. You might note that his situation is a classic example of how an acquisition presents a once-in-a-lifetime opportunity to supercharge your career. It would not be surprising to see Dieter seize other opportunities to raise JNC performance and to heighten further his visibility in the firm.



- 1 Suppose that there were no Dieter in JNC. Could the incentive plan have succeeded if ES executives had hatched it and Jurgen had tried to implement it?
- 2 Explain how Dieter successfully steered his way through the acquisition of JNC by ES.
- 3 How important was Amanda's involvement to the success of Dieter's program design and roll out?

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## Answers

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### Module 1

#### Review Questions

#### True/False Questions

|     |        |      |        |      |        |      |        |
|-----|--------|------|--------|------|--------|------|--------|
| 1.1 | True.  | 1.6  | True.  | 1.11 | False. | 1.16 | False. |
| 1.2 | True.  | 1.7  | False. | 1.12 | False. | 1.17 | False. |
| 1.3 | False. | 1.8  | False. | 1.13 | True.  | 1.18 | False. |
| 1.4 | False. | 1.9  | False. | 1.14 | True.  | 1.19 | False. |
| 1.5 | True.  | 1.10 | True.  | 1.15 | False. | 1.20 | True.  |

#### Multiple Choice Questions

|      |   |      |   |      |   |      |   |
|------|---|------|---|------|---|------|---|
| 1.21 | B | 1.24 | C | 1.27 | B | 1.30 | B |
| 1.22 | A | 1.25 | B | 1.28 | C |      |   |
| 1.23 | C | 1.26 | A | 1.29 | E |      |   |

#### Short Essay Questions

- 1.31 These employees may not be promotion oriented because they believe that promotions, pay raises, and desirable assignments are based on luck and being in the right place at the right time. They may also believe that promotions and other rewards are based on favouritism and not performance. They would be less compelled to argue strongly for their points of view in the face of opposition. They may quickly

respond positively to any announcement that affects them in a favourable way. Finally, they may blame themselves if a project or a task fails.

A supervisor can influence an employee's locus of control by (a) raising work rewards; (b) adding job challenge; (c) clarifying the relationship between job performance and job satisfaction; and (d) delegating authority and basing rewards on goal accomplishment.

- 1.32** Current analysis of the relationship between performance and job satisfaction suggests that performance indirectly causes job satisfaction through the mediating effects of available rewards and employees' perceived equity of them. Job satisfaction is an outcome of employee judgements about the fairness of rewards provided by the firm (extrinsic rewards) and by the task at hand (intrinsic rewards). The link is easily broken if employees believe that: (a) intrinsic or extrinsic rewards are inadequate; (b) performance is measured poorly; or (c) rewards are unfairly distributed.

A supervisor can create motivation problems by believing that happy workers are productive workers. He may emphasise social and job security rewards over direct extrinsic rewards such as pay and bonuses. Also he may down play the importance of performance appraisal (PA) because he does not want to 'hurt anyone's feelings'. Achievement-oriented employees are motivated by challenging goals having regular and detailed feedback: they depend on it for their satisfaction. If it is unavailable their satisfaction may drop. Finally, the supervisor who emphasises job satisfaction over performance forgets the significance of employee productivity and performance in sustaining competitive advantage

- 1.33** The need for power is the most organisationally significant socially acquired need. It can be personalised or socialised. A manager who expresses personalised power creates disruptive work relations, favouritism, nepotism, distrust among co-workers and low employee confidence in goal-setting, PA and compensation. Such a manager expects subordinates to be personally loyal to him and he often interprets events in personal as opposed to task-related terms.

A manager with a socialised need for power motivates his subordinates by expressing confidence in their abilities, delegating authority to them and acknowledging their success with recognition and praise. He champions performance and he recognises that his success depends on the productivity of his subordinates. If this manager thinks he is unappreciated by his employer he may resort to the tactics used by his coercive counterpart.

- 1.34** The most fundamental change in the manager's job is the shift from controlling the behaviour of subordinates to supporting and facilitating the work of interrelated, self-directed teams (SDTs). The old version of the manager's job (Theory X) stressed close monitoring of employees' behaviour, work scheduling, designing budgets and so on. Now, most of these activities have been delegated to SDTs. The managers in delayed organisations have to focus on integrating the work of teams, designing

information systems that give teams real-time performance data and improving the quality of products and services (all Theory Y activities).

- 1.35** A mission statement is a business-like expression of the firm's terminal and instrumental values. Mission statements are common in business cultures that stress transparent financial statements and that have sophisticated and highly developed capital markets. Global firms make their mission statements relevant across cultures by training all managers and executives in how to conduct proper international transactions.

### Case Study 1.1: Measuring Job Involvement in the Work Setting

There are no 'right' answers to any of these questions. They are designed to help you consider the unique meaning of job involvement for employees.

### Case Study 1.2: General Electric Has a Whistle-blower

- 1 In large firms, employees, with fraudulent motives, can manipulate systems and payment methods for long periods of time before they are detected. Also, decentralised decision-making in widely dispersed business units emboldens employees with graft on their minds (Société Générale is an example of this). Employees of small firms know each other and their levels of necessary cross-training lower communication barriers. This fact may encourage more honest internal communications. In sum, everyone knows what everyone else is doing.
- 2 His delay tactic may have had several origins. He may have feared for the loss of his job in spite of the protections provided by the False Claims Act. Insecure managers often view whistle-blowers as complainers or malcontents who openly question current business practices and executives' motives for personal, petty reasons. Perhaps Mr Walsh may have felt that the internal controls would have been insufficient to allow him to perform his job once he made his allegations known. Being a meticulous person, perhaps he felt that an overwhelming case required four years of data gathering!

#### Did he gain by delaying . . . ?

Perhaps he thought his reward would be larger if he delayed his announcement. Of course he may have thought that someone else knew about the scheme, therefore he had to make his charges when he did. Perhaps he gained some satisfaction from providing documentation of fraud which was so overwhelming that GE would not be able to avoid punishment and criticism.

- 3 The law should set a reward limit. In its current form, the whistle-blower has a powerful incentive to delay making any charges because the award grows as wrongdoing continues. Firms should develop strong, ethical cultures and require all employees to undergo ethics training. Ethical practices should be codified and written down. When employees conduct business in an exemplary manner, they should be acknowledged and recognised. Likewise, senior

employees should be recognised for their honesty and integrity. When a company does uncover evidence of wrongdoing punitive action should be swift and fair.

## Module 2

### Review Questions

#### True/False Questions

|     |       |      |        |      |        |      |        |
|-----|-------|------|--------|------|--------|------|--------|
| 2.1 | True. | 2.6  | True.  | 2.11 | True.  | 2.16 | True.  |
| 2.2 | True. | 2.7  | False. | 2.12 | True.  | 2.17 | False. |
| 2.3 | True. | 2.8  | False. | 2.13 | True.  |      |        |
| 2.4 | True. | 2.9  | True.  | 2.14 | False. |      |        |
| 2.5 | True. | 2.10 | True.  | 2.15 | True.  |      |        |

#### Multiple Choice Questions

|      |   |      |   |      |   |      |   |
|------|---|------|---|------|---|------|---|
| 2.18 | B | 2.20 | C | 2.22 | B | 2.24 | A |
| 2.19 | A | 2.21 | B | 2.23 | E | 2.25 | C |

#### Short Essay Questions

**2.26** Complete freedom from stress is death. Low stress levels in jobs encourage employees to sleepwalk through their work and careers; rusting out on the job. Low-stress work environments may occur in bureaucratic (Theory X) firms that ignore or downplay the importance of an engaged work-force. They have work systems that limit employees' autonomy and workers may psychologically withdraw (rust out) from work and their productivity declines. Some other workers may be inclined to abandon dead-end jobs for more challenging work. The less productive workers settle into a work routine of low accountability and mind-dulling organisational detail. Ambitious employees who expect more challenging work will head for the door.

**2.27** Managers and supervisors who are responsible for their subordinates' career progress can experience job burnout, especially during downsizing. While responsibility for physical assets may be significant, it is usually far less stressful than the responsibilities that managers feel toward their subordinates. Managers in downsizing companies trying to reduce costs or to raise earnings often experience little accomplishment, emotional exhaustion, economic insecurity and depression. Managers experience job burnout especially strongly if they are frequently called upon to create or implement downsizing plans. Their sense of helplessness (and guilt) to protect their subordinates' jobs and careers (let alone their own) undermines their internal locus of control and they judge their jobs to be chaotic and uncontrollable. This combustible mixture can immobilise an effective manager and cause him to

become fatalistic about his own career and economic security. When managers and their employees experience these effects, it is not surprising to find that they are self-absorbed and ineffective at improving output productivity or service quality. You often see this widespread paralysis in firms that are about to be bought out by a larger rival.

- 2.28** Corporate stress-management programmes occur in two forms: problem-focused and emotion-focused interventions. The former include time management, getting help from a mentor and clarifying work expectations. Problem-focused interventions may also target specific symptoms of employee job dissatisfaction or job stress. For example, job redesign and rotation, enhanced job security, flextime and firm-sponsored day care can all improve quality of work and home-life for employees. Emotion-focused interventions raise employees' resistance (adaptation) to stress by building their skills through exercise, meditation, social support and counselling.

Corporate stress-reduction programmes include on-site wellness programmes, sabbatical leaves and employee assistance programmes (EAPs). Employers can use incentives to motivate employees to participate in wellness programmes. Such programmes may begin with a full-scale profile of the employee's health risk factors in terms of lifestyle, driving habits, diet, exercise, weight, cholesterol level, blood pressure, use of alcohol and so on. Some employers then use these data to identify employees who are 'at risk' and they encourage them to adopt healthier habits. Some observers worry that such programmes are discriminatory or that they can lead to unfair (discriminatory) hiring practices.

### Case Study 2.1: Samuel Logston

- 1 Sam and Nora's lives match closely the stressors that are shown in Figure 2.2. Economic uncertainty haunts them because Sam cannot find work as a plumber and Nora is discouraged by her job. Sam experiences technological uncertainty as he strives to complete his training in computer service and repair. His knowledge of plumbing is not obsolete but his employment prospects are poor and so he retrains to compete in a more dynamic field. Nora's job has very difficult interpersonal demands. She resents the time she must spend on non-teaching work. She also feels unsafe – physically threatened – when she is a hall monitor. Her recent episode with the irate parents shows the stressful nature of these job demands. Both Sam and Nora are under pressure to raise their two small children on a dwindling income. Household and childcare responsibilities are wearing them both out, particularly Sam.
- 2 Sam and Nora's distressors will not resolve themselves quickly and they may soon both exhibit diseases of adaptation to stress. Both of them are hard working and ambitious. Sam's work as a plumber offers bleak possibilities because of typical long-term swings in the business cycle and the commercial construction industry in particular. Nora's fearfulness and dissatisfaction with her teaching job reflects the general coarsening of professional life for teachers in public schools. The social problems that infest families rapidly invade schools and

threaten many otherwise dedicated professionals with job burnout. Sam is probably on the right track because he is retraining himself and he'll be able to find a good job once he is certified. Nora's job stressors are more pressing because she is rapidly losing her will to teach. She should seek counselling through the employee assistance programme. She should also reach out to other teachers and her superiors for help and support. If she fails to take these positive steps, she may find that she cannot work.

### Case Study 2.2: The Pain of Downsizing<sup>1</sup>

- 1 This company appears to have toxic brew of stressors that touches all of its employees. The case shows how more complex task demands combined with a downsized work-force doing more work create widespread job overload. These effects are magnified as employees struggle under the demands of 24/7 communications. Remaining managers have wider spans of control. The net effect for them is more interruptions, less ability to escape from work and longer work weeks.
- 2 The inherent danger in downsizing is that its benefits are entirely temporary and easily copied by rivals. It may dampen cost rises but only if the rest of the industry (the firm's rivals) is not struggling under the burden of rising inventories and declining sales. If an industry is made up of rivals that vie to be the low-cost producer (compete on the basis of price), the industry will experience periodic rounds of downsizing and price wars.

Companies that try to sustain low costs with fewer employees flirt with losing their best customers because the employees who provided the best service may be the ones who get laid off. Intellectual capital and know-how (both very important in service delivery) disappear in downsizing. Customers of service-based firms will quickly switch to competitors when they detect the inevitable service decline. The combined negative effects of lost employees and more reluctant customers may overwhelm any temporary gains created by downsizing.

### Case Study 2.3: A Gunman Comes Back to Work

- 1 The affected employees will be fixed on their lower-order needs. Prior to the crisis many of them were preoccupied by higher-order needs because they understandably took for granted their personal safety, security and physiological needs. And so, they concentrated on recognition, job satisfaction and job challenge. The crisis swept away their preoccupations. Extreme personal danger leaves a deep imprint on traumatised employees and some of them will remain 'stuck' or obsessed by physical safety and security because they will not be able to shake off their apprehension and feelings of vulnerability. For

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<sup>1</sup> John A. Bryne, (1994) 'The Pain of Downsizing', *Business Week*, 9 May, 60–3 and 66–8.



instance, harmless images and perceptions can easily cause these employees to re-experience the terror of being injured or they will suffer uncontrollable fear for the safety of their friends and family. These painful and frightening reactions are caused by any real or imagined experience that triggers memories of the terror episode. This is classic post-traumatic stress disorder. In turn, these forms of unresolved fear and anxiety can harden and diminish employees to the point where they become permanently agitated and apprehensive.

These chronic conditions are accompanied by higher and fixed hormone levels and victims remain locked in depression accompanied by chronic anxiety disorders. Some of these employees will experience panic attacks and exhibit a variety of serious avoidance behaviours common in phobias. These unfortunate employees can remain paralysed by their dread and fear and they would not be able to return to work until they have completed a long-term rehabilitation. They would require therapy to learn how to deal with their fears and dread in constructive ways. Without this long term help, they could slip into unhealthy coping patterns. Drugs, addictions, spousal and family abuse, and free-floating, explosive hostility are a few of these unhealthy coping patterns triggered by unmanageable fear. These disorders and their depth and duration would depend on the extent to which affected employees had weak or strong social support systems.

Some employees may reject forms of social and emotional support and try to 'go it alone' in the aftermath of a crisis like the one in Atlanta. These introverts or 'loners' will soon manufacture all sorts of reasons to doubt the effectiveness of all of their relationships at work because they are unable and unwilling to express their feelings – they block or repress them. Over time these 'loners' will be ignored and marginalised because they appear to choose voluntarily to be isolated and apart. A 'vicious circle' ensues and the loners find themselves even more detached and alone at work. There is no doubt that some of them will react by withdrawing into unproductive and abusive behaviours. Their withdrawal greatly increases the probability that they may become ill, addicted, or terminated down the line. And, consider this: the most troubled among them may become the 'next Jacobs'.

- 2 When employees live through an on-the-job emergency their firms (and bosses) should de-emphasise short-term performance goals and not expect them to show an immediate desire and ability to re-focus on work demands. They should treat the experience like a physical wound or illness because they realise that an emotional injury has to heal in much the same way as a wound or an illness. Executives must patiently realise that a severe crisis or hostage situation leaves their employees emotionally injured and distracted by fear, anxiety and safety concerns. It is temporarily impossible for traumatised employees to be creative and task focused. In the aftermath of a severe trauma, it is unconscionable for managers and companies to push or prod their employees to get back to work. They need the time to recover from a trauma without the pressure of meeting deadlines. Managers cannot succeed by simply asserting that the

‘emergency is over and now its time to get back to work’. This is immoral corporate denial that ensures a festering trauma that spreads through the work-force. The employees who are told ‘get back to work’ will become more confused by their growing belief that their work is insignificant and their desire to continue doing it in the wake of a traumatising crisis.

Upper managers who try to ordain that the crisis is past may themselves pay a high emotional price for their impatient denial. When upper managers behave this way (no wounds, no injury) they limit their ability to provide support and consideration to those employees who exhibit clear signs of serious distraction, fear, apprehension, and anxiety. If, in the aftermath of an emergency, upper management rolls out the ‘get back to work’ order prematurely, the internal work environment becomes stilted and sterile. Superior-subordinate relations have to become impersonal and highly formal to reflect the widespread denial and suppression of human emotion. Excessive formality becomes a symptom of emotionally damaged employees; employees who have come to believe that they cannot work through the stress, agitation and apprehension caused by the trauma. If these feelings remain unresolved, employees have to become less flexible, more embittered, alienated and likely to quit for virtually any reason. In the calculus of work, what has vanished for these employees is their sense of company loyalty and commitment. This terrible outcome is triggered by their realisation that their bosses lack empathy and compassion.

- 3 Lesson 1: In a crisis put people first.** The Atlanta employees have just lived through a frightening experience on the job, and their bosses should realise that they will be unable to supply their full attention to their jobs in the near future. Employees believe that their lives have changed forever and that they no longer feel safe on the job. In the near term these employees are motivated only by fear, grief, anger and the drive to protect their loved ones. While they are in the grip of these strong emotions and motives employees believe that their jobs are unimportant or frivolous – they may even experience guilt for being ‘survivors’. They become obsessed by family, safety and friends and they cannot comprehend the importance of work deadlines and job goals. Employees who were not directly affected by a crisis may deal with their shock and dread by trying to keep busy. When they pause in their busy work they find themselves gripped by apprehension and doubt – they question their value (symptom of depression) and they think their work is meaningless (also a symptom of depression).

**Lesson 2: Do not bruise the loyalty of employees.** It is easy for managers to be fumblers in a crisis. When employees are traumatised, all a manager has to do to appear to be insensitive is to make a few poorly timed and insensitive remarks about ‘getting back to work’. For example, in the Atlanta plant, managers could easily alienate the entire work-force by firing or disciplining traumatised employees who earned poor performance ratings in the wake of the trauma. When managers blunder in this way, rightly or wrongly, their subordinates believe that they ‘see the boss’s true colours’. Employees want consideration,

trust and support from their superiors after a crisis. When they do not get it, they respond by withdrawing from the work relationship and they jettison (rightly) their loyalty to the firm

**Lesson 3: Give employees an opportunity to support one another.** In the wake of the Atlanta event, ES managers must ask themselves; ‘What can we do to convince everyone that personal support and consideration are more pressing than company goals and plant performance?’ Plant managers should emphasise the personal nature of team support and commitment before they can expect to the plant to return to normal. The point is this: Employees commitment to each other has to be rehabilitated before they can re-experience commitment to the firm or to their jobs. A good first step is to bring trauma and disaster counsellors into the plant to run sessions with employees who wish to voluntarily talk about their reactions to the hostage situation. If these sessions are run properly, employees’ commitment to one another will deepen as they learn many more personal things about each other – hopes, fears, children names, spouses’ reactions, and so on. In the early post-crisis return-to-work stage, it is appropriate for these highly personal outcomes to push aside corporate concerns for performance, productivity and goal achievement. These necessary and reassuring encounters encourage employees to set aside competition and ambition so that they can express anxieties and fears in a supportive and considerate setting with their bosses. If bosses actively and honestly participate in the emotional healing process with their employees then they encourage employees to hope – and know – that life will return to normal. If the bosses choose closed door strategy sessions over participating in these healing encounters, then, in their ignorance and impatience; they will further alienate their traumatised and already unproductive staffs.

**Lesson 4: Decide when to get back to work.** Just about the most important job that managers have in the wake of a crisis is showing employees that they can be confident and capable of carrying on. Managers must acknowledge that they are vulnerable too while emphasising that employees can move forward without feeling pressured to fake their interest and commitment to their work. Above all, compassionate leaders realise that their employees’ apprehension and dread is like a physical illness – one that they can recover from. Eventually they can regain their commitment to team work and collaboration. For this to happen in the wake of a crisis, leaders must heed their intuition and provide a supportive structure that honestly recognises their employees’ fears; no premature declaration that the ‘crisis is over and its time to get back to work’.

**Lesson 5: As work returns to normal, do not back off prior support commitments.** Plant managers and ES executives have to follow through on any promises that they made during the emergency’s aftermath. If promises for time off were made, stick to them. If employees asked for additional counselling and family support, provide it. For the Atlanta plant to return to full productivity, ES managers and executives have to go the extra mile – putting

people before profits. First, honour, remember, acknowledge, support and only then move on.

## Module 3

### Review Questions

#### True/False Questions

|     |        |      |        |      |        |      |        |
|-----|--------|------|--------|------|--------|------|--------|
| 3.1 | False. | 3.6  | False. | 3.11 | True.  | 3.16 | False. |
| 3.2 | False. | 3.7  | False. | 3.12 | False. | 3.17 | False. |
| 3.3 | False. | 3.8  | False. | 3.13 | False. | 3.18 | False. |
| 3.4 | True.  | 3.9  | True.  | 3.14 | True.  | 3.19 | False. |
| 3.5 | False. | 3.10 | False. | 3.15 | False. |      |        |

#### Multiple Choice Questions

|      |   |      |   |      |   |      |   |
|------|---|------|---|------|---|------|---|
| 3.20 | C | 3.22 | B | 3.24 | D | 3.26 | B |
| 3.21 | D | 3.23 | D | 3.25 | C | 3.27 | B |

#### Short Essay Questions

**3.28** The expectancy theory suggests a number of useful managerial actions that cause higher motivation and performance on the job for able employees. and they are enumerated below.

- A. Define and illustrate and teach good job performance to all workers (create line of sight).
- B. Identify the rewards valued by employees.
- C. Set attainable (and reasonable) performance standards.
- D. Provide timely and meaningful performance feedback.
- E. Administer rewards in a timely fashion: link them to performance.
- F. Eliminate any negative outcomes associated with high performance.
- G. Ensure that high performers receive significantly larger rewards than good or acceptable performers.

**3.29** Herzberg's content theory of motivation is based on Maslow's hierarchy – a general theory of motivated behaviour in life situations. Herzberg's theory focuses narrowly on the causes of job satisfaction and job dissatisfaction. They are both content theories because they stress the 'causes of motivation'.

The physiological, safety and social levels of Maslow's hierarchy are lower order needs which 'maintain' the individual; e.g., protect him from harm. These needs are finite and firms address them with money, fringe benefits and guaranteed employment. 'Hygienes' correspond closely to Maslow's lower order needs. Hygiene

factors include money, good working conditions, fair company policies, fair supervision and amiable co-workers. The growth elements of Maslow's hierarchy consist of self-esteem and self-actualisation. Herzberg's 'motivators' are analogous to these growth elements. These factors trigger motivation and sustain high levels of job satisfaction. Representative examples include: increased authority, recognition, promotion, job challenge and achievement.

- 3.30** Both theories are process theories of motivation. They explain the same phenomena from different perspectives. Expectancy theory is a cognitive process theory which emphasises the significance of inner psychological states that govern, channel and focus behaviour to meaningful personal ends. BMod ignores psychological explanations for behaviour and articulates the role of the environment in guiding motivation and shaping behaviour. The BMod approach could be labelled deterministic.

With their common process orientation, the two theories share other similarities. Both suggest that the connection between behaviour and its consequences is extremely important for sustaining motivated behaviour by using rewards. Rewards are called positive reinforcers in the BMod and second level outcomes in expectancy theory and they function in exactly the same way in both theories. A third similarity is the relationship between a contingency of reinforcement and instrumentality. A contingency of reinforcement specifies the relationship between behaviour and its consequences (positive, negative or neutral). This relationship is similar to the connection between first level and second level outcomes in instrumentality despite its decidedly cognitive quality. In BMod, a contingency of reinforcement is simply the connection between behaviour and the environmental consequences it induces. Cognitive interpretations are irrelevant in a contingency of reinforcement.

- 3.31** Working from employee-based issues to organisation-based considerations; the first concern would be that employees must have the ability to do the work. Managers' should find out if performance deficiencies can be linked to employee abilities. Second, employees must understand their job demands so that they are not confused about the meaning of good performance. Employees must be trained to gather performance feedback information and how to act on it to correct performance deficiencies. Programme success also hinges on whether or not the work (targeted jobs) is heavily machine paced. If employees cannot control the pace of work they will have little opportunity to try new methods. Fifth, employees must be convinced that work hygienes are in place and acceptable. It is pointless to develop and install BMod if employees are dissatisfied with current hygiene. Supervisors must trust employees and be willing to involve them in programme design (number 6). Recognising that employees are knowledgeable (a 'Y' assumption) is a sign of respect and trust. Employees respond by demonstrating their commitment to performance improvement. Supervisors and managers must show their commitment to the programme. Their behaviours must be consistent with the underlying values of BMod. For instance, they must create meaningful performance goals prior to the

baseline audit; they should encourage employee participation to solve performance problems; and they must find new ways to reward excellent performance.

- 3.32** The first employee should experience felt negative inequity while his colleague probably experiences felt positive inequity. We could expect the first employee to do any or all of the following:
- A. Work three fewer hours per week or cut his effort level if he stays on the job for 41 hours per week.
  - B. Ask for an assistant to help him manage his work load.
  - C. Seek a transfer or leave the job if the labour market is favourable.
  - D. Choose some one else to compare to.
  - E. View the imbalance as temporary and speak to the boss about it.
  - F. Convince his colleague to slow down.

### Case Study 3.1: Promoting Employee Productivity

- 1** The company is addressing its accounting personnel's lower-order and higher-order needs. The quiet hour satisfies their security and safety needs. It affords some 'privacy' to work on meaningful tasks which tie in with their higher-order needs. Employees are allowed to use the hour to work on jobs that are more conceptually complex and challenging than routine work. If the programme lasts, some workers may experience improved satisfaction with the job itself because they find their work to be more challenging and meaningful.

The AMP programme addresses hygienes and motivators simultaneously. Satisfaction with co-workers and supervision (both hygienes) has risen. We see that the AMP programme focuses on creative and complex projects and it may improve accountants' higher-order need satisfaction.

- 2** The programme could affect employees' line of sight in other units because these outsiders think of AMP as a reward available only to the accountants. Five hours of 'quiet time' each week offers considerable freedom and escape from the usual job interruptions. Some high performers from other departments may believe that they too should have a quiet hour each working day. To the extent that Lancaster does not quickly diffuse the programme, the instrumentalities of outside employees will weaken. The company could lose some high performers. More likely, however, is reduced performance and motivation and increased job dissatisfaction for employees not covered by AMP. If left unchecked, relationships between accounting and other departments may deteriorate and weaken critical coordination needs.

### Case Study 3.2: Motivating Employees at Cypress Semiconductor<sup>2</sup>

- 1 Mr Rodgers differentiates equitable treatment of employee and rewarding employees for their documented goal achievement. He states that equity 'refers to adjustments that more closely align salaries of equally ranked peers'. His statement seems to stress equal treatment as it ignores equitable treatment. Let's suppose that a Cypress executive hired a new manager at a pay level which was 10 per cent higher than current managers who performed similar work. Under the Cypress system, over time, the lower-paid managers should 'catch up' with the manager who was hired above the pay bracket. This manager may actually widen the pay gap with respect to his peers because he qualifies for hefty merit awards. No matter how fair the pay system, the high-performing managers with ever-lagging salaries will experience felt negative equity.

Secondly, Mr Rodgers seems to ignore the fact that employees make equity comparisons not only about outcomes (adjustments in raises) but also about inputs (level of effort, years of training, past performance). His company's goal-making and tracking system is so outcome driven that it ignores the critical issue of placing the right person in the right job. For poor person-job matches (an employee with no goals or a high deficiency rating), some effort is made by managers and executives to aid the 'delinquent' employee. However, he does not comment on what eventually happens to the ill-positioned worker. A computerised and constantly updated goal-setting system certainly 'seems objective' and empirical, but these features do not ensure accurate and valid equity comparisons.

- 2 The system appears to be widespread and well understood: a critical component of any management information system. The various reviews and updates indicate that there are serious efforts made by the company to help employees set effort levels that lead to good performance (no goal deficiencies). This should stabilise and clarify line of sight, as long as management does not pressure employees to create more goals than they can reasonably handle. Likewise, employees' instrumentalities should be positive because Rodgers states that merit rewards are linked 'to the quality of past performance'. In turn, employees will become achievement oriented and their internal locus of control will strengthen. The programme's consistent feedback to employees about their goal accomplishment helps them sustain line of sight.

Employees formulate their own goals and they are expected to make reasonable decisions about their levels of effort. Employees do not create too many goals or ones that are unrealistic. Multiple feedback sources raise employee persistence if the board creates a 'raise budget' which is widely seen as fair (distributive fairness) as well as fairly distributed (procedural fairness). Despite the hard work of employees, the firm could still experience declining profits and market

<sup>2</sup> Reprinted by permission of *Harvard Business Review*, 'No Excuses Management', by T. J. Rodgers, July–August 1990, 84–98. Copyright by the President and Fellows of Harvard College, all rights reserved.



share. In this case, the board of directors might lower the 'non-negotiable' raise budget to reflect less-than-adequate corporate performance.

Overall, the Cypress goal-setting, tracking and reward-allocation system is admirable because it merges very important motivation principles with computer-based control and communication. If it has safeguards to prevent the abuse of employees (work overload without adequate resources to get the job done), then it should support performance and quickly generate information which makes good decisions about promotion, termination and training and development.

## Module 4

### Review Questions

#### True/False Questions

|     |        |      |        |      |        |      |        |
|-----|--------|------|--------|------|--------|------|--------|
| 4.1 | False. | 4.9  | False. | 4.17 | False. | 4.25 | True.  |
| 4.2 | False. | 4.10 | True.  | 4.18 | True.  | 4.26 | False. |
| 4.3 | True.  | 4.11 | False. | 4.19 | True.  | 4.27 | False. |
| 4.4 | True.  | 4.12 | False. | 4.20 | True.  | 4.28 | False. |
| 4.5 | True.  | 4.13 | False. | 4.21 | True.  | 4.29 | False. |
| 4.6 | True.  | 4.14 | True.  | 4.22 | False. |      |        |
| 4.7 | False. | 4.15 | False. | 4.23 | False. |      |        |
| 4.8 | False. | 4.16 | True.  | 4.24 | False. |      |        |

#### Multiple Choice Questions

|      |   |      |   |      |   |      |   |
|------|---|------|---|------|---|------|---|
| 4.30 | E | 4.33 | B | 4.36 | B | 4.39 | B |
| 4.31 | A | 4.34 | A | 4.37 | E | 4.40 | A |
| 4.32 | B | 4.35 | B | 4.38 | D |      |   |

#### Short Essay Questions

- 4.41 All three errors are made by supervisors (raters) who are not properly trained to make accurate judgements about their subordinates' performance. These errors occur because supervisors do not know how to observe the performance behaviours of their subordinates and their firms fail to reward good PA practises.

The three errors are threats to the PA system's reliability. Halo effect is making judgements about performance dimensions based on a general impression of the subordinate. Recency error occurs when the supervisor only concentrates on recent work behaviour, rather than a time sequence of relevant employee performance. Similarity error occurs when the supervisor gives undue emphasis to subordinate performance qualities which resemble those of the supervisor.



- 4.42 A job analysis improves the content and empirical validity of PA. A job analysis creates job descriptions that can be used to improve employees' understanding of job demands and the skills necessary to be effective performers (aids line of sight). Job descriptions communicate work expectations to new employees and they are effective tools to use in hiring and training. A job analysis identifies task interdependencies, interrelationships among tasks and work coordination and integration needs.
- 4.43 The manager must consider the issues which affect the quality of goal-setting. The issues are the clear specification of the goals to be achieved and the description of the intrinsic and extrinsic rewards available for successful goal achievement. Second, the nature of the goal-setting process must be specified. This entails consideration of participative, autocratic or generalised goal-setting procedures. Third, the attributes of goals must be developed. Thus, the manager must set clear, difficult and challenging goals with ample formal and informal feedback. Fourth, the level of employees' commitment and acceptance of goals must be determined. Last, the desired levels of performance, job satisfaction and job motivation should be discussed.
- 4.44 The dichotomy shows that rewards have different origins and effects. Extrinsic rewards occur in the context of work while intrinsic rewards originate in the content of work. While it may be difficult to differentiate intrinsic and extrinsic rewards clearly for each employee, their motivational impact is heightened by recognising the differences between them. Remembering this distinction helps a manager raise employee motivation and performance by adjusting rewards to meet the individual needs of his subordinates. It also leads to finer distinctions among extrinsic rewards, such as: direct, indirect and non-financial compensation. These considerations make it possible for the firm to craft policies to control the allocation of extrinsic rewards.
- 4.45 The firm should focus on rewarding performance which is measured with a valid and reliable PA system. However, they often stray from this goal by using a different basis for distributing rewards. These 'changes' include:
- A. **Effort.** It's commendable but not always related to performance.
  - B. **Seniority.** Loyalty and staying power are admirable qualities, but once again, they may be unrelated to performance.
  - C. **Equality.** Many managers escape difficult employee pay decisions by giving all their subordinates the same pay, bonuses and rises and that creates an 'equity' problem for the high performers.
  - D. **Power and influence.** Some groups of employees increase their rewards at the expense of less powerful or less well-organised groups.

- 4.46** Gainsharing is a group-based reward system that links bonuses to labour cost savings. These plans require dependable information about production costs in terms of time and capital resources. Employees and the firm 'share' cost savings based on a pre-established formula. It is possible for employees to obtain bonuses during periods of declining company sales because they may continue to find ways to reduce costs and to raise their productivity. These plans rely heavily on employee engagement to find more efficient means of production.

Profit-sharing plans are more passive group-based reward systems than gainsharing programmes. They depend on the firm's success in the market instead of its success in controlling the cost of production. Profit-sharing is usually done once a year while gainsharing may operate on a monthly cycle.

Four key design elements in gainsharing are:

- A. The ability of the market to absorb more output.
- B. The extent to which seasonal demand for output exists.
- C. The number of employees in the production unit to be covered by the programme.
- D. The quality of labour-management relations.

The plan must be interesting and understandable to workers. Their understanding should be based on reliable information about the firm's financial and strategic goals. Any plan should minimise delays between performance and team-based bonuses. Top management should be able to show that performance, product quality and service quality have all risen under the pay plan.

- 4.47** The principal advantage of the Rucker Plan over the Scanlon Plan is the fact that the former does not require the creation and maintenance of a screening committee and its supporting production committees throughout the company. In this way, the Rucker Plan is less reliant on the creation of a hierarchical reporting mechanism tasked with creating, cataloguing and evaluating employee productivity improvement suggestions. The Rucker Plan seems to be more decentralised which may make it more useful in companies which are using self-directed teams to improve responsiveness to customer needs.

- 4.48** In the short-run, the negative effects of downsizing and delayering may outnumber the positive effects. Despite the fact that the firm may create the potential for an increase in its net income in the wake of taking these two decisions, their cost, in terms of severance packages for eligible employees, may create a substantial charge against current earnings. In the longer term, the decision to downsize and delayer may reduce substantially the pool of talented employees who are capable of filling senior management positions. This undermines the morale of employees because the firm must turn to outside executive search firms (with much higher cost structures) rather than use a 'promotion-from-within' policy. As delayering and downsizing cut through a firm, high value product and service development projects are abandoned by employees who are gripped by sudden economic uncertainties. Customers may find it more difficult to obtain service and

product information from less well-trained and knowledgeable employees. In the near-term, any rises in customer dissatisfaction may trigger declining revenue and market share.

### Case Study 4.1: Performance Appraisal at Work

- 1 This question can be answered by using goal-setting theory. PA is a direct pathway to valued extrinsic and intrinsic rewards. If the company's goal is to build a BARS, it will be necessary to involve employees who are knowledgeable about critical work activities and who are affected by the BARS data. Their active involvement in the design of BARS strengthens their commitment to the new system and deepens their acceptance of the information produced by it. Employee engagement in BARS design leads to higher performance, job satisfaction and job motivation. The company must avoid the temptation to apply a single system to widely different groupings of jobs. If that is done, the validity of the system will be compromised.
- 2 The steering committee lasted as long as the design and implementation phase for the new PA system. It functioned as a powerful communication mechanism which legitimised the needed change. Its members had a deep interest in PA, so it is possible that they would become staunch advocates for a new way of conducting this important task. Committee members were project experts who could answer employees' questions about the new system. Employee expectations about the new system were kept in line with system development. The steering committee smoothed the transition from the old to the new PA method. Members became PA knowledge workers.

### Case Study 4.2: A Swedish-American Joint Venture<sup>3</sup>

- 1 A number of factors support Winshare programme success. First, covered employees see a clear connection among company profits, their improvement suggestions, team implementation of productivity-enhancing improvements and quarterly gainsharing bonuses. This is line of sight in action: a clear pathway between performance efforts and the programme's rewards.

A second success factor is focused employee engagement in the work of the Win Teams. A third success factor is the close attention of teams to performance enhancement through democratic team decision-making that is backed up by a simple and straightforward reward scheme. Employees who improve profitability know that they will benefit financially. Finally, the full backing and involvement of top management showed employees that this was a serious, long-term programme to improve the the division's competitive strength.

<sup>3</sup> Source: Excerpted from B. Filipczak, (1993) 'Ericsson General Electric: The Evolution of Empowerment', *Training*, September, 21–7. Reprinted with permission of *Training*. Copyright 1993. Lakewood Publications, Minneapolis, MN. All rights reserved. Not for resale.

- 2 The principles of effective reward system management most evident in this case include:
  - A. The plan captured the attention of employees and they have taken ownership of it because they expect it to succeed.
  - B. The management team understands the plan and they know how to clearly explain it. The workers know what they must do to earn the incentives through their suggestions and group-based decision-making.
  - C. The plan pays out incentives when it should. The quarterly bonus shows employees the connection among their suggestions, team decision-making and company profitability.
  - D. The company is performing better as a result of the plan. Increases in group decision-making budgets and the company's return to profitability indicate programme success.
  
- 3 The gainsharing bonuses increase employee performance because they are first contingent on productivity enhancement and then they are delivered when the gain is documented. Expectancies and instrumentalities are strengthened because team suggestions are quickly processed. The emphasis on group decision-making adds positive peer group pressure to the process of idea generation. Creative team members will help less inspired co-workers produce solid contributions to unit performance so that quarterly bonuses are not jeopardised. Further benefits are derived from information-sharing and de-emphasis on the chain of command as a source of approval for action steps. In the Winshare programme, management oversight and control is subordinated to employees' suggestions which are evaluated for quick implementation.
  
- 4 Suggestions for constructive change include: 1) tie gainsharing bonuses to measured improvements in productivity, product and service quality; 2) engage employees in programme design, implementation and improvement; and 3) have committed executives promote and explain the programme to employees.

## Module 5

### Review Questions

### True/False Questions

|     |        |      |        |      |        |
|-----|--------|------|--------|------|--------|
| 5.1 | False. | 5.9  | True.  | 5.17 | False. |
| 5.2 | False. | 5.10 | False. | 5.18 | True.  |
| 5.3 | False. | 5.11 | False. | 5.19 | True.  |
| 5.4 | False. | 5.12 | True.  |      |        |
| 5.5 | True.  | 5.13 | True.  |      |        |
| 5.6 | True.  | 5.14 | True.  |      |        |
| 5.7 | False. | 5.15 | False. |      |        |
| 5.8 | False. | 5.16 | True.  |      |        |

## Multiple Choice Questions

|      |   |      |   |      |   |
|------|---|------|---|------|---|
| 5.20 | B | 5.23 | C | 5.26 | A |
| 5.21 | A | 5.24 | B | 5.27 | C |
| 5.22 | B | 5.25 | C | 5.28 | A |

## Short Essay Questions

**5.29** Job designs based on SM 'fail' in the sense that they do not account for employees' higher-order needs. Application of SM creates jobs which are highly specialised. When the approach is applied without consideration for employees, it can disrupt existing social relationships. Friendship groups might dissolve because of management's interests in 'efficiency at any cost'. Since the approach emphasises work fractionalisation and machine pacing, employees may also experience less challenge, less personal accomplishment and less knowledge of the results of their work. Such conditions cause employees to be bored and they may 'rust out' on the job.

While there are a number of ways to deal with the negative psychological impact of jobs designed through SM, four commonly accepted approaches are: (a) flexitime; (b) job rotation; (c) job enlargement; and (d) SDTs and (e) employee empowerment (engagement). The first intervention lets workers decide their arrival and departure times from work. In this system, employees must work the core hours of 10 a.m. to 2 p.m. and they must also meet the number of work hours per week. Job rotation consists of the managed circulation over time of employees through a cluster of related jobs. Job enlargement refers to the addition of related task activities to the employee's core work demands. Finally, SDTs integrate the social and technical aspects of work so that team effort is the focus of the job design effort.

**5.30** Not all employees prefer to have jobs which provide higher-order need satisfaction. For instance, some employees may not be interested in greater challenge, opportunities for performance feedback and more delegated authority. They eschew these outcomes in their work because they have low growth need strength. It is questionable whether or not such employees will respond positively to increases in job range and they certainly will not respond positively to changes in job depth. Management must assess employees' growth need strength prior to initiating new job designs based on improvements in job range and job depth.

**5.31** Job design can be used to improve competitive advantage. For instance, job content factors can be measured along with employees' growth need strength to assess the work-force's readiness for job enrichment. Improvements to the work systems can signal to the work-force that the firm is moving away from a rigid, 'X' style with specialised and narrow jobs to a 'Y' methods that deepen job content and broaden employee engagement. This principle also applies to SDTs which can be used to improve customer service, shorten cycle times and raise product quality. A properly designed work system provides line of sight for employees and their teams. Everyone comprehends and accepts the goals of the firm. A two-tiered

reward system (individual merit pay and team-based bonuses) and a performance-based appraisal system keeps everybody's eye on the firm's strategic goals.

- 5.32** Flextime systems allow employees to control decisions regarding work arrival and departure times. Giving employees control over this important decision is an example of the enrichment principle called increased autonomy. More autonomy causes employees to experience more responsibility on the job.

A flextime system can have beneficial effects on work-force relations. Employees respond positively to flextime because they are able to better integrate their personal and work lives. Thus, it can be an important first step in the process of increasing the growth need strength for all employees. Flexitime shows employees that they are trusted to work effectively when they are granted greater personal control over their work decisions; a Theory Y initiative.

### Case Study 5.1: Alton's Experiment with Changes in Job Range and Depth<sup>4</sup>

- 1** Herzberg's job design principles provide an answer to this question. The old job configuration offers little opportunity for repairmen to satisfy their higher-order needs. The only time they seem able to do this is when they attend the annual 'new methods' seminar. Their job frustrations can be removed by: (a) giving them more control over work resources; (b) making them accountable for customer relations; (c) providing them with better performance feedback; (d) allowing them to control the scheduling of their work; and (e) providing them with real opportunities for achievement and professional development (teaching in the training seminar and helping select new employees).
- 2** It certainly does. From the standpoint of job depth, their work has been stripped of job content. All of the necessary hygienes are in place and repairmen have high growth need strength. This creates the ideal conditions for improving job content factors (job depth) which should lead to improved repairmen work attitudes and quantity and quality of service. The 'experiment' performed on the London repairmen bears out this hypothesis. The changes improved experienced job depth for the London territory repairmen.
- 3** The sequence of steps followed by the job design expert show the importance of employee participation. The expert interviewed employees at three levels in Alton's hierarchy: (a) the director of field services; (b) the supervisors of repairmen; and (c) the repairmen. His use of 'job expert' groups also deepened employee participation in the process (employees suggested all of the changes adopted in the job design experiment). Finally, he conducted a pilot study which created further opportunities for the London repairmen to be involved in the project. These forms of participation improved the firm's work culture and they embedded employees in several decisions of broader organisational

<sup>4</sup> Source: Adapted from R.C. Dailey, 1988. *Understanding People in Organizations*. St. Paul, MN: West Publishing.

scope. Therefore, the programme design process itself illustrates increased job depth.

## Case Study 5.2: Building Cross-Cultural Work Teams<sup>5</sup>

- 1 Probably the first order of business for the experts is to recognise that task issues must be subordinate to understanding the roles of gender, social and group relations in Derridian culture. The 'Derridians' found the experts to be patronising and ignorant of their culture and customs. The ignorant experts erected communication barriers which prevented them from building any sense of teamwork among the Derridians. They failed miserably to integrate: (a) foreign expertise in tower construction, (b) local or domestic appreciation for towers and (c) domestic customs which facilitate communication and cooperation.

Once the 'experts' recognised that there were more aspects to the problem than simply constructing a tower, they should have asked the Derridians to give them a brief explanation of their local customs in relation to Derridian working relationships and task groups. This would have illuminated various Derridian taboos and customs and it would have 'opened up' communications. From there, the experts could have created Derridian SDTs which would have created towers without trampling on local customs and taboos.

- 2 Contracting firms often use employee teams to perform the in-country work. This usually involves all construction, installation and testing. Once operational integrity is achieved, the firm might train local personnel to operate and maintain the installation or facility. In some cases, the contracting company is required to support a technical group that performs the operational and maintenance functions for the client organisation or government.

Such arrangements seldom produce an outcome that merges economic and technological improvements with local customs and cultural expectations. 'Locals' may appreciate its benefits, but there can be a widespread feeling that 'foreigners designed, built and managed the facility'. Some locals may resent foreign contractors because they are 'greedy and insensitive to local customs and practices'. If a country's political circumstances change, and the improvement is a joint venture or strategic alliance, then the foreign-owned portion of the asset may be nationalised or expropriated by the government in power. We currently see such actions in resource-rich nations like Ecuador, Bolivia and Venezuela.

<sup>5</sup> Source: B. Hagerty, 'Learning to Turn the Other Shoulder', *Wall Street Journal*, 14 June, 1993, B1, B3. Reprinted by permission of *Wall Street Journal* 1993, Dow Jones & Company, Inc. All Rights Reserved Worldwide.

## Module 6

### Review Questions

#### True/False Questions

|     |        |      |        |      |        |      |        |
|-----|--------|------|--------|------|--------|------|--------|
| 6.1 | False. | 6.8  | True.  | 6.15 | False. | 6.22 | False. |
| 6.2 | True.  | 6.9  | True.  | 6.16 | False. | 6.23 | False. |
| 6.3 | False. | 6.10 | False. | 6.17 | False. | 6.24 | False. |
| 6.4 | False. | 6.11 | True.  | 6.18 | False. | 6.25 | False. |
| 6.5 | True.  | 6.12 | True.  | 6.19 | False. |      |        |
| 6.6 | False. | 6.13 | True.  | 6.20 | False. |      |        |
| 6.7 | False. | 6.14 | False. | 6.21 | False. |      |        |

#### Multiple Choice Questions

|      |   |      |   |      |   |      |   |
|------|---|------|---|------|---|------|---|
| 6.26 | A | 6.29 | A | 6.32 | C | 6.35 | D |
| 6.27 | C | 6.30 | B | 6.33 | A |      |   |
| 6.28 | D | 6.31 | E | 6.34 | C |      |   |

#### Short Essay Questions

- 6.36** Project teams work best when: (a) the problem or its solution affects the entire firm; (b) the usual decision hierarchy has not adequately resolved the problem in the past; (c) the solution will require commitment from most or all of the firm's members; (d) top management values employee engagement; (e) sufficient time exists to arrive at a satisfactory solution; and (f) top management intends to involve many employees in the implementation of the solution.

The management requirements for project teams are: (a) keep the team's life span short; (b) rely on voluntary participation; (c) use a simple process that selects members for their expertise; (d) ensure prompt management review of project work; and (e) keep support staff small and operating systems simple.

- 6.37** The manager can shape cohesiveness by a) altering member similarity or diversity; b) manipulating group size; or c) control interpersonal attraction (proximity, attitude similarity, attractiveness of group goals and activities).

After group formation the manager can still shape cohesiveness by: a) clarifying group goals and activities; b) handling disturbances quickly; (c) creating a common enemy for the group to compete with; and d) timing feedback to match work group successes.



- 6.38** No. High cohesiveness in teams can be related to either high or low performance. The factor which integrates these inconsistent findings is the degree of agreement between the team's norms and the firm's team performance requirements. When a cohesive team's performance norm matches the firm's team standard, the team will be a high performer. On the other hand, if a cohesive team has a performance norm which counters the firm's performance standard, then it will perform less well.
- 6.39** Groupthink occurs in highly cohesive groups which value conformity and lose their capacity to criticise their own decisions. Such groups have these features: (a) members believe the group is invulnerable; (b) members believe the group cannot fail; (c) some members function as mindguards to prevent negative, external information from reaching other members; (d) the group's position is justified on morality alone; (e) those opposed to the group's actions are characterised as insensitive, ignorant and ineffective; (f) pressure is applied to dissenters; (g) members are afraid to speak out because they believe they are the only ones to disagree with the 'majority view'; and (h) the absence of criticism is mistaken for unanimity.
- 6.40** In the most basic sense, the group is preoccupied with its composition, structural characteristics and maintenance activities. Work groups in their early development may have members who believe the costs of membership exceed its benefits. During forming and storming, work groups focus on their composition, appropriate roles, develop norms and solidify the leadership position (if the group starts as a 'leaderless group'). These activities can reduce the group's process losses through maintenance activities.
- In the norming and performing stages, the emphasis on task activities grows and process losses subside while actual group performance rises. As the work group refines its abilities to detect process losses and its task activity emphasis consistently exceeds its emphasis on maintenance activities, then it becomes a mature group.
- Work groups in the last two stages of development must avoid groupthink and maintain norms in the face of changes in tasks and membership. The mature group must devote some of its energies to membership stability and socialisation of new members while maintaining a strong task focus. If the group experiences turnover and an influx of new members it may lose its high performance characteristics. Thus, the group is no longer mature and it may fall from stage 4.
- 6.41** This answer can be found in Table 6.7. It is important to note that a work group experiencing the problems noted in the table could not be a stage 4 group. The noted items represent process losses which undermine group creativity and innovation. These problems also surface in immature groups which lack a norm about the value of deviance (creativity). Members who demonstrate creative flair (and who value it personally) may be censored by team mates with more personal and positional status.

- 6.42** Groups tend to be undisciplined in creative problem-solving because they leap to the first creative suggestion offered. Once the evaluation process has started (deferral of judgement is suspended), further creative contributions diminish rapidly because the group has already seized idea evaluation. If the suggestion were made by a member with high personal and positional status, participation becomes ritualised because less powerful members ‘rubber stamp’ the suggestion to impress the person with high status. A cohesive group will create a similar problem if groupthink exists. To avoid extensive process losses, such groups need a norm that supports deferral of judgement.
- 6.43** The methods noted in the question are somewhat ‘stylised and ritualistic’ ways to enhance group creativity. Group creativity will rise if a manager: (a) carefully defines the work group’s task or problem; (b) develops a norm to separate idea generation from idea evaluation; (c) monitors process losses and avoids groupthink; (d) gains approval for making merit-based rewards available to members who make creative contributions; and (e) gains approval for distributing group-based rewards contingent on its successful contribution to the firm’s goals.
- 6.44** Determining the proper level of team involvement in decision making requires a manager to consider: (a) the time available to make the decision; (b) the significance of quality in the decision; (c) the extent to which the subordinates’ commitment to the decision is critical to implementation; and (d) the extent to which the group has information that can influence the decision’s quality.
- 6.45** Such firms have to integrate complex information flows to keep groups apprised of their real-time performance. Some of that performance reflects how well they serve the needs of other SDTs. For instance, teams in procurement have to work closely with customer service representatives who simultaneously: (a) diagnose product problems; (b) order repair parts; and (c) dispatch field service representatives. The high levels of interdependence among work teams that are focused on delivering superior products backed by excellent service require a very flat organisational structure to facilitate horizontal communication and coordination. This arrangement removes barriers between customers and the company’s SDTs and it raises customer loyalty.

### Case Study 6.1: Assessing Work Group Creativity

- 1** The group possesses both high diversity and high interpersonal attraction. The members of ‘Ean’s patrol’ are drawn strongly to its tasks and goals and its norms encourage high individual effort and acceptance of the group’s work methods and activities. The patrol’s creativity norm encourages risk taking while ignoring members’ work styles and idiosyncrasies. We see this in the latitude enjoyed by members to set their work schedules. Ean has high positional and personal status but team members are not intimidated by him or his influence because they all value technical expertise.

The group is cohesive and it minimises its process losses by avoiding groupthink. For instance, it has developed several techniques for efficiently discussing

creative problems. Ean is more of a mentor than formal leader. When particularly troublesome creative problems emerge, the group selects a temporary leader who has expertise that matches the problem at hand. Each member has job skills that are matched to the everyday demands of completing projects on time.

- 2 The group was formed, and remains cohesive due to interpersonal attraction. The individuals were drawn to the group by its tasks and goals (elements of interpersonal attraction) Its members are motivated by creative opportunities in each area. Indeed, members value innovation and smooth work relationships. Ean and the rest of the firm expect creativity to occur and this aspect of the firm's culture infuses the patrol with creative energy.

The group's goals and activities first attracted the employees to the group. Now the group is cohesive and turnover is minimal. As long as its methods, tasks and goals do not change, Ean's patrol will continue to be a stage 4 group.

Ean understands the importance of group structure and decision-making and it shows in how he selected the group's members. He protects the group from the intrusion of day-to-day business activity and he values the group's norm that encourages members to express their individuality. He also created urgency by: (a) keeping support systems simple; (b) connecting the group directly to top management; and (c) protecting the group from the rest of the organisation.

- 3 First, he kept the group small so that average productivity per member would not fall off due to social loafing. Second, he was a good role model for creativity and this moved the patrol to maturity. This minimised process losses – especially groupthink – which is a necessity in a creative group. Third, he selected creative members with strong values for risk-taking. Fourth, he shielded the group from routine matters in the business. Fifth, he freed group members to develop their personal work styles. Sixth, he taught the group how to brainstorm.

## Case Study 6.2: Team Productivity at A. E. Leeson's Ltd.<sup>6</sup>

- 1 Clearly, the 'hands-off' practices followed by Allister had returned a measure of control and autonomy to the supervisors and their production teams. The fact that Rudy was absent during this period may have presented the supervisors and employees with an opportunity to demonstrate their capabilities for outstanding work without Rudy's suffocating Theory X managerial style.

Knowing that Allister had a personal belief in autonomy and team-based control, the supervisors and work teams probably concluded that they could persuade Allister to undo some of Rudy's policies during his absence. Apparently

<sup>6</sup> Source: Adapted from R. Steers and J. Black, 1994. *Organizational Behavior*, 5th edn. New York: Harper Collins, 276–7.

they were right because Allister agreed to suspend the use of metal detectors and locker checks in exchange for monitoring the use of company tools and equipment. He also suspended the burdensome mandatory overtime policy in response to the work-force's outstanding efforts to eliminate company back-orders while improving product quality. In effect, supervisors and workers knew that Allister would be a fair-minded listener and that he would implement facility improvements if they met production requirements. This reciprocity is a sign of Allister's Theory Y management style and his respect for the work-force.

- 2 Without question, Allister should show Rudy the production results achieved during his absence. He should review with him the decisions on supervisor control, overtime, suspension of locker searches and use of metal detectors. Since Rudy had just attended a company-sponsored, month-long leadership seminar, Allister might consider having him develop a plan for making future production management changes based on the results of his training, company goals for the production facility and input from the three shift supervisors.

These three requirements would present Rudy with a problem like those specified by the Vroom–Yetton–Jago Normative Decision Model. Rudy would have to wrestle with a combination of consultative and group-based decision-making to complete his plan. He needs input and advice from the shift supervisors and from work groups and their informal leaders. At first these activities might be a bit awkward for Rudy, but he would find that this adjustment to his management style would facilitate group-based decision-making. In turn, the supervisors and work groups would respond positively to Rudy's more group-centred management style. Finally, Rudy would align his management style with Allister's as they work together to build a Theory Y firm.

In summary, Allister should not eliminate Rudy's job nor should he give him the sack. That action would be inconsistent with his practice of listening to people and developing their ideas and potential on the job. In some respects, this decision is a Y-oriented act of 'faith in people'. Allister would be banking on changing Rudy's management style to support long-term productivity and product quality.

## Module 7

### Review Questions

#### True/False Questions

|     |        |      |        |      |        |      |        |
|-----|--------|------|--------|------|--------|------|--------|
| 7.1 | False. | 7.6  | True.  | 7.11 | True.  | 7.16 | False. |
| 7.2 | False. | 7.7  | False. | 7.12 | True.  | 7.17 | False. |
| 7.3 | True.  | 7.8  | False. | 7.13 | True.  | 7.18 | False. |
| 7.4 | False. | 7.9  | True.  | 7.14 | False. | 7.19 | True.  |
| 7.5 | True.  | 7.10 | False. | 7.15 | True.  | 7.20 | True.  |

## Multiple Choice Questions

|      |   |      |   |      |   |      |   |
|------|---|------|---|------|---|------|---|
| 7.21 | D | 7.24 | C | 7.27 | B | 7.30 | A |
| 7.22 | A | 7.25 | D | 7.28 | A |      |   |
| 7.23 | B | 7.26 | E | 7.29 | C |      |   |

## Short Essay Questions

- 7.31** The highly productive project team places little emphasis on managerial expressions of power. Its manager must rely on expertise and referent power because team characteristics will neutralise and curtail any attempts to exert authority. Its cohesiveness, history of success and its members skill levels reduce the value of legitimate power, coercive power and perhaps reward power. Legitimate power is useless because the team is insulated from the firm's political atmosphere. Coercive power would be inappropriate in light of the team's cohesiveness and its admirable record of success. The level of professionalism and members' interest in product development suggests that team members find their design work to be a significant and vital intrinsic reward that may be more important than the rewards controlled by the manager.
- 7.32** The difference between personal and positional power is the principle that governs a person's power at work. This difference shows why managers should develop personal power (expertise and referent) to gain the respect of subordinates, peers and superiors. Personal expertise is problem focused and individuals who have it will be sought out by others because they know how to solve problems. Such individuals are then in a position to gain referent power. These two sources of power will translate to more positional power (legitimate, reward and coercive power) if the individual is consistently promoted to jobs with more responsibility.
- 7.33** You must address the extent to which marketing (or sales) influences financial and strategic goals. Both goals can be influenced by a work unit if it: (a) can successfully compete with other departments for scarce resources; (b) reduces internal and external risk for other units (manufacturing, product development and sales); (c) conducts work activities central to production of goods and services (generating information on market projections, customer needs and competitors' strategies); and (d) prevents other units from offering substitute services (erects barriers around its activities).
- 7.34** Politics is inevitable in any firm. The major objection of top executives is not to politics *per se*. Rather, they object to the use of power to achieve unapproved outcomes by unapproved methods. This occurs when individuals pursue personal gains by unauthorised methods. Business scandals are an example of this and the firm – and its shareholders – loses in every case. One need only think of Société Générale, Enron, or Arthur Anderson to see the effects of management's self-serving decisions.

- 7.35 Managers are responsible for the performance and productivity employees and their work units. They monitor unit performance and take corrective actions that support the firm's competitive advantage. Leaders persuade employees to support new business models and the new structures and processes that will support them. Managers juggle various roles while dealing with diverse demands which compete for their time at a moment's notice. The manager's job is at times chaotic as he shifts from interpersonal to informational and decisional roles. The effective manager is able to detect when he must shift from one role to another. Leaders engage much broader issues such as the firm's business model and its vision for the future. Therefore leadership is a broader phenomenon than management. Theories of leadership are complex, especially those which try to integrate the leader's personality, behaviour and the demands of the leadership situation (contingency theories of leadership). No integrated theories of management exist. Instead, the roles of the manager have been articulated.
- 7.36 The study of leadership first addressed the analysis of leader traits. It then shifted to consideration of leader behaviour or style. The last phase of leadership study integrates the two previous approaches with the demands of the leadership situation. The trait approach to leadership has been abandoned as a 'pure' explanation for leader and organisational effectiveness because traits seldom correlated to company success and they are notoriously hard to measure. The trait approach survives as a contributor to understanding how the leader's personality interacts with the leadership situation. The leader behaviour or styles approach shifted the emphasis in the study of leadership from traits to leader consideration and initiating structure behaviours. This was a major advance over the trait approach because leader behaviours were observable. However, the leadership behaviour theory still fails to adequately consider the situation the leader confronts. The contingency theories of leadership pay particular attention to this deficiency in light of the leader's motivational pattern (Fiedler's theory) or the behaviours of the leader (path-goal theory). Fiedler's theory emphasises the importance of matching the leader's motivational pattern to the favourableness of the leadership situation. It posits that the leader's motivational pattern (task oriented or relations oriented) is not susceptible to change. This negates the usefulness of leadership training. Path-goal theory fuses leader behaviours to task characteristics and subordinate characteristics. It predicts that leaders can learn to select behaviours called for by the leadership situation.
- 7.37 The recommendations noted below do not exhaust all the options available to a firm which wishes to help its employees be more entrepreneurial. They suggest a pattern to be developed and nurtured by a firm that wants to be more adaptable to change.
- A. Do not attempt to profile entrepreneurial qualities and do not select new employees or give employees project assignments on that basis alone.
  - B. Create a policy – and make it a part of organisational culture – which specifies how much time employees can devote to special projects and new ideas.

- C. Challenge employees to explain their innovative ideas to other creative employees. Create innovation review teams with the resources to back new product and service ideas.
  - D. Give innovative employees an entrepreneurial stake in the success of their product or service idea (a joint venture of sorts).
  - E. Decentralise product and service development by creating units with the freedom to innovate. Managers who run these units should know how to shield units from bureaucratic interference while providing technical information about customer needs.
  - F. Act quickly on new product ideas and have team members present their ideas to top management for quick review and feedback.
  - G. Allow innovation groups to develop their own work norms.
  - H. Encourage expert and referent power in innovation teams.
- 7.38** A start-up firm is highly entrepreneurial and it is probably headed by an individual who seizes opportunities. The firm's culture is adaptive and employees probably prefer few rules and little formality. The firm avoids formalised, administrative systems because it wants to preserve its nimble responses to customer needs. Therefore, there is a period of time for the start-up company when it would be a mistake to over-administer its natural growth.
- 7.39** Upward management is more important in downsized firms because hierarchical control is de-emphasised in the aftermath of this change. Managers' spans of control are much wider in downsized companies and we often see spans widen from 9–11 subordinates to as many as 60–70 in fully downsized firms. Under these circumstances the manager's job is transformed from exerting hierarchical control to integrating and facilitating the work of SDTs, facilitating upward flows of information and solving team performance problems.

### Case Study 7.1: Lenton Industries

- 1** From the standpoint of Fiedler's contingency theory of leadership it is apparent that the favourableness of the leadership situation has deteriorated badly. Wexley's leadership orientation is not well matched to the demands of the work situation in the production division. He tried to use a task oriented style in a moderately unfavourable situation and the model predicts that a relations oriented style would be most effective. Wexley also relies too heavily on legitimate and coercive power which unnecessarily reinforce his task oriented style. Employees did not trust him very much nor did they have great confidence in his management expertise. Perhaps they find him to be imperious because he's insecure. He would have been much more effective had he used a more relations oriented style.

The path-goal theory of leadership would predict that Wexley would become an insecure, failed leader. He underestimates his subordinates' abilities and he assumes that they have no achievement motivation (he may be right). Second,



their work is unchallenging and routine. These characteristics suggest supportive and achievement oriented behaviour is the best choice and Wexley chooses directive behaviour instead. His judgement is clearly suspect!

The situation can be improved by allowing foremen to create new work procedures with their employees. Second, Wexley must stop his directive behaviour and focus on encouraging employees to accept goals from Mr Lenton. To this point, upper management has been too far removed from the problem. This is an abdication of the leader, monitor and disseminator roles. Mr Lenton must exert his commitment and involvement to stabilise the situation.

- 2 Mr Lenton should recognise that he must shift roles to be an effective top manager. He must immediately begin to inform employees about the competitive capacity of the company and why it is impaired by low productivity. Mr Lenton is uninformed about the current problems in production. No one is listening to employees and no manager is an effective disturbance-handler: clearly a role for Mr Lenton!

No managers with expertise and referent power are actively creating a solution acceptable to employees and management. The liaison role which should link operational employees and top management is undone. Until managers function effectively in the roles mentioned, the problems will worsen.

### Case Study 7.2: Looking for Mrs Good Cookie<sup>7</sup>

- 1 Mrs Fields has a high need for achievement but she may doubt herself as a visionary leader (insecurity). Evidence supports this because she: (a) visited stores unannounced (keep people off balance); (b) oversaw all aspects of operations (afraid to delegate); (c) took over problems in stores by herself (threatened by competent employees); (d) made all management decisions concerning expansion through debt financing; and (e) refused to build a company with a coherent management structure filled with professional managers (wants all the credit). While the company was small, with perhaps fewer than 50–75 outlets, she could single-handedly manage operations without impairing the firm's growth path. Her suffocating managerial style was not yet a drag on growth despite her insistence that she personally handle all decisions. During the company's early survival her strong control driven by her own insecurities was instrumental to the success of the company.

Once the company was larger and global, her hands-on management style stifled growth and profitability. Without sound management advice, she made ill-considered and costly (impulsive) decisions to expand into markets and countries which she did not fully understand. The consequences of these poorly

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<sup>7</sup> Sources: Alan Prendergast, 'Learning to Let Go', *Working Woman*, February 1992: 42–5; Robin Pogribin, 'What Went Wrong with Mrs Fields?', *Working Woman*, July 1993: 9–11; Harris Collingwood, 'Kitchen Too Hot for Mrs Fields?', *Business Week*, 1 March, 1993: 46.



reasoned decisions were magnified by her unwillingness to build an enterprise that was staffed by seasoned professionals. Her boss-centered and insecure style of leadership led to her untimely departure from the company she founded!

- 2 Mrs Fields relied on several sources of interpersonal power. She was achievement oriented and she projected expertise power as she built a successful company with 543 outlets in six countries. She swooped down on unsuspecting outlets and overruled managers as she temporarily took over their operations. These behaviours are coercive and capricious and they undermine the authority of unit managers. She effectively used referent power to convince lenders, students and admirers that she had developed a highly successful formula for 'growing' a business from scratch. Her popular book did much to polish her image as a charismatic entrepreneur.

Mrs Fields focused more on her public image of success as her firm began to stumble. Her celebrity status was seductive and it seemed easier to accept speaking engagements than to build a professional and effective enterprise that could seize profit opportunities. She was an entrepreneur who did not see the risk reducing value of a professionally run firm. How could she? Ms Fields was a poor delegator and she was intoxicated by her own celebrity: not a good mix for risk reduction!

Ms Fields was unsuccessful at controlling budgets and managing the use of supplies throughout her far-flung cookie empire. Likewise, she performed poorly at controlling the financial resources of the firm. Her over-reliance on debt to fuel growth was a risky and ultimately failed strategy.

Ms Fields does a number of things well In building her company, she was tenacious and willing to make personal sacrifices. She was a tireless promoter of the firm's premium products. She shouldered personal responsibility for the continued growth and success of the business. She never seemed to waiver in her belief that the company would prosper. Perhaps she took too many risks without having the ability simultaneously to minimise the chance that she would lose control of the business to its creditors. Losing control of her firm to its creditors may have been a sobering lesson for Mrs Fields. Ms. Field's ambitions overwhelmed her managerial abilities; she should have adopted a niche business strategy to keep the company going.

## Module 8

### Review Questions

#### True/False Questions

|     |        |      |        |      |        |      |        |
|-----|--------|------|--------|------|--------|------|--------|
| 8.1 | True.  | 8.10 | True.  | 8.19 | True.  | 8.28 | True.  |
| 8.2 | False. | 8.11 | True.  | 8.20 | False. | 8.29 | False. |
| 8.3 | False. | 8.12 | True.  | 8.21 | True.  | 8.30 | True.  |
| 8.4 | True.  | 8.13 | True.  | 8.22 | True.  | 8.31 | False. |
| 8.5 | False. | 8.14 | True.  | 8.23 | True.  | 8.32 | True.  |
| 8.6 | True.  | 8.15 | True.  | 8.24 | True.  | 8.33 | False. |
| 8.7 | False. | 8.16 | False. | 8.25 | True.  | 8.34 | False. |
| 8.8 | False. | 8.17 | True.  | 8.26 | True.  | 8.35 | True.  |
| 8.9 | True.  | 8.18 | True.  | 8.27 | False. | 8.36 | True.  |

#### Multiple Choice Questions

|      |   |      |   |      |   |      |   |
|------|---|------|---|------|---|------|---|
| 8.37 | B | 8.41 | A | 8.45 | C | 8.49 | A |
| 8.38 | A | 8.42 | A | 8.46 | A |      |   |
| 8.39 | C | 8.43 | C | 8.47 | A |      |   |
| 8.40 | D | 8.44 | E | 8.48 | B |      |   |

#### Short Essay Questions

**8.50** Europa was right in creating a product divisional structure to focus its resources on related groups of insurance products and services. However, its business environment is more turbulent because its rivals are well-financed and its customers are savvy and demanding. To meet these challenges, Europa must preserve its product orientation while developing a much stronger customer orientation. The company can do this by overlaying a customer/ territorial design on its current product design. It could restructure its product/service divisions to include a dual emphasis on territorial operations and specific classifications of customers. Each product division would have territorial components to focus on countries and their regions. Also, the firm might designate product group managers who are responsible for identifiable customer segments. These changes would benefit Europa by making it much more responsive to customer needs in its global market segments.

**8.51** Delegation of authority previews successful management because all managers must work through their subordinates to accomplish goals. Phillip must first understand the work of his subordinates and he must be able to help them to set realistic expectations. He might want to consider these guidelines:

- A. Give his workers authority to match their responsibility.
- B. Delegate decision making to a knowledgeable employee who can act on customer expectations.

- C. Become involved in subordinate decision-making only if a work exception is encountered.
  - D. Ensure that employees know how to discharge their responsibilities.
  - E. Accept responsibility for his subordinates' task outcomes.
- 8.52** The first issue is division of labour or how the firm's work should be broken down. The second issue is delegation of authority or how much latitude employees should have to make decisions on their own. The third issue is departmentalisation or the logical grouping of jobs and employees throughout the firm. The last design issue involves managerial spans of control.
- 8.53** Employees can experience job frustration and work ambiguity when they are working on problems which require resources, guidance and feedback from workers in other product divisions. The product divisional structure improves communications inside divisions on specific product issues. This design does not, by itself, enhance communication and coordination between product divisions. Employees in product divisions could experience career obstacles if they produced 'lower status' products or if their divisions were not generally recognised as being a proving-ground for top management talent. Heightened political game-playing can also occur in the product-division structure if the firm arranges its product divisions as profit centres. This may create the 'transfer pricing' problem which occurs when one division has transactions with another. The firm has to then establish a cost-based or market-based price for these transferred products/services.
- 8.54** Successful project and programme managers must:
- A. Be able to coordinate their work with the work of functional managers who authorise employees to work on the teams.
  - B. Be effective disturbance handlers because they have total responsibility for project success or failure. The principal sources of disturbances are most likely to come from customers, other project managers, functional department managers and project team members.
  - C. Be able to reduce ambiguity for team members in the areas of merit-based performance rewards and PA.
  - D. Be very effective advocates for their projects so that higher management is aware of project benefits and need for immediate decisions.
  - E. Have technical expertise and the ability to translate project features into the languages of marketing, R&D, accounting, finance, behavioural management and operations management.
- 8.55** Managers always have responsibilities for outcomes. Firms are rational entities which thrive and grow by reducing risk and removing exceptions from the processes of producing goods and services. Centralised designs create a more pervasive sensation (feeling) of uncertainty reduction than decentralised designs. As you move deeper into the centralised firm (away from boundary functions like marketing research, legal and contractual relations), you find numerous opportunities to create centralised control stems. Indeed, if the boundary functions perform their work effectively, the protected (and insulated) internal production departments can

be highly centralised. Over time, managers from boundary-spanning departments and those from production and control oriented departments develop conflicting views on the values of decentralisation. Managerial ambivalence about the centralisation–decentralisation issue surfaces because the nature of work changes from the boundaries to the firm’s centre.

- 8.56** Coordination is a set of mechanisms which vertically and horizontally link the actions of subunits. Coordination mechanisms process information which can overwhelm the vertical hierarchy when the external environment is complex and unstable (risky). Control is a set of mechanisms used to keep the actions of employees within pre-determined limits. Control can be obtained by standardising production processes or by pre-specifying outcomes or results.

Poor process control can cause employees to experience job frustration, confuse documentation with action, work under unrealistic management expectations and lower their performance and effort if management unilaterally raises standards.

- 8.57** Conglomerates create ready internal markets for the products and services of subsidiaries (and they also create the transfer pricing problem). If a conglomerate is composed of subsidiaries that operate in cyclical and counter-cyclical industries, then some spread of risk may be achieved by the parent company. Other benefits may include lower transaction costs if the conglomerate has a financial subsidiary that can reduce borrowing and expansion costs by providing below-market financing to a cash-starved, but growing subsidiary. Finally, employees and managers have more job and career options in the conglomerate.

- 8.58** If the yen is over-valued in terms of the currencies of Japan’s trading partners, then the *keiretsu* will demand price concessions from suppliers in order to maintain already narrow profit margins. A strengthening yen requires more price rises for Japanese products sold in global markets and more price concessions from *keiretsu* suppliers. However, price ceilings in those markets may inhibit the *keiretsu* from raising prices even as the yen strengthens. This problem is often framed in terms of ‘supplier loyalty’. The suppliers’ profits are really being used to offset currency exchange losses caused by a strong yen. If this condition persists over time, the cooperative fabric in the *keiretsu* must fray.

- 8.59** Firms are simplifying their structures and cutting out layers. Middle layers are eliminated and manager spans are widened through the use of SDTs. Support staff are reassigned to operations in plants and distribution facilities. This trend slims down corporate staff and increases all employees’ contact with customers. Work-force engagement increases the delegation of decision-making authority to employees who have been trained to improve product and service quality. The goal is to reduce labour costs and to shorten cycle times in customer service, vendor activities and product development. Team-based work systems replace middle managers and their control over operational activities. SDTs assume control of work-scheduling, budgeting and quality improvements.

## Case Study 8.1: Analysing a Change in Design

- 1 Before the change at its Manchester plant, Tobric had a functional design with a centralised structure. It was an 'X-oriented', mechanistic system with high decision formalisation and work standardisation. The burden of coordination fell on the vertical hierarchy and little horizontal coordination was evident.

In the pilot programme the design was shifted to a more decentralised form. The creation of the general manager position at the Manchester plant (Lucien's position) was management's attempt to delegate authority. If the new design takes hold, the senior vice-president and the other vice-presidents should be more successful at setting a new strategic direction. Further, Tobric's other plants would eventually get their own general managers and decentralisation would accelerate.

For the change to be successful, the vice-presidents in London must reduce their involvement in day-to-day decision-making in the Manchester plant and spell out the new duties of the plant manager. They must clarify the vice-presidents' responsibilities in the pilot design. Failure to do this quickly will allow the vice-presidents to adopt a variety of management practices in their dealings with their functional subordinates at Manchester and elsewhere. This would overload the hierarchy and prompt a discouraged CEO to abandon the pilot programme and return to the less effective, design.

- 2 Lucien is a new general manager and his position departs from conventional authority relationships and communication channels. He has legitimate authority on paper (the new organisation chart) but he will have to earn the respect of his subordinate managers and the vice-presidents in London. To strengthen his hand he might slowly lessen the plant's department managers' dependence on the vice-presidents in London. He could also advance the idea of several vertical coordination mechanisms to support the vice-presidents as they learn their new roles in a decentralised design. Vertical coordination could be increased by the formation of a collateral organisation (steering committee) composed of selected vice-presidents, Lucien, and perhaps several managers from Manchester. This group could deal with coordination and workflow problems stemming from the new design. It could also focus on the orderly diffusion new processes to other production facilities.

To improve horizontal coordination Lucien could create liaison positions to integrate workflow among departments. This would lessen the departmental managers' dependence on the vice-presidents in London. Also, a horizontal task-force composed of department managers and Lucien could address integration issues formerly handled by vice-presidents.

## Case Study 8.2: How Hewlett-Packard Avoided the Decline Suffered by IBM<sup>8</sup>

- 1 Even though Messrs Hewlett and Packard had removed themselves from day-to-day management decisions in the company, they recognised that HP had become too centralised and complacent. Decisive steps were necessary to reduce bureaucratic rigidities that had crept into the company under Mr. Young's leadership. By talking to employees from all divisions, Messrs Hewlett and Packard used their prestige as founders to communicate that HP had lost its ability to meet changing customer needs in its dynamic market-place.

The two founders did not deliberately create a boundaryless structure, but they certainly encouraged one. For instance, by transferring corporate-level employees to field operations, they attacked directly the failures that had led to poor coordination between corporate employees and field operations personnel. By strengthening the divisions and eliminating layers of middle management, they attacked directly the political boundary which had slowed product development and market oriented pricing decisions. Wider management spans and strengthened employee engagement sped up product development and market-based decision-making. Finally, by attacking the identity boundary, Messrs Hewlett and Packard eliminated some barriers which had caused employees to over-emphasise their loyalty and commitment to their departments at the expense of their commitment to effective product development processes and market-based decision-making.

Messrs Hewlett and Packard created a key aspect of a boundaryless firm by re-organising around core processes instead of functions. They rested the firm on the core processes of product development, sales and fulfilment, customer support and field operations. The founders recognised that simply downsizing the company would fail to transform HP to a highly responsive organisation.

- 2 HP developed a new competitive advantage which will serve it well in the years to come. HP now has several strengths which cannot be easily copied by rivals. For instance, it dominates the laser printer market (and ink cartridge technology) because it maintains a pipeline of product innovations which cannot be matched by rivals. Thus, it has greatly improved its core competence in product development. By transferring this strength to PCs and embracing direct marketing, HP is successfully challenging Dell as the number one maker of PCs.

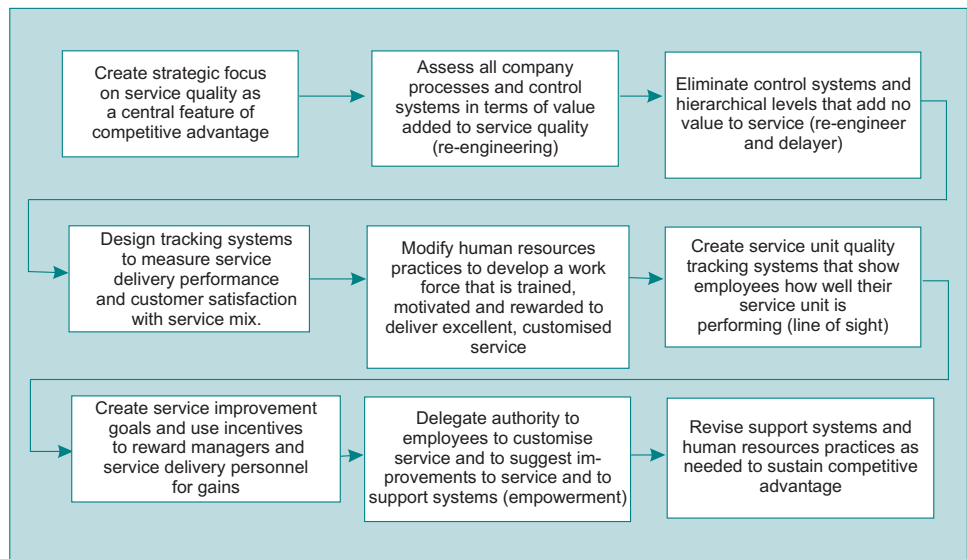
The company's successful layering of middle management and its focus on core processes greatly sped up product development and lowered unit costs by spreading less overhead over more services and products. If product development rates fall off and overhead costs rise, then HP would have to launch another round of downsizing aimed primarily at large, overly bureaucratic divisions. Staffing and costs at headquarters will be held in check and the company will try to grow by expanding its hold on global markets.

<sup>8</sup> Excerpted from J. Pitta, 'It Had to be Done and We Did It', *Forbes*, April 26, 1993, 148–52.

### Case Study 8.3: Dumbsizing

- Figure 8.7 can be used to show how these companies could return to competitiveness by customising their service mix. The diagram shows re-engineering, delayering, new work force management practices and service improvement as ways to strengthen competitive advantage. It illustrates the process as a fairly rapid, if not always smooth, transition to a responsive design and to a competitive strategy that is based on improved service. That rosy theme probably will not be borne out in practice because organisational culture does not change overnight. Such a dramatic shift in a company's methods of operations will initiate some top management resistance from entrenched executives (and board members) who still believe that a stronger emphasis on cost control (the manufacturing efficiency paradigm) is the right pathway to higher net income.

To generate the cash necessary to support the strategic overhaul it may be necessary to sell less profitable company assets. Any employees or managers who fail to embrace the new service approach should get the sack. Shareholders cheer on managers who raise profits and share price. The diagram's service improvement actions will strengthen a firm's competitive advantage, especially in industries that are mature and producing products which are standardised. The diagram's steps may be absolutely necessary in industries with razor-thin profit margins and intense price competition.



The diagram suggests that firms should consider ignoring downsizing's lure as a 'quick-fix-to-profit woes'. In downsizing's most dangerous form, the across-the-board version, customer and vendor relations are often damaged and nimble rivals quickly scoop up disgruntled customers (and employees). As the vignettes suggest, downsizing often fails to improve service or integration among units that are merged to save money. After downsizing, the employees who

remain in the new unit are those who, for whatever reason, failed to take, or were not eligible for a fat severance package or buyout offer. Sadly, the capable employees who understand how service quality improves competitive advantage are the ones who grab the nearest severance offers. Their new, less expensive replacements require extensive training before they gain the knowhow that left with their more mobile, highly paid predecessors. Do not expect the outsourcing of portions of the sales or service functions to always be cost effective. The Northern Natural Gas example underscores this conclusion in sharp relief.

## Module 9

### Review Questions

#### True/False Questions

|     |        |      |        |      |        |      |        |
|-----|--------|------|--------|------|--------|------|--------|
| 9.1 | False. | 9.9  | True.  | 9.17 | True.  | 9.25 | True.  |
| 9.2 | False. | 9.10 | True.  | 9.18 | False. | 9.26 | False. |
| 9.3 | True.  | 9.11 | True.  | 9.19 | True.  | 9.27 | True.  |
| 9.4 | True.  | 9.12 | True.  | 9.20 | False. | 9.28 | True.  |
| 9.5 | False. | 9.13 | True.  | 9.21 | True.  | 9.29 | False. |
| 9.6 | True.  | 9.14 | False. | 9.22 | False. | 9.30 | False. |
| 9.7 | True.  | 9.15 | False. | 9.23 | True.  |      |        |
| 9.8 | True.  | 9.16 | False. | 9.24 | True.  |      |        |

#### Multiple Choice Questions

|      |   |      |   |      |   |      |   |
|------|---|------|---|------|---|------|---|
| 9.31 | A | 9.34 | C | 9.37 | B | 9.40 | E |
| 9.32 | C | 9.35 | C | 9.38 | B | 9.41 | D |
| 9.33 | A | 9.36 | D | 9.39 | C |      |   |

#### Short Essay Questions

- 9.42 Organisational culture is the shared beliefs and values which produce norms for employee behaviour. It is recognisable (and understood) by employees and top management. It must fit and support the firm's mission, strategic plan and goals. Its most prominent features include: (a) its pervasive and accepted by employees; (b) its stable and resists changes; (c) it has an internal and external component (recognised by customers, investors and competitors); (d) it can be measured; and (e) it must be nurtured and managed.



- 9.43** A strong culture develops because top management links it to a robust business model (strong competitive advantage). Linkage ensures that new employees adopt the culture and it is reinforced by respected veterans. This sharpens the socialisation process which maintains a strong culture. The introduction of culture can begin even before employees are hired through the use realistic job previews. Once hired, new employees are trained in the core areas of the business and they earn rewards for their documented contributions. In a strong culture employees are exposed to stories that remind them of how key predecessors advanced the enterprise. Senior executives find and groom protégés who exhibit qualities which reinforce culture.
- 9.44** Firms recognise three fundamental properties of planned change: (a) the programme creates employee dissatisfaction with the status quo in the firm; (b) top management is committed to the process and helps develop a vision of the firm for the future; and (c) a well-managed change process shows employees how they can alter their behaviour and work attitudes.
- 9.45** The key problems facing firms going through change are: (a) diagnosis; (b) resistance; (c) carry-over; (d) evaluation; (e) institutionalisation; and (f) diffusion. Diagnosis is part of unfreezing because it gathers objective information about the symptoms and causes of problems. Diagnosis is most effective when it is multi-method and multi-level. Resistance occurs if some employees prefer the status quo; usually out of fear of job loss, knowledge obsolescence, power loss or disrupted social relations. Carry-over is the absence of support for change in the existing work environment. Carry-over losses can be minimised by using participation, ensuring that the planned changes parallel specific features in the work environment and by urging managers and supervisors to support change. Evaluation refers to the systematic assessment of the programme's effects at four levels: (a) employee reactions; (b) employee learning; (c) employee behaviour; and (d) organisational outcomes. Institutionalisation is the absorption of the change programme by the firm's culture. Diffusion occurs when other units adopt the programme to their needs.
- 9.46** OD is a system-wide application of behavioural science knowledge to the planned development and reinforcement of strategies, structures and processes designed to improve competitive advantage. The definition stresses behavioural science knowledge and OD practitioners espouse Theory Y assumptions. Here are typical change agent beliefs or values:
- A. Employees are growth seeking and they desire self-fulfilment.
  - B. Most employees seek authority and they want to contribute to goals.
  - C. Open and honest communication is desirable.
  - D. Firms need more trust and cooperation.

- 9.47 T-group methods may be the origin of OD but they have not fared well in business applications. They fail because they penetrate too deeply (to emotions and personal relationships) and force participants to confront personal issues which are too anxiety producing to be helpful in formal work relations in businesses. They may also fail to achieve performance gains because:
- A. The method often appears to be 'aimless' because the facilitator does not take charge of the process and set priorities and goals for improvement in the T-group.
  - B. The carry-over problem is a significant threat to T-group learning which may be intensely personal. New behaviour based on such learning may be quickly extinguished (and criticised) in the existing work environment.
  - C. T-group training fails to influence decision-making, productivity, efficiency and absenteeism.
- 9.48 Survey feedback relies on a multi-level and multi-method appraisal of current functioning. A diagnosis is guided by a change agent and a steering committee. The Grid OD method begins with a top management seminar that unfreezes the firm by identifying internal problems which threaten the business model. The seminar is based on the assumption that ineffectiveness springs from poor communication, poor planning and poor goal-setting. At a later stage, top management is again the focus of attention when it develops the firm's ideal strategic model. It is therefore true that the Grid OD method reflects the existing hierarchy of authority in the organisation.
- 9.49 The firm's culture should fit the company's financial performance goals. All work units should have financial targets that support goals for return on assets, return on investment and earnings per share. The culture should align or fit with the company's business model and customer expectations for service. If a key market performance strategy is improved service after the sale, then the firm's culture must contain strong, customer-oriented values. The culture should also stress the value of adaptation so that the work-force is free to seize emergent profit opportunities.
- 9.50 Several internal factors depress entrepreneurial activities in a declining firm: (a) structure is too rigid and complex (too many layers); (b) communication systems are too formalised and they filter out ideas that deviate too much from established norms; (c) decision-making processes favour form over substance (widespread groupthink); and (d) the work-force is shrinking in terms of talented people. From an industry standpoint, entrepreneurial behaviour is also limited by the existence of standardised products and processes that are widely understood by companies throughout the industry. This is also true for industries that make products which are viewed by customers as commodities.

### Case Study 9.1: A Turnaround at Tentex

- 1 Managers have not built a good fit among mission, strategy, goals and culture. This omission caused sales manager turnover, rising customer complaints, stagnating market share and low morale in the sales division. These problems exist in the production division as well and both problem areas reflect a weak culture that devalues product quality and employee–management relations. Tentex has neglected the importance of continuous improvement and it has no value in its culture to support this core process orientation. Its no commission policy for sales managers lowers managers' motivation and their interest in closely tracking the performance of their sales staffs. Likewise, managers in production do not press suppliers for timely delivery of high quality materials. This causes variability in the raw materials and nagging production and assembly problems for employees. They are frustrated by these shortfalls and now they have a 'who cares' attitude. The absence of consistent and effective vertical communication fuels rumours, most of which have negative effects on motivation and job satisfaction.
- 2 The diagnosis was thorough and it identified several causes of problems in sales and production. It relied solely on interview information collected from employees by Adrian and members of his task-force. Interview information is highly informative, but his committee missed a chance to lessen resistance to change (and increase the chances of institutionalisation and diffusion) by using survey feedback. It would have widened participation and broadened the basis for institutionalisation and diffusion. Using task forces and TB during the managerial retreat helped build top management commitment and involvement in the change process.

Adrian's programme carefully assessed programme benefits (and any problems) in four key areas: (a) employee reactions; (b) employee knowledge of the programme; (c) actual changes in employee behaviour; and (d) changes in organisational performance measures.

The programme targeted very specific problems identified during the unfreezing phase. Adrian's group should be commended for its wise decision to involve valued customers in the sales division's change process. Also, the production task-force was right on target with its programme to improve the quality of supplies and the timeliness of their delivery. These changes are quite likely to be institutionalised and diffused in production because they will greatly lessen employees' work frustration. The timely introduction of the TQM and bonus programmes will change the culture in production and ensure institutionalisation (as long as top management continues to champion the changes).

## Case Study 9.2: One Man's Values Force a Company Into Bankruptcy: The Story of Wang Laboratories<sup>9</sup>

- 1 Under Dr Wang's management, Wang Laboratories' culture reflected his personal beliefs about the central, supporting roles of Chinese family traditions in business excellence and product quality. During the firm's first 30 years, its culture correlated strongly with long-term financial performance. During this extended period, employees demonstrated high motivation and strong commitment to company goals. The firm's control structure was adequate and it ensured profitability and success in the market so long as external risk remained low.

Dr Wang had an unusual ability to perceive changes in markets and how customers used computers and software prior to the development of memory chip-based PCs. His entrepreneurial insights kept new products and services rapidly flowing to the market and his company had spectacular growth. His unbroken string of new product successes blinded him to growing weaknesses in the company. His reliance on Chinese family traditions drove him to turn the now publicly-owned firm over to his oldest son. He allowed his family values to subvert his business judgement and the company's rigid and strong culture substantially slowed product innovation and structural realignment.

The adaptable strong culture was not evident in the company during Dr Wang's last few years of managing the company. And it certainly was not present under his son's leadership. Once investors and creditors wrenched control of the company from the Wang family, it was too late to adapt it to changing business conditions and to stave off bankruptcy. While the company did become more adaptable under successive leaders, it remains to be seen if Wang can craft a new mission and strategy.

- 2 Wang Laboratories exhibited symptoms of decline. The company began its downward trend after about 30 years of financial and strategic success. At its high point, it employed 25 000 people and had worldwide sales of nearly \$3bn. It was successful well before Microsoft and Intel became rivals. Dr Wang's centralised management style (Theory X) and belief that Chinese family traditions should infuse the company's culture sowed the seeds for failure. Well before the downfall of the company these signs of future difficulties were apparent:
  - A. Fear of embarrassment and conflict (groupthink) kept key executives from challenging Dr Wang's views on products and nepotism.
  - B. Dr Wang's subordinates probably told him what he wanted to hear during the firm's sustained period of growth. During those years Dr Wang should

<sup>9</sup> Sources: A. Serwer, 1993. 'Wang Laboratories – Can This Company Be Saved?' *Fortune* (19 April): 86–90; 'An American Tragedy', *The Economist* (22 August 1992): 56–8; C. Kennedy, 1992. 'Fall of the House of Wang', *Computerworld* (17 February): 67–8.

have traded his complacency for a thorough re-evaluation of the firm's business model.

- C. An outdated structure reflected Dr Wang's product inspiration driven management style. Like many entrepreneurs who are also talented product innovators, Dr Wang pushed new products into the marketplace without performing thorough market research. He followed this logic: 'We can make and sell this product, so let's create a division to make and market it'. This value led to an organisational design that duplicated resources and drove up overhead costs.
  - D. Dr. Wang stubbornly resisted change to his product development model. He should have listened more to his key customers. He ignored market trends which favoured highly flexible personal computers capable of running any type of software. Finally, over the objections of his board, he installed his son as president of the company. His insularity and stubbornness undermined and threatened the firm's business model.
  - E. Vocal coalitions demanded changes in Wang Laboratories. Creditors refused to extend lines of credit and once-loyal customers refused to buy company systems which would only run Wang software.
  - F. Decreased innovation bankrupted the firm under Fred's leadership.
- 3 Prior to decline and bankruptcy, Wang Laboratories seemed to occupy the inception stage of the life-cycle theory. It never achieved the maturity stage. It did not become decentralised, it failed to create a professional managerial level, and it did not use advanced planning methods with intermediate time horizons (three to five years). It was stuck in the inception phase even though it became a \$3bn company with 25 000 employees. The firm plunged into bankruptcy because it could not thrive under Dr. Wang's forced transition to 'Fred'.

The firm never developed a cadre of professional managers capable of guiding the firm's orderly adaptation to new markets and customer product expectations. Dr Wang precipitated a crisis by installing his son as the CEO just as the industry was undergoing a fundamental shift to PCs. The once-brilliant company founder was fatally out of step with market requirements and orderly succession planning. The stubborn founder drove his company into bankruptcy.

### Case Study 9.3: Engine Solutions Acquires JNC

- 1 This is an interesting question that has a firm 'no' for an answer. Without question the ES executive team would have quickly uncovered the problem in JNC sales and created a competent plan to raise sales productivity and product penetration in JNC's markets. However, expecting Jurgen to successfully implement it would have triggered a colossal failure for these reasons:
  - A. Jurgen is a distracted man who has clearly signaled to his employees that he wants to move on to address his new interests. He is a lame duck entrepreneur who has sold his business. He can be very useful as a 'transition executive' because he can reassure employees that their jobs are secure, he

can work with key suppliers and distributors and he can be a stabilising force in the transition to new ownership. What he cannot be is an effective change agent. An entrepreneur cannot sell his business, stay on as a two-year temporary executive, and be a forceful agent for change in the very business that he just sold! He can be a useful caretaker and in that role he can reassure the 'valued veterans' that they should stay on.

- B. The ES executives and managers knew correctly and instinctively that the JNC work-force will not instantly trust and respect them. If they tried – by long distance and remote control – to immediately overhaul JNC sales, they would have lost many key personnel throughout the company. Rather than solving the sales problem, they would have triggered a 'mass exodus' and widespread morale problems would have erupted and thrown JNC into a full-blown, internal crisis.
  - C. The ES executives might have been tempted to assign an American ES executive the job of managing the internal changes needed to make JNC a quick contributor to competitive advantage. This would have been a huge 'cultural blunder' that would have easily jeopardised the acquisition's success. Again, delegation of authority 'wins the day'. The founders trusted subordinates' judgements and they approved Dieter's plan for change. Delegation and trust go hand-in-hand. More than anything else, these two factors greatly boost the probability of success of Dieter's plan. In no small measure, Dieter wants to be successful because he wants to justify the founders' confidence in him. He's an ambitious entrepreneur but he is also a highly responsible and competent executive. He can envision a new strategic approach for JNC, he knows how to accomplish the details of implementing it and he collaborates with key players during the whole process. He's a 'keeper' and he has a very bright future in ES.
- 2 With the sale of JNC, Dieter finds himself in the position of having to prove his value to foreign executives who are now his bosses. He knows that he has far less than the two years specified in the purchase contract to make JNC a major contributor to ES competitive advantage. He also knows that well before Jurgen retires, the founders will have made a decision to find a skilful executive to run JNC. Facing similar circumstances, some executives would update their resumes and call their favourite recruiting firm. Dieter looks for opportunities in the change and uncertainty that lie ahead for JNC and he decides to launch an aggressive plan to increase the value of JNC to ES. Dieter's behaviour suggests that he knows bailing out would be a mistake. He sees an opportunity for several reasons: 1) ES has a history of significant delegation of authority; 2) Jurgen's employment contract creates a two-year period of stability which reassures employees and customers that new ownership does not signal an effort to abandon what has worked in the past; and 3) he knows that he can work with Roland and other senior managers in ES.

Dieter sees change and uncertainty in JNC as an opportunity to demonstrate his decisiveness and ability to quickly make JNC a more productive company without creating any insurmountable merger problems. And so, rather than

feeling sorry for himself, he launches a plan to implement a new sales incentive system that he thinks will act as a trigger for overhauling of the JNC's complacent and under-performing work culture. His plan eliminated unproductive salesmen, reduced costs per sale, slashed the base pay of salesmen and opened the door to hiring much younger and more aggressive salesmen. He knew that his plan would alienate older unproductive salesmen who were used to getting significant job perks despite their lackluster sales performance. Rather than fire the slackers, he changed the rules and they left on their own. He built support for his change plan by collaborating with key managers from ES headquarters. As his plan moved forward, he did nothing to draw skepticism from the American executive team.

In sum, Dieter picked an aspect of JNC that begged for change and he used it to overhaul the firm's work culture. As he hired more salesmen while holding down the cost of selling expenses, he raised revenues and improved customer service. He accomplished this by first gaining support for his plan from key ES executives. By solving the problem of sales productivity he proved his abilities to: 1) make tough entrepreneurial decisions (the founders' could appreciate that); 2) show loyalty to his new employer; 3) collaborate with ES executives and 4) implement a plan without creating any crises that could cause the founders to rethink their decision to buy JNC. Dieter gave a virtuoso performance and he will probably do several more.

- 3 Amanda's involvement is very helpful and well timed because Dieter knows that she can quickly size up his plan in relation to existing ES sales fulfillment and customer satisfaction systems. He approaches her directly for her expertise and support. His early contact with her is consistent with the ES system of decentralised decision making; solving problems at the level in which they occur. Amanda's endorsement of Dieter's approach is an early validation for his quick and decisive decision making. Dieter did several things that made it possible for Amanda to support his plan to overhaul sales work in JNC. First, he kept the scope of the problem narrow so that Amanda would not have to step outside her area of expertise. Second, he vastly improved the sales incentive system for top performers while reducing base salary levels across the board. Third, he opened a 'face-saving' exit door for unproductive and costly senior salesmen. And fourth, he made JNC a very attractive choice for young, ambitious salesmen. Amanda quickly recognises the value of Dieter's approach and she was comfortable helping him. She realised that he had picked an excellent problem to tackle and she judged his chances of success to be high. She concluded that working with Dieter was a winning strategy in relation to her own career at ES. And so two highly motivated problem solvers find each other and together they craft a winning plan to boost company revenues. Clever Amanda – she aligned herself with a winner!





# Practice Final Examinations and Worked Solutions

This appendix contains two practice examinations which are indicative of the type and level of material which appears in the Heriot-Watt University final MBA degree examination. Students will note that there are minor differences between the two examinations provided. In each case, however, the level of difficulty, the total of marks awarded and the passing standard are the same.

The duration of the examination is 3 hours. The points value of each section is shown. Within the total time of 3 hours students may allocate their time among sections as they see fit. The pass mark is 50 per cent.

There is no choice in the selection of questions to be answered. In the objective questions, no points are deducted for wrong answers.

For each question, a solution is provided which will allow students to assess their performance. The examination serves two purposes: to test understanding of the course and to provide information on standards required to pass the university final degree examination.

The rationale for providing two examinations is that students who have worked through the course, have taken the first practice examination and, on the basis of their performance in that examination, are not satisfied that they have attained mastery of the material, will be able to study the course again and have a second opportunity to test themselves. Where the first examination is satisfactory, the second may be used for additional practice.

## Practice Final Examination 1

### Scoring Your Exam

The Organisational Behaviour examination is in TWO sections:

A: Objective Questions

Questions each worth two points.

Total points available:  $30 \times 2 = 60$ .

B: Essay Questions

Questions each worth 60 points.

Total points available:  $3 \times 60 = 180$ .

Total points available for examination: 240.

Pass mark =  $50\% \times 240 = 120$ .

### Section A: Objective Questions

Each question is worth two points.

- 1 Which of the following components of a manager's job are most often rewarded in the firm?
  - A. human and conceptual.
  - B. technical and human.
  - C. technical and conceptual.
  - D. organisational and conceptual.
- 2 Why does OB focus so strongly on employees' job attitudes and behaviour?
  - A. human nature plays a permanent and significant role in organisational productivity and goal accomplishment.
  - B. the long history of unionisation has created this perspective in OB.
  - C. experts focus on how employee attitudes and behaviour influence productivity.
  - D. customers expect high quality service that is customised to their needs.
- 3 Which of the following most improves employees' job satisfaction once their lower-order needs are satisfied?
  - A. challenging, demanding jobs.
  - B. increased clarity in job descriptions.
  - C. lengthening time between performance and performance feedback.
  - D. improved employment benefits.
- 4 Which of the following is correct? Managers can strengthen employees' organisational commitment by all of the following EXCEPT:
  - A. supervising closely and requiring them to focus on the task at hand.
  - B. creating SDTs.

- C. acknowledging their performance with timely and meaningful rewards and feedback.
  - D. helping them create goals that support competitiveness and also develop their skills.
- 5 In the short run, which factor is LEAST related to the need for achievement?
- A. taking moderate risks in completing the job.
  - B. requesting immediate feedback about performance.
  - C. needing a promotion or a pay rise.
  - D. pursuing meaningful goals at work.
- 6 Which of the following is correct? Expectancy is:
- A. a subjective belief that a given level of effort on the job will lead to a certain level of performance.
  - B. a subjective belief that a given level of effort will lead to a desirable reward.
  - C. a subjective belief that a given level of performance will lead to a particular reward.
  - D. the degree to which an employee believes that his superior will provide clear task instructions.
- 7 A soccer player, threatened with suspension from the game, stops using foul language with the game's umpires. He therefore avoids any unpleasant consequence. What is this an example of?
- A. positive extinction.
  - B. negative reinforcement.
  - C. punishment.
  - D. shaping behaviour.
- 8 Which of the following statements does not support BMod theory?
- A. the theory focuses on changes in psychological states.
  - B. the theory emphasises the importance of providing timely feedback to employees about their performance.
  - C. the theory stresses the measurement and analysis of observable employee behaviour.
  - D. the theory relates to employees' beliefs about connection between performance and rewards.
- 9 Which of the following is correct? Skill-based compensation:
- A. discourages employees from seeking training.
  - B. makes part of the employee's compensation contingent on his acquisition of new job-related skills.
  - C. ranks positions in terms of their difficulty and educational requirements.
  - D. ties new job-related skills to increases in the cost of living.

- 10 Why was SM so widely adopted by managers?
- A. it provided a way for companies to make work more interesting and appealing without dramatically raising labour costs.
  - B. it showed that financial incentives could be used to boost production in jobs that were designed to be performed in the most efficient way.
  - C. it was an accepted way to improve the communication of company goals to rank and file employees.
  - D. it proved to be a method of job design that could be used to greatly reinforce competitive advantage based on superior service delivery.
- 11 Which of the following is correct? Gainsharing programmes:
- A. control labour costs through a formal system which helps employees install labour-saving innovations.
  - B. tend to work only when an enterprise is benefiting from expanding sales.
  - C. do not require employees to achieve better understanding of how their work units contribute to the cost of goods sold.
  - D. do not require a history of good labour-management relations in companies to be successful.
- 12 An employee has just designed a new piece of software and completed the debugging process on it. Which job content factor is MOST related to the above statement?
- A. task identity.
  - B. feedback.
  - C. skill variety.
  - D. task significance.
- 13 If employees get feedback about their performance by completing various steps in their work, which of the following should they experience?
- A. responsibility for task completion.
  - B. meaningfulness of work outcomes.
  - C. knowledge of results.
  - D. job satisfaction.
- 14 Characteristics of a SDT are:
- I. it can make decisions about changes in work methods.
  - II. it creates its production schedules within unit goals.
  - III. it is responsible for cross-training its members.

Which of the following is correct?

- A. I only.
- B. II only.
- C. I, II and III.
- D. Not I, II or III.

- 15 A team leader starts a meeting with the production team. In his introduction, he notes the importance of high trust levels among members and why they should be comfortable with providing and accepting performance feedback among themselves. What stage of group development is this team in?
- A. storming.
  - B. norming.
  - C. performing.
  - D. forming.
- 16 All of the following are properties of group norms EXCEPT:
- A. a member may privately disagree with some aspect of work methods in the group.
  - B. the leader spends more time supervising the group if it has strong, focused norms.
  - C. norms develop for central and important beliefs of the group's members.
  - D. some members of a group have more rights to deviate from established group norms than other members do.
- 17 A work team meets in its own time after hours to work up a plan to tell the boss about several ways to improve assembly processes. What aspect of individual team member behaviour would be less likely once this event occurs?
- A. social loafing or failure of members to contribute resources to the group.
  - B. maintenance activities that make new members feel comfortable.
  - C. task-structuring activities designed to increase team output.
  - D. individual creativity in areas other than production methods.
- 18 Which of the following is correct? When group members assume that all other members are in favour of its course of action, we say that the group is suffering from:
- A. mindguarding.
  - B. self-censorship.
  - C. illusion of unanimity.
  - D. illusion of invulnerability.
- 19 How are the symptoms of groupthink in a project team different from the defects in the decisions it makes?
- A. the symptoms of groupthink apply to group decision-making processes and the defects in its decisions are tied to social loafing.
  - B. the symptoms of groupthink apply to the composition or make-up of the team while the defects in its decisions are tied to generating too few solutions to a problem.

- C. the symptoms of groupthink apply to faulty decision-making processes while the defects in its decisions may or may not result in a bad decision.
- D. the symptoms of groupthink are unrelated to characteristics of the team leader while defects in its decisions are directly related to team characteristics.

**20** Nominal groups:

- I. are highly structured.
- II. focus on personalities of group members.
- III. pressure members to reach consensus in decision-making.

Which of the following is correct?

- A. I only.
- B. I and II only.
- C. I, II and III.
- D. I and III only.

**21** Which activity resolves group-based interpersonal conflict?

- A. process.
- B. task.
- C. job.
- D. maintenance.

**22** Which of the following is correct? Leadership consideration behaviour is most closely related to:

- A. initiating structure behaviour.
- B. building strong relationships with subordinates.
- C. having employees participate in decision-making.
- D. entrepreneurial behaviour.

**23** In the path-goal theory of leadership a leader's job is to:

- I. clarify the path to work goals.
- II. reduce or remove obstacles in the path of employees who are trying to perform well enough to obtain valued rewards.
- III. where appropriate, involve employees in decisions.

Which of the following is correct?

- A. I only.
- B. III only.
- C. I and II only.
- D. I, II and III.

24 Neutralisers of the leader's initiating structure behaviour are:

- I. subordinates' expertise and job knowledge.
- II. task confusion and conflicting work expectations.
- III. flexible rules and non-routine work demands.

Which of the following is correct?

- A. I only.
- B. I and II only.
- C. II and III only.
- D. Not I, II or III.

25 Which form of departmentalisation helps develop specialists or experts?

- A. product.
- B. matrix.
- C. functional.
- D. territory.

26 The matrix design would be least effective when:

- A. special projects need to be done.
- B. the organisation needs to be energised.
- C. the company's market is stable and unchanging over time.
- D. coordination needs are complex in the company.

27 Diagnosis in organisational development is:

- I. expensive.
- II. time consuming.
- III. vulnerable to management's desire for quick action.

Which of the following is correct?

- A. I only.
- B. I and III only.
- C. II and III only.
- D. I, II and III.

28 The Xlogic Company launched a process to reduce assembly time for core components. A task-force managed by an individual performed the following problem-solving activities: (a) recognise and define the problem; (b) develop problem-solving processes; (c) implement the proposed change; and (d) measure and evaluate the results of the change programme. In OD terminology, what would the managing individual be called?

- A. a task-force manager.
- B. a consultant.

- C. a senior programme manager.
  - D. a change agent.
- 29 A company has changed its assembly-line production system to a computer-based system that uses SDTs to set production schedules and deal directly with customers. As the programme implementation went on, top management organised a group to control changing responsibilities, job training and job security. As a change agent responsible for the programme, what type of problem might occur in this group?
- A. weak or ineffective diagnosis.
  - B. poor problem recognition or definition.
  - C. resistance to change.
  - D. failure to institutionalise change.
  - E. groupthink.
- 30 An externalising employee who is experiencing job burnout would increase his performance if:
- A. his supervisor gave him more job-based authority to make decisions.
  - B. his co-workers evaluated his performance.
  - C. he was extensively cross-trained.
  - D. his supervisor created highly structured work assignments with regular performance feedback meetings.
  - E. his supervisor introduced flextime in the employee's department.

## Section B: Essay Questions

Each question is worth 60 points.

- 31 'Organisations have to meet the challenge of change by adopting flexible strategies'. Describe these strategies. Consider what qualities a good, planned change programme has and outline the steps in the planned change process.
- 32 Identify the important features of employee involvement in decision-making and discuss the issues which managers must take into account if they wish to effectively involve their employees in decision-making.
- 33 Ulie Nemer is a 56 year-old financial planner in an investment services business in London. Her company supported its veteran planners who were near retirement and wanted to lessen their efforts at attracting new clients in favour of using their skills to retain the firm's existing customers. Recently the board hired a new CEO, in his late 40s, and he promptly changed this policy. In a staff meeting he said: 'It is growth or else! There is no room for senior planners who want to coast into their retirement years'.

What are the likely effects of his statement on the firm and on its senior planners?



## Examination Answers

### Section A: Objective Questions

- 1 Organisations place the greatest value on the manager's technical and conceptual skills because they believe these skills determine who gets hired and who gets promoted. The skills most often overlooked are human resources.
- 2 OB explains the effects of human behaviour, motives and attitudes on the performance and effectiveness of organisations.
- 3 Since the employees' maintenance needs are satisfied, choices B and D can be ruled out because they refer directly to lower-order need satisfaction. Choice C is illogical. Choice A is best because it emphasises job challenge: a driver of higher-order need satisfaction through self-actualisation.
- 4 Organisational commitment stresses: (a) willingness to expend personal effort on behalf of the organisation; (b) a personal belief in the values of the organisation; and (c) the desire to preserve one's membership. These three qualities would be heavily supported by choices B, C and D.
- 5 Choices A, B and D are all behavioural characteristics of an employee with a high nAch. While pay rises and promotions would be very important to him in the long run, he would be intrigued by intellectual challenge, meaningfulness and risk-taking in the short run.
- 6 Expectancy is the subjective belief that a given level of effort (motivational force to perform) produces a given level of performance. Choice B is meaningless because it does not specify the nature of the first-level outcome. Choice C refers to instrumentality while choice D is unrelated to the concept in the question.
- 7 Since the avoidance behaviour is strengthened, negative reinforcement has occurred. The player avoided suspension (unpleasant consequence).
- 8 BMod predicts and controls behaviour without reference to inner states of mind. The person's environment gets credit for strengthening or weakening behaviour by virtue of the consequences it provides for behaviours. The other three choices are highly applicable to BMod.
- 9 Skill-based compensation is an economic incentive for acquiring more job-based skills. The firm gives a pay rise or a bonus when an employee completes a training programme which increases his versatility on the job. Choice A is irrelevant while choice C refers to an element of job analysis. Choice D is also meaningless.
- 10 It appeals to 'X' managers who believe that firms can be machine-like and manufacturing efficiency can be raised by using piece-rate pay systems. It implies that the control (and motivation) of the work-force is a matter of effectively using financial incentives.

- 11 Gainsharing programmes use teamwork and innovation to lower labour costs by finding more efficient production methods. Employees earn team-based bonuses when their work units produce a given level of output at a given level of quality with fewer labour-hours. The typical bonus cycle is one month.
- 12 Doing a job from beginning to end (task identity) represents the reverse of job specialisation according to the Job Characteristic Model. The other three choices represent other job content factors in the model.
- 13 This question ties job content factors to critical psychological states in the Job Characteristic Model. The psychological state which goes with feedback is knowledge of results.
- 14 Autonomous work groups (SDTs) have all three characteristics. These three are not exhaustive. Module 5 describes many other forms of autonomy which may be assigned to them.
- 15 These comments reflect the presence of group norms. Personal issues are still relevant (being open to performance feedback). The leader emphasises trust, which is the building block for collaboration.
- 16 A key function of norms in groups is to summarise and streamline the influence process. If a group has a rigorous structure of norms then the leader would have to spend less time closely supervising members' behaviour. Choices A, C and D are all properties of group norms.
- 17 Team members want the full effort of all members so a special norm is created for members' contributions in the weekly meeting with the plant superintendent.
- 18 When a group loses its ability to evaluate alternatives it is too cohesive and members over-stress conformity. This leads to groupthink. Premature consensus often springs from the illusion of unanimity.
- 19 Any project team may be deeply mired in groupthink. However, the problem-solving potential of the team may be so high that actual decisions are excellent in spite of the groupthink.
- 20 Nominal groups are formed to follow a very structured procedure to identify the fundamental features of a problem. It: (a) is highly structured; (b) ensures participation; (c) prevents dominance by key group figures; and (d) prevents conformity.
- 21 Maintenance activities in groups prevent process losses triggered by interpersonal conflict and disagreements. Formalising the role of the interpersonal conflict resolver allows the group to get back to performance-related matters.
- 22 Leadership consideration behaviour focuses on the personal needs and welfare of subordinates. It includes open-door policies, encouraging *esprit de corps* and helping subordinates with personal problems. Such behaviours would certainly create strong relationships with subordinates. The other three choices are legitimate leader behaviours, but they are not consideration.

- 23 All of these leader behaviours are components of the path-goal theory of leadership. These outcomes occur when a leader selects the four behaviours shown in the theory.
- 24 Subordinates' expertise and their job knowledge neutralise the leader's initiating structure behaviour. Choice A is another way of saying that employees can create their own successful work methods.
- 25 Functional designs group jobs together by common work activities. Once an employee is assigned to a particular function, he will have ample opportunity to learn all the nuances (and language) of work in that function. This design provides the greatest opportunity for an employee to specialise in a particular aspect of work in the organisation.
- 26 Matrix designs purposely create heterogeneous project or product teams to handle the turbulence in dynamic and risky business environments. They may solve the problem of competitiveness if the firm decides to meet market challenges by setting up project groups
- 27 Diagnosis separates the problem causes from their symptoms. A thorough diagnosis is costly and it may try the patience of top managers who think they have all of the answers. If the change agent caves in to this pressure, the programme may fail to separate problem symptoms from their true causes.
- 28 This person is a change agent because the task-force's steps are elements of the process of planned change.
- 29 A change agent would have to address the supervisors' concerns about their job security, economic security and positional authority. These managers have good reason to be worried.
- 30 The externalising employee is experiencing so much job stress that his performance is rapidly deteriorating due to the combined effects of psychological withdrawal from work and his declining coping capacity. More structured work with specific instructions from the supervisor could significantly reduce the level of stress he experiences and his performance would return to an acceptable level. At the same time, his job burnout might vanish.

## Section B: Essay Questions

- 31 In order to survive, firms must adapt and change. These changes may be good or bad but the way they are introduced is crucial, especially for the profitability of the company and the morale of the work-force. Change may occur in response to either external or internal threats or both. To meet the challenge of externally induced change, firms may follow several courses of action. First, they may change their goals and strategies. They could offer a new product or service or target new markets. Second, they may introduce new technology along with downsizing to

lower costs and work redundancy. Finally, the firm may shift from a functional to a product-design structure. This change strategy may include decentralisation.

When the cause of change is triggered by internal forces such as low productivity, high absenteeism, high labour turnover and increased grievance and discipline problems, firms adopt employee-focused change strategies. These may include redesigning jobs to include more variety, autonomy, feedback, significance and social interaction. The firm may alter its recruitment policies to attract new talent or it may retrain existing workers to improve the skill mix of its work-force. The firm might alter its PA and reward systems to encourage new employee behaviours.

Companies which learn how to quickly change their cultures are likely to survive and prosper. However, there are three conditions which must be fulfilled in order for a culture change programme to work. First, employees must be dissatisfied with the status quo. Second, top management must have a vision for the future which will guide the redesign process and give the work-force a sense of purpose and direction. Third, the process of change has to be well managed in order to exploit the potential of the other two conditions.

Successful planned change has several characteristics. It is often focused on a whole unit. The 'knock-on' effect of changes to a subunit can be counter-productive if its other parts are affected in ways which were not foreseen. It is also based on behavioural science knowledge. Change managers (and change agents) have to be aware of how the content, pace and extent of changes will affect and be affected by the behaviour of employees. Finally, the change requires its primary goal to be the improvement of the firm's business model.

Lewin has suggested that the planned change should follow a predictable sequence of events. These are unfreezing, changing and refreezing. Unfreezing occurs when people realise that the firm's current systems do not achieve strategic goals. Often the CEO decides the time is right for a change. This is a top-down approach and it needs to involve the work-force in the change. However, sometimes the push for change comes from employees (perhaps it was uncovered during a regular employee attitude survey). Once unfreezing occurs, action plans are developed to move the firm and its work-force towards a new competitive business model. Refreezing occurs when the change is fully functional and it is here that the company needs to review the whole process.

- 32 Employee involvement (engagement) in decision-making embraces issues of productivity, performance, product quality and customer service. These issues demand that employees demonstrate the three aspects of effective participation in decision-making. They must be mentally active so that they can creatively attack the relevant issue. Their engagement in decision making should satisfy their intrinsic needs (higher-order) and suppress any social loafing. The striving aspect in participation is in itself a motivating device and is a second dimension of participation (intrinsic motivation). And third, employees should be willing to make personal contributions to the firm.

When the organisation's social system meets the employee's belonging needs and the technical work system presents him or her with challenging and meaningful work, the employee is motivated to contribute. This motive can be improved through delegation of authority to employees or their SDTs. The third dimension involves shifting managers from sources of authority to sources of support. Employee involvement works best in delayed, 'Y' firms with System 4 features. In them, employees have greater control and they (or their SDTs) willingly accept delegated authority.

Leaders of SDTs should use the diagnostic questions from the Vroom–Yetton–Jago Normative Model. These question areas are: (a) the importance of quality in the decision; (b) the amount of information possessed by the leader; (c) the importance of time pressure impinging on the decision; and (d) the extent to which subordinates' support for the decision is related to its success. Employee empowerment cannot be successfully installed in firms with histories of labour unrest. Installing participation and employee empowerment is generally easier to do in start-up operations but it can still be done in established operations if managers and employees are committed to the 'Y' principles. If the firm's culture stresses adaptation, then empowerment and participation will engage the work-force. Managements should be prepared to show how both will increase competitive advantage.

Employees must view empowerment and participation as a central feature of their work and not as an intrusion. If they work in SDTs they must receive the cross-training to tackle any problems in their team's work. In the responsive (Y) firm, team members must also receive training in team problem-solving as it relates to product and service quality and continuous improvement.

Neither managers nor employees should feel that empowerment and participation are simply management attempts to cut costs by making SDTs do more work. It is inevitable that various interest groups, for example trade unions, may view employee empowerment with some fear of its consequences; but once the company has embarked on empowerment there will not be an opportunity to return to the status quo, and managers should anticipate and deal with various forms of resistance to change.

- 33 There are a number of predictable outcomes that would affect Ulie and her fellow, senior planners. They would experience an immediate decline in job satisfaction because they would realise that providing excellent service to their existing clients is now less important than finding new ones. Veterans' satisfaction with intrinsic and extrinsic rewards would taper off and serious damage would be done to their previously high levels of organisational commitment. Equity theory predicts that senior planners like Ulie would be extremely dissatisfied under the CEO's policy. They would continue to value their skills and deep knowledge of clients' preferences while the CEO would favour the sales gains made by new planners who attracted new clients. The gulf would only widen!

The unbalanced equity situation could trigger an exodus of senior planners if the firm hit a slow sales period and had to offer an attractive retirement package to

reduce its high fixed costs. The senior planners are already smarting from the CEO's age discrimination. If he had to reduce labour costs, these employees would jump at even a modest severance packages and their knowledge of client needs would vanish. This could seriously undermine the loyalty of long-term clients and the firm would lose an important component of its competitive advantage.

## Practice Final Examination 2

This exam is constructed to be of the same standard as the first mock exam. You will find a short bonus case at the end of the exam. It has 8 multiple choice questions that are each worth two points.

### Scoring Your Exam

A: Objective Questions

Questions each worth two points.

Total points available:  $37 \times 2 = 74$ .

B: Essay Questions

Questions each worth 50 points.

Total points available:  $3 \times 50 = 150$ .

C: Case Study

Questions each worth two points.

Total points available:  $8 \times 2 = 16$ .

Total points available for examination: 240.

Pass mark =  $50\% \times 240 = 120$ .

### Section A: Objective Questions

Each question is worth two points.

- 1 OB is considered a:
  - A. discipline.
  - B. field.
  - C. science.
  - D. philosophy.
- 2 What feature(s) of OB make(s) it a valuable contributor to the knowledge bases of managers who must increase the firm's competitive advantage?
  - A. It explains the relationship between a firm's strategy and its structure.
  - B. It concentrates on transaction costs that influence the relationship between companies and their rivals.
  - C. It concentrates on how strategy is influenced by the behaviour of individuals and groups and the structure or design of the firm.
  - D. It concentrates on how resources are deployed to seize market opportunities.
- 3 The matrix design does not respond to \_\_\_\_\_ induced uncertainty.
  - A. internal
  - B. external
  - C. technologically
  - D. motivationally

- 4 Which form of departmentalisation creates specialists?
- A. product
  - B. matrix
  - C. functional
  - D. territory
- 5 Motivation refers to:
- A. needs and experiences of people.
  - B. goal-directed, purposeful behaviour that is expressed by the individual.
  - C. the direction of behaviour after a need has surfaced.
  - D. the amount of functional analysis experienced by an individual.
- 6 The expression  $B = f(P, E)$  means:
- A. behaviour is a function of physical arousal and effort.
  - B. behaviour is a function of physical arousal and environment.
  - C. behaviour is a function of person and environment.
  - D. behaviour is a function of processes and energy.
- 7 MBO is a(n):
- A. theoretical interpretation of expectancy theory.
  - B. practical application of expectancy theory.
  - C. practical application of BMod.
  - D. a job enrichment technique.
- 8 Punishment is a questionable scheme of behaviour change because it is:
- A. painful.
  - B. necessary to follow it with a desired reinforcement to be effective.
  - C. necessary that valued rewards be taken away from people.
  - D. a cause of apprehension and it creates a tension-filled work atmosphere.
- 9 A mid-range approach to job design that would fit the differences that exist among employees is to:
- A. consider the importance of higher-order and lower-order needs.
  - B. develop job descriptions and encourage employees to move to more satisfying jobs within the organisation.
  - C. partition jobs into discretionary and non-discretionary tasks.
  - D. match the employee's job interests with a job's requirements.
- 10 A work-force normally resists the idea of job enrichment because:
- A. many employees prefer jobs which are routine and specialised.
  - B. job enrichment is a short-term strategy.
  - C. few studies support its claim of higher satisfaction and motivation.
  - D. implementation is weak and individual differences are ignored in job enrichment schemes.



11 In the Exeter Company the following conditions have surfaced:

- (a) morale is low; (b) the grievance or complaint rate by employees is rising; (c) production delays are mounting; (d) rumours of a downsizing are circulating; and (e) absenteeism is increasing.

To improve the situation management should:

- A. establish open communication with top management so that employees can have their questions answered honestly.
- B. replace employees who are regularly absent.
- C. spend more time visiting employees at their job sites.
- D. initiate employee involvement to improve their opportunities to satisfy higher-order needs.

12 A new product development team exhibits the following characteristics: (a) members do not voice their concerns about product safety features to other group members; (b) members believe that the company's competitors are less innovative and slower to develop new products; and (c) members believe that their company's dominant market share in the product's category is not threatened by its rivals. What is the problem that this team suffers from?

- A. failure to achieve the motivation and commitment stage of group development.
- B. the members of rivals are social loafers.
- C. the product development team wishes to avoid risk.
- D. the product development team exhibits groupthink.

13 High Machiavellian managers tend to:

- A. believe that some people are inherently better than others.
- B. emphasise the effects of rules and regulations on others.
- C. have well-developed higher-order needs.
- D. take advantage of others if it suits their needs.

14 Which of the following is true about expectancy theory?

- A. ability has a variable effect on performance.
- B. people are motivated by the probability that feedback will occur.
- C. people are motivated to choose behaviours which satisfy their needs.
- D. people are motivated to satisfy their expectations.

15 John has been ill for six weeks. He is back at work, but is still feeling the effects of his subsiding illness. His annual review is scheduled for next week. The review should:

- A. be postponed until he has caught up with his office work.
- B. be held as scheduled, but his superior should acknowledge that his illness has affected his performance.

- C. disregard his recent illness, because it could jeopardise his future promotion.
  - D. disregard his illness, since performance reviews concentrate on productivity and performance.
- 16 A company cross-trains employees to make them more effective members of SDTs. Along with this training, the company also improves safety and it makes working conditions less hot and humid. Finally, the company installs a review and appeal system to consider any employee's performance review if the employee thinks it is unfair. What is the organisational development classification that ties the three programmes together?
- A. process organisational change.
  - B. task-technological change.
  - C. group and individual change.
  - D. horizontal job loading and quality of work life programmes.
- 17 BARs (behaviourally anchored rating scales) emphasise:
- A. individual performance skills.
  - B. actual job behaviours which reflect effective and ineffective job performance.
  - C. the transferability of job skills from one job to another.
  - D. the importance of evaluating employees for needed training.
- 18 One of the disadvantages of open-salary information is that it:
- A. increases employee job satisfaction.
  - B. exaggerates pay perceptions.
  - C. overcomes the pressure to pay all employees the same.
  - D. is time consuming to implement and maintain.
- 19 Which types of power are non-transferable?
- A. expert and referent power.
  - B. reward and referent power.
  - C. coercive and legitimate power.
  - D. expert and legitimate power.
- 20 A group of executives is discussing the general characteristics of the SDTs in the company's subsidiaries. One executive described a team in these terms: (a) members understand the team's mission and purpose; (b) members evaluate each other's performance and they take corrective actions based on these evaluations; and (c) members rotate the responsibilities of team leadership. What type of group is being described by this executive?
- A. a formal group.
  - B. a mature group.
  - C. project team.
  - D. a total quality management team.

- 21 Designing and implementing a BARS would be an example of a(n) \_\_\_\_\_ organisational development intervention.
- A. individual level
  - B. system-wide process
  - C. unit-level process
  - D. group-based
- 22 The manager of an information systems unit found that his SDTs were having trouble. For instance, he was often asked to attend meetings to help teams set goals and manage priorities. For two teams he had to intercede to resolve personal conflicts among members. If you were a change agent, what organisational development method would you recommend to him to attack these problems?
- A. TB.
  - B. quality of work life programme.
  - C. incentive system management.
  - D. T-group approach.
- 23 Which of the following is not true about TB?
- A. it often takes a long time to be successful.
  - B. it shares methods with the training group approach.
  - C. it requires a facilitator.
  - D. it focuses on actual problems which confront the task group.
- 24 The task-force in charge of an OD programme must improve customer service and satisfaction. It used employee focus groups to identify those areas of customer service that could be simplified to reduce the time necessary to handle customer inquiries. As the programme moved into its training phase, senior managers in technical field services trained employees to diagnose customer problems over the phone. As this phase of the programme was implemented, the task-force sought feedback from customer service reps who had been trained by the technical field personnel. What was the task-force trying to accomplish by involving employees from customer service in these ways?
- A. the task-force was trying to take a holistic view of organisational change.
  - B. the task-force was trying to reward the customer service representatives who had been trained.
  - C. the task-force used participation to minimise problems of control, resistance and job redesign.
  - D. the task-force was trying to impress top management.
- 25 Which of the following groups helps members understand how they are perceived by other members of the group?
- A. T-groups.
  - B. SDTs.

- C. project groups.
  - D. team-building groups.
- 26 Which leadership style focuses on employee needs for having satisfying co-worker relationships?
- A. team management.
  - B. country club management.
  - C. organisation management.
  - D. authority-obedience management.
- 27 Internally oriented individuals, that is, individuals with a high internal locus of control, are characterised by:
- A. high susceptibility to group pressures.
  - B. membership of the better educated and higher income level groups.
  - C. preferring rewards such as pay and job security.
  - D. remaining static on the career ladder.
- 28 A company has been acquired in a friendly merger by a well-funded, larger competitor. The employees in the acquired company are told that its mission statement and goals will be altered to match those of the larger firm. They also learn that all of their usual work procedures will be altered to match those of the larger company. These changes in the firm that has been acquired may trigger problems in:
- A. widespread groupthink in the company that was acquired.
  - B. merging the cultures of the two organisations.
  - C. risk-shift for employees in the company that was acquired.
  - D. inability to delegate responsibilities to employees in the company that was acquired.
- 29 For an organisation that needs to be flexible due to rapidly changing market conditions, which organisational structure is the most appropriate?
- A. product.
  - B. functional.
  - C. matrix.
  - D. Systems 2.
- 30 These activities were currently under way in a change programme:
- I. A task-force of employees was providing production employees with feedback from a questionnaire that they had completed two weeks ago.
  - II. Change agents were showing top managers how company performance was influenced by high turnover rates in two production facilities.
  - III. Department managers were in a meeting with change agents who were showing them how product defect rates were increasing along with materials costs.

What aspect of organisational change do these activities represent?

- A. forces for change.
  - B. transition management.
  - C. unfreezing.
  - D. systems process change.
- 31 Top managers explained to a change agent that they felt the company's high grievance rate in the production division explained declining product quality and higher levels of waste in fabrication. They also said that they wanted a solution which minimised the involvement of production employees. The change agent responded by saying: 'That should not be a problem. I can develop for you a complete programme that will accomplish your goals'. How would you describe the change agent's behaviour here?
- A. the change agent is violating basic ethical considerations in OD.
  - B. the change agent is trying to avoid doing a problem diagnosis.
  - C. the change agent is neglecting external explanations for the problems.
  - D. the change agent is acting too much like an expert.
- 32 A manager who wants to employees' role ambiguity would:
- A. allow them more control of work schedules by starting flextime.
  - B. develop a weighting scheme to distribute high-urgency tasks or projects.
  - C. ask them about their preferences for certain rewards if they perform well.
  - D. clarify their task understanding by showing them excellent performance.
- 33 Which answer most accurately sums up the Type A personality pattern?
- A. He struggles with an underlying urge to be hostile and angry.
  - B. He needs not experience heart disease or high job stress because of his impatience and high degree of competitiveness.
  - C. He can easily become a Type B through relaxation exercises.
  - D. Due to their impatience and competitiveness, Type A employees always have a negative effect on the performance of their peers.
- 34 Which **ONE** of the following statements is true?
- A. The General Adaptation Syndrome is best thought of as a company programme for stress reduction.
  - B. Intermittent explosive disorder is aggressive behaviour from an individual who feels deeply inadequate but thinks he controls the situation at hand.
  - C. Diseases of adaptation do not influence employee performance during the alarm reaction stage of the General Adaptation Syndrome.
  - D. Type A individuals always exhibit intermittent explosive disorder.

- 35 Which **ONE** of the following statements is always false?
- A. Delaying is a source of stress for those managers who remain in the firm.
  - B. A 'Y' manager will experience considerable job stress if he believes his subordinates will be downsized in the near future.
  - C. It is possible for an insecure and hostile, Type A individual to become an easy-going Type B.
  - D. Externalisers may experience significant levels of distress when they are told that their job skills are obsolescent.
- 36 Which of the following choices is linked to executive compensation?
- A. The firm's profitability and market value.
  - B. The cost of living increases experienced by executives.
  - C. Salary surveys of executive compensation authorised by boards of directors.
  - D. Factors other than the profitability and market value of the firm.
- 37 The following company features exist: 1) only upper management participates in an ISO plan; 2) upper management decided to lower the exercise price of the options as the company's stock declined; 3) the firm uses SDTs covered by a Rucker Plan; and 4) along with the changes to option values upper management announced the use of higher payroll costs due to the increased use of temporary workers. The effects of these actions on employees' and teams' line of sight would most likely be which of the following choices?
- A. Improved line of sight because the company does not have to pay employment benefits to the temporary workers.
  - B. Improved line of sight because it would now be easier to earn the gainsharing bonus.
  - C. Reduced line of sight because the self-directed teams would experience the use of temporary workers as making it more difficult for them to influence the value-added to production.
  - D. All of the above.

## Section B: Essay Questions

Each question is worth 50 points.

- 38 Job satisfaction is a complex concept which managers should monitor constantly. Discuss.
- 39 Consider why individuals join groups. Identify the characteristics of cohesive SDTs and discuss how managers can make team cohesiveness a contributor to competitive advantage.

- 40 Discuss the economic pressures that may force the Japanese *keiretsu* to modify their traditional business practices.

### Section C: Optional Case Study Practice

*Instructions:* Read the following case and answer the questions that follow it. Each question is worth two points.

#### Employee Empowerment at Fiberex

The Fiberex Corporation makes digital signal switching equipment for large communications firms. The firm sets up its production activities into long assembly lines at its five domestic plants in the United States. The company is two months away from completing a sixth manufacturing facility near Chicago and managers want to experiment with new work methods and employee empowerment at the facility. Because the company's work-force is unionised, labour representatives are a part of a team that is designing the work system and employment rules for the new plant. Besides the two union representatives, the 17-person team has two production managers, two product engineers, a customer service manager, four production supervisors, three production workers, two total quality management specialists and the plant manager. The decisions made by the team are subject to corporate approval, but the team has sweeping authority to make wide-ranging suggestions for work-system design. The firm is anxious to launch these initiatives because it is experiencing increased competition from global firms and it wants to develop a more productive work system with lower labour costs.

The team has made its recommendations to management. If its recommendations are approved, the plant manager and his staff will carry them out immediately as it builds the plant's work-force. A summary of the team's recommendations is shown below.

1. Employees are guaranteed 32 hours of work per week, but they must work overtime during periods of peak demand, and during slow periods they may have to perform other jobs specified by plant management.
2. Training and development teams made up of plant supervisors and production employees develop and deliver all technical training.
3. All employees in the facility receive 100 hours of training during the first six months of plant operations. Half the training is in company time and the other half is in the employees' time.
4. Any labour grievances are handled by a committee of plant supervisors and workers who are elected to two-year positions by their peers.
5. Production work is delegated to teams with responsibility for production levels, model changes, quality and efficiency improvements and cost control.
6. Teams evaluate their performance and the contributions of members. Member evaluation criteria include skill levels in core team activities, contributions to quality improvement and cost control and support of team production goals.

7. Bonuses are paid to teams who meet production goals and member pay rises are based on: (a) team production standards approved by management; (b) level of skill acquisition; (c) peer reviews; and (d) quality improvement suggestions.
8. After two years of production experience, employees can bid for jobs throughout the plant.

### Case Study Multiple Choice Questions

- 1 Which philosophy or approach to job design is contributing the least to the work system design in the new plant?
  - A. job enrichment, as developed in the two-factor theory.
  - B. horizontal job loading as suggested by job enlargement, job rotation and cross-training.
  - C. SM.
  - D. SDTs.
- 2 Which set of outcomes would be the first to be influenced by the work-system design practices in the new plant?
  - A. job security, job satisfaction and work-team goal-setting.
  - B. job absenteeism and lateness for work.
  - C. company loyalty, satisfaction with pay and job involvement.
  - D. grievances, safety violations and customer complaints.
- 3 What job design principle is most closely related to plant work-design activities number 5 and 6?
  - A. give employees a whole job to do from beginning to end.
  - B. vertically load the job so that employees have control over the planning and doing portions of work.
  - C. rotate employees among various jobs to lessen job monotony and boredom.
  - D. give employees control of the performance feedback process so that they can make improvements in product and service quality.
- 4 Which level of Maslow's hierarchy would be most influenced by plant job-design activity number 1?
  - A. self-actualisation.
  - B. self-esteem.
  - C. belongingness.
  - D. safety and security.



- 5 What team description best fits the 17-person work-design team?
- A. a cross-functional task-force.
  - B. a self-managed production team.
  - C. a permanent command group.
  - D. a project team.
- 6 What is the employees' perception that would be most strongly influenced by work-system design activity number 4?
- A. distributive and procedural fairness.
  - B. effort-to-performance.
  - C. performance-to-reward.
  - D. fairness of supervision.
- 7 What is the least accurate way to describe the intent of the job-design activities undertaken in the new plant?
- A. the job design activities use horizontal and vertical job loading.
  - B. the job design activities are attempting to develop strong and ambitious norms about levels of team effort and member performance.
  - C. the job design activities are seeking the most economically efficient work system configuration based on work simplification and specialisation.
  - D. employees working in this plant could expect to find considerable job range in their work.
- 8 Which statement is most true about the company's experiment with new work methods and employee empowerment at the new facility?
- A. top managers are primarily interested in creating a new organisational design.
  - B. company executives and plant managers recognise that it is easier to create new work systems in start-up operations which require a newly recruited work-force.
  - C. the work-design activities are most closely aligned with a behaviour modification perspective.
  - D. the company is trying to design a production facility that avoids the problems associated with work-force diversity.

## Examination Answers

### Section A: Objective Questions

- 1 OB is the study of human behaviour, attitudes and performance within organisations and it is an interdisciplinary field, drawing on concepts from psychology, sociology, cultural anthropology etc.
- 2 The three major aspects of OB are individual behaviour and attitudes, group dynamics and organisational structure and design.
- 3 The matrix design allows a company in an uncertain (risky) environment, with rapid internal, external or technological change, to respond quickly to these uncertainties.
- 4 Functional design work units contain employees who perform aspects of the same function. Thus, it uses specialisation, and creates experts or specialists.
- 5 In everyday language, motivation refers to goals that involve desired outcomes, social processes that involve influence and mental processes that involve decisions and which cause a behaviour to be expressed.
- 6 Kurt Lewin proposed that the behaviour of an individual is caused partly by his makeup (personality) and partly by his environment. This relationship can be expressed by the formula  $B = f(P, E)$ , where  $B$  = behaviour,  $P$  = person and  $E$  = environment.
- 7 Management by objectives (MBO) connects managers and their subordinates in setting goals for work performance and personal development within a specified time period, at the end of which they meet to assess the subordinates' success in attaining the goals. It is a practical application of expectancy theory, which suggests that people expend job effort when they believe that they can earn rewards that they value.
- 8 Punishment is the application of an undesirable event that follows a behaviour which it is intended to eliminate. However, it often produces a conditioned fear response among employees. This can result in undesirable, emotional reactions in the employees.
- 9 Individuals react differently to job design attempts because of variations in their knowledge and skills, growth need strength, satisfaction with their work environment etc. It is not often possible to design jobs in sufficient detail to fit each employee's needs. A compromise for managers is to meet the employee's higher-order and lower-order needs.

- 10 Job enrichment tries to make a job more interesting by providing its holder with more autonomy and decision-making responsibility, i.e. by increasing the depth of a job through vertical loading. One of the major reasons for firms' negative views of job enrichment is that such schemes have previously failed. This happens because the firm's forget to ask employees to participate in the job enrichment scheme, and because of lack of managerial and trade union support.
- 11 Where an organisation is subject to these conditions, it is clear that management must take action. Solution A is impractical. Solutions B and D will not meet employee concerns about downsizing, nor will they determine the reasons for the increasing production delays. By walking about and meeting employees, managers can determine why the problems stated and, where possible, make appropriate changes to improve the situation.
- 12 The three characteristics of the project team are symptoms of groupthink. The presence of these symptoms does not mean the team will take a poor decision. They suggest only that the potential for a poor decision exists.
- 13 Machiavellian managers are socially domineering and manipulative and engage in more political behaviour than their colleagues. Solutions A, B and C can apply to any type of manager, but continually taking advantage of others where it suits their needs is especially applicable to managers who are highly Machiavellian.
- 14 The most widely cited version of expectancy theory is Vroom's version. His model suggests that the psychological force in employees to exert effort (i.e., motivation) is a function of their expectancies about the future and the valence or value to them of the specific future outcomes. People choose behaviours which help them satisfy their needs.
- 15 Solution A may result in recency error. Solution C is not appropriate to an appraisal interview. Solution D does not take into account the effects that illness may have had on John's performance. The appraisal interview should be held as scheduled, with the appraiser accounting for the possible negative effects of John's recent illness on his performance.
- 16 As Herzberg would say, these are all useful improvements in work context or job hygiene. As such, they do not challenge employees or engage their brains in their jobs.
- 17 BARs use examples of employee behaviour as anchors for performance dimensions. They are developed by rating specific behavioural incidents and rating employee performance as high, moderate or low on specific scales.
- 18 Solutions A and C are advantages of open-salary information. Solution B is the reverse of what is found. An organisational problem related to open-salary information is that it takes resources both to implement such a policy and to ensure its maintenance.

- 19 Power is the capacity to influence the behaviour of others. The forms of power described in solutions B, C and D can be transferred in part or in whole by the organisation to an individual employee. However, expert power is the ability to influence others' behaviour because of the skills, talents and knowledge one possesses, and referent power is an individual's ability to influence others' behaviour as a result of being liked or admired by others. Such a combination of power cannot be given to an individual by an organisation.
- 20 All of the descriptions suggest a team that has full control of its decision-making processes, is cohesive and productive and focuses its energies on goals and task activities.
- 21 Organisational development changes a firm as a whole by changing its structure, technology, people and/or tasks. If part of such an intervention was the introduction of a PA system based upon BARs, it would only make sense to introduce it at the unit level.
- 22 TB is the best choice because it concentrates on improving problem-solving processes in work groups. A T-group approach is too personal and the other two are wide of the mark.
- 23 The purpose of TB is to help existing or new work groups to improve their performance by tackling real organisational problems and obstacles. In TB, it takes time for group members to work together as a team, and change agents are required. The training group approach tries to enhance employees' understanding of their own behaviour and its impact on others.
- 24 By demonstrating its interests in employee expertise to solve problems in customer service delivery, management has created a powerful source of dissatisfaction with the status quo. Its use of participation shows employees that they need not fear change.
- 25 Quality circles meet to discuss product quality. Project groups are set up to do certain project work. TB groups diagnose how they work together and plan changes to improve their effectiveness. The purpose of bringing people together in a T-group is to increase their self-awareness and sensitivity to others.
- 26 The four solutions all relate to the Managerial Grid concept of leadership. Team management relies on interdependence through a 'common stake' in the organisation; organisation management aims at balancing the need to get the work done with maintaining morale at an adequate level; authority-based management creates work conditions that minimise participation. Country club management involves thoughtful attention to the needs of people, because such satisfying relationships are expected to lead to a comfortable, friendly, organisational atmosphere.
- 27 Locus of control refers to the belief that personal actions will or will not result in certain outcomes. Research has shown that, partly because they are greater risk-takers and show greater entrepreneurial behaviour, individuals with an internal locus of control have higher incomes, hold jobs of higher status and advance more

rapidly in their careers. It has also been found that upper-class individuals indicate a more internally oriented locus of control.

- 28 The announcements made by managers of the acquiring firm are a repudiation of the methods, values and beliefs of employees in the firm acquired. This toxic brew signals culture crash/clash ahead.
- 29 In the matrix design, a project/product design is superimposed on a functional form, thus blending an emphasis on market changes with management and technical expertise in given product or project areas. A matrix can be flexible and respond quickly to customer and production-related pressures for change.
- 30 These unfreezing activities create dissatisfaction with the status quo.
- 31 As a matter of ethics, change agents are obligated to lay out the process of planned change to clients. If managers wish to ignore the planned change paradigm, then they should hire a consultant.
- 32 Role ambiguity is uncertainty about the requirements of a job or task. These requirements could refer to methods or outcomes. Only choice D offers a contribution in these two areas because it suggests that the manager make clear what behaviours are related to success (and failure) on the job. Choice A, while somewhat helpful because it gives the employee some control over matters of when he will work, does not clarify behaviours related to successful methods and outcomes.
- 33 Medical research on Type A (B) behaviour suggests that underlying personality traits that are related to heart disease and other 'ailments of adaptation to stress' are hostility directed towards others (and self) and the inability to maintain confidence in one's abilities. Anger and self-doubt mixed with the classic Type A characteristics seem to be a toxic stress brew.
- 34 Intermittent explosive disorder is a character defect that produces aggressive behaviour that is out of proportion to the real threat (distressor) in a situation. The person is insecure but he thinks he is in control of the situation so he reacts with aggression rather than fear (or flight).
- 35 Insecure and hostile Type As cannot become Type Bs because they subconsciously think they are inferior to those around them. Deep therapy that examines the sources of the inferiority complex may lead to the individual in question to more controlled or normal functioning in social and job settings. Few individuals are successful in changing their characters to this extent however. If the person in question is a high level manager he or she may exhibit a personalised need for power.
- 36 Shareholder and executives' interests are aligned when executive compensation is based on improvements in the firm's net income and total market valuation. If a firm's profitability and market value rise faster than those of its industry rivals, then shareholders will approve of compensation schemes which reward executives based on hitting net income and share price targets.

- 37 Since temporary workers do not have any reason to be loyal or committed to their short-term jobs in a company, they are less likely to suggest creative improvements. Furthermore, they do not have the depth of job experience necessary to detect deficiencies in processes and suggest improvements. It simply takes time for employees to see the defects in the systems under which they work.

## Section B: Essay Questions

- 38 Job satisfaction is a function of employees' equity perceptions of their experienced work outcomes. The satisfaction facets are: pay, working conditions, colleagues and supervisors, career prospects and the intrinsic parts of the job itself. Levels of satisfaction fluctuate depending on individual and organisational factors. Individual factors are years of service and employee expectations. As individuals grow older their job satisfaction rises although it can dip as retirement nears. There is also a dip at the beginning of a career because the novice expects too much from his first job. Added job experience and familiarity with the firm's culture cause his initial job dissatisfaction to vanish. Expectations about career progression may also affect job satisfaction. If pre-work information about career prospects obtained from personal and official sources raises expectations beyond those an employer can deliver, then he will be dissatisfied. Worries about economic security also reduces employees' job satisfaction.

There are a number of organisational determinants which affect employees' job satisfaction. For example, if supervisors use employee engagement in decision-making, this may improve employees' satisfaction; but there are situations where this style of management may not be appropriate. By applying the diagnostic questions of the Vroom–Yetton–Jago normative model, managers can select the appropriate level of employee participation in decision-making for most situations. Another organisational determinant is the improvement of individual workers' jobs to make them more meaningful. Few would deny that having the opportunity to do interesting and creative work and being given achievable goals to aim for are important causes of job satisfaction. However, such programmes may undermine competitive advantage because they are too expensive to implement and they often preserve a slow and unwieldy chain of command. For this reason, firms may delay and use SDTs. These innovations increase training costs which decline with time because administrative overhead falls through downsizing.

The administration of rewards also strongly influences job satisfaction. Extrinsic rewards such as pay rises, promotion, recognition, status and job security operate differently than intrinsic rewards, such as feelings of competence and pride in the quality of workmanship. The use of a variety of rewards and how employees react to them is governed by employees' equity comparisons. All workers are highly sensitive to both procedural and distributive justice in reward administration. Employees can react to reward administration by being benevolents, equity-sensitives or entitleds.

The job satisfaction experienced by many employees has been affected by firms that downsize. Many of these dissatisfied workers think they will lose their livelihoods. Delaying, outsourcing, and offshoring of jobs also threaten employees' job satisfaction and their organisational commitment.

However complex job satisfaction is, managers need to monitor it because it reflects the firm's resilience and adaptiveness. Job satisfaction measurement methods are indirect in nature because satisfaction can only be inferred; it is both intangible and personal. The methods include observation of employee behaviour, exploratory interviews with employees and questionnaires. A widely used measuring procedure is the Job Description Index which measures variables such as the design of current job, pay, promotion opportunities, interpersonal relationships and supervisory style.

- 39 A work group is a collection of two or more employees who (a) interact with each other, (b) perceive themselves as sharing several common interests or goals and (c) come together to accomplish a meaningful activity. There are two types of work groups: formal groups which carry out recurring tasks (or, in the case of project groups, a specific task and then the group is disbanded) and informal groups having members who come together to satisfy needs that are unmet by formal group membership.

Individuals join groups: (a) as a means of satisfying social or affiliation needs to belong to something or share in something; (b) as a means of working with others who have a record of problem-solving success in group activities; and (c) as a means to satisfy important personal needs such as anxiety reduction, affirmation of values, beliefs and attitudes and economic security.

Most people find it easier to define themselves in terms of their group affiliations. Therefore, in conversations they describe themselves by referring to group properties like its socio-economic status, objectives, gender and racial make-up.

Cohesive, SDTs exhibit solidarity, a high degree of interaction among members, strongly developed norms that support team goals and decision-making processes, well-liked and admired leaders and conformity. Cohesive groups have energetic, highly motivated and committed members who have a lower incidence of absenteeism. Members of cohesive groups are satisfied and they willingly help each other. Cohesive teams are not necessarily productive. Their productivity varies to the extent that the team accepts or rejects the firm's goals. If group norms and organisational goals are compatible, then cohesiveness generally aids performance and competitive advantage. If they are incompatible, then the opposite occurs. Incohesive groups tend to have negative qualities, including indifferent members who are unable to achieve goals and lack of dynamism. Members of these groups also exhibit lateness and absenteeism.

To make team cohesiveness a component of competitive advantage, managers have to start with the basics. First, teams should have members whose personal characteristics match team task demands. Training should support the formation and use



of SDTs by the organisation. Second, managers should consider the size of SDTs and how it can create interpersonal conflict, slow decision-making and make task coordination difficult (all process losses). Some of these problems can be solved through the use of training and advanced communications systems that provide timely quality and productivity information to teams. Third, managers who set clear goals are going to capitalise on this important source of team motivation and cohesiveness. Related to this idea is the creation of an external threat which can be used as motivational tool. The manager should be careful to ensure that symptoms of groupthink do not occur in the team however. Finally, conducting 360-degree PA and using team-based incentives will make team cohesiveness a pillar to improved competitive advantage.

- 40 First, these corporate arrangements have flourished in Japan because of a supportive government industrial policy that protects the domestic market with high entry barriers and very high prices for Japanese consumers. This practice has fuelled keiretsu profits which they then plough into global expansion. All of this progress was made possible by Japanese consumers who paid very high prices and saved large amounts of their incomes (and subsidised low corporate interest rates).

Current global economic forces (the rise of India, China and other Asian tigers) are weakening the competitiveness (and profitability) of the *keiretsu* and putting downward pressure on their profit margins. Domestically, Japanese consumers are awakening to the joys of price comparison shopping and retailer discounts. An extremely strong yen has also forced the *keiretsu* to build production facilities in America and Europe to avoid the erosion of profits that occur if the keiretsu are forced to repatriate them in yen. A side-effect of building production facilities on foreign soil is that the *keiretsu* are forced into direct rivalry in markets where their competitors are strong and cultural barriers must be overcome.

Declines in *keiretsu* profit margins pressure long-standing traditions such as employment for life and friendly supplier relations. Japanese workers and managers are, for the first time, experiencing the effects of lay-off-induced economic insecurity. They have to become more self-sufficient and many are starting their own firms. Suppliers to the *keiretsu* are responding to their squeezed (and dismal) profit margins by becoming more entrepreneurial (finding new customers, developing new products, forming strategic alliances with foreign firms and improving service offerings).

These forces are transforming the Japanese economy and its private sector. In the short run, there will be more business failures and higher unemployment. Both of these outcomes will trigger more government spending on social programmes and economic development. Japanese consumers will become more price-conscious and they will come to expect discounts and wider product selection. In the long run, the economy will become more competitive and Japanese consumers will enjoy a rise in their purchasing power and a wider selection of domestic and foreign-made goods.



## Section C: Optional Case Study Practice

### Case Study Multiple Choice Questions

- 1 The programme emphasises System 4 (Theory Y) principles, such as job enrichment, SDTs and employee empowerment (engagement), which are unrelated to SM.
- 2 The effects would be noticeable first at the job security level for employees. All of the other choices represent outcomes that take longer to occur because they are more complex or they involve higher-order needs.
- 3 Activities 5 and 6 are complex tasks that teams perform and were once done by supervisors and managers. In this respect, they represent vertical job loading or increases in job depth for SDTs.
- 4 Activity 1 removes economic insecurity for employees.
- 5 A cross-functional task-force fits best because the process of planned change is unfolding in this episode. Also, the membership of higher-level plant personnel separates this group from a project team.
- 6 Activity 4 represents the related principles of distributive and procedural fairness. Plant personnel know that work-force employment issues are not always handled correctly. So a mediation process will be installed.
- 7 This choice exposes the principles of SM present in a System 1 (Theory X) organisation. Management in this case is trying to start a System 4 organisation from scratch.
- 8 In a start-up operation management is not encumbered by existing methods, procedures and organisational culture as it would be in a programme designed to change an existing operation.



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