University of Navarra

FHN-216-E
0-491-010
Rev. 2/05

Business or Enterprise? Different Approaches to the Management of People in Organizations

Every business enterprise, like any other kind of human organization, is made up of a group of people whose actions are co-ordinated to obtain certain goals. These goals are of interest to all the people in the organization, although their interest may spring from different sources. For an organization to exist, the actions must be coordinated and directed towards the attainment of a goal or aim. There are many modes or styles of directing this activity, but all of them presuppose – with or without our being conscious of it – a basic conception about people, and about their needs and motives.

We would all agree that people work in order to satisfy their needs. Disagreement arises when we try to list these needs.

In a world as practical as the world of economics, in which business subsists, we tend to believe that what common sense tells us about human needs is sufficient. Moreover, since business is dedicated to the production of goods and services which satisfy human wants, it seems logical that if a person joins an enterprise, he or she does so in order to obtain a share of those goods and services, or its economic equivalent.

This technical note was prepared by Professors Mª Nuria Chinchilla and Juan A. Pérez López. September 1990. Revised in February 2005.

Last edited: 5/8/09

These are the basic ideas – the basic model – we have, and on which we act, even though we may not be fully aware of it. Thus, if we ask a person why he works for a company, he will most probably reply: “To earn money”. But if we make him meditate a little longer upon his work experience, he will readily admit that he has not told us the whole truth. There are many other reasons which induce him to do that particular job rather than another. He would then give other reasons such as: the specific job conditions, the management style of his boss, the type and quality of the products or services that the firm offers its customers, the opportunities for learning, the challenges of his work, etc.

There are three basic models or conceptions about people and organizations which underlie the most varied management practices.

Table 1 sets out the basic concepts we shall be discussing in this note.

Table 1
Conceptions or Models of People and Organizations

Conception	Model of organization	Model of person	Type of motivation	Dimension of organization	Talent of manager
Mechanistic	Machine	Stable system	Extrinsic	Efficiency	Strategist
Psycho-sociological	Social organism	Ultrastable system	Extrinsic Intrinsic	Efficiency Attractiveness	Strategist Executive
Anthropological	Institution with values	Freely adaptive system	Extrinsic Intrinsic Transcendent	Efficiency Attractiveness Unity in values	Strategist Executive Leader

The Mechanistic Model

In the mechanistic model, the question of how to motivate people is seen as a matter of what and how much has to be given to a person in order for him to decide to do the job the organization wants him to do. This model is based on the belief that money is the universal motivator, and thus the problem of motivation is reduced to the quantity of incentives to offer.

In fact, all relationships between people are reduced to relationships between roles or functions, and the organization itself is seen as a more or less complex machine that produces things and consumes things. The machine’s consumption is determined by the system of incentives or compensations, which are linked as closely as possible to the system of operations, so as to optimize the production-consumption ratio. According to this model, the sole aim of business is efficiency, the maximization of profits; and the only recognized motivating mechanism is a system of rewards and punishments, popularly known as the carrot and the stick.

It is obvious, therefore, that the mechanistic view of a business is a very limited one. In fact, it sees only the tip of the iceberg, that is, the formal organization (the roles, procedures, systems...). It ignores all the informal aspects, such as the needs, motives and interactions among members of the organization, which are as important as (or perhaps even more important than) the formal aspects for the smooth running of the business.

This whole set of realities that the mechanistic model passes over as though they did not exist is known as the spontaneous system or system of informal relationships. In order to understand these concepts better, the business organization is sometimes compared to the human body. The formal system of the organization is the skeleton (its most rigid part), while the spontaneous system is the muscles (that allow it to adapt itself to circumstances and develop).

We all know that reality is much more complex than the narrow vision of things presented to us by this model. If only the norms of the formal system are followed, an organization may become paralyzed. A clear example of this is the so-called "work to rule", in which employees perform their jobs strictly according to the book. In spite of this, many decisions at management level in quite a few businesses are based on precisely this incomplete vision of organizations and the people in them.

An organization that is managed with this basic philosophy should, strictly speaking, be called a *financing concern*. It will continually change direction following the dictates of the environment, using opportunist adaptation strategies. These strategies seek positive financial results in the short run at the expense of the organization's objective – the product or service – which deteriorates, with the consequent loss of competitive advantage.

Organic/Psycho-sociological Model

The psycho-sociological model sees the firm as a social organism in which people participate not only to obtain the incentives offered by the firm, but to satisfy other needs through interaction with other people within the business itself.

This model first appeared in the United States on the basis of the Hawthorne experiments, and by the 1940s the most perceptive minds in both the academic and the business world had abandoned the mechanistic model because it was too simple and naive. It was increasingly clear that one had to search deeper to find the reasons why people work and, consequently, the needs man tries to satisfy through his work.

A clear proof of this new consciousness is Chester I. Barnard's work: "The Functions of the Executive", possibly the book that has had the greatest influence on modern ideas about human organizations. In this book, we find assertions such as this:

> "I have found it impossible to go far in the study of organizations without being confronted with a few questions which can be simply stated. For example: "What is an individual? What do we mean by a person?" The temptation is to avoid such difficult questions, leaving them to the philosophers and scientists who have been

> debating them for centuries. It quickly becomes apparent, however, that even if we try not to give definite answers to such questions, we cannot evade them entirely. We answer them implicitly in whatever we say about human behaviour; and, more importantly, all sorts of people, especially leaders and executives, act on the basis of fundamental assumptions or attitudes regarding the answers to these questions, although they are not usually aware of the fact."

In this new conception of organizations as organisms, the human person is seen as being motivated not only by extrinsic factors such as rewards, but also by intrinsic ones such as learning, responsibility, sense of achievement, etc.

Thus, an organism is not only concerned with the *objective side* of actions (that is to say, with the results of labor in economic terms, with efficiency, and with the satisfaction of the employees with the incentives offered). It is also concerned with the *subjective side* (that is, with the attraction it has for the person who does the work, with the satisfaction derived from the work itself). These latter factors affect the motivation of the organization's members and, therefore, the future survival of the organization. According to this model, the ultimate aims of the organization are twofold: efficiency and attractiveness, which is a step towards a more complete view of reality than that proposed by the mechanistic model.

Nevertheless, at bottom, this conception of the business enterprise implies a utopian conception of man and society. This can at times be more dangerous than a merely mechanistic mentality that totally ignores the psycho-sociological and moral aspects of human behavior. Psychological manipulation, however well intended, can be more destructive than the search for straightforward efficiency following strictly technical criteria.

A further danger of this conception of the company is that managers – who work in an environment that has little time for *utopias* – might interpret the ideas of the organic model in a mechanistic sense. This can lead them to make concessions on the attractiveness front (ensuring that people are as satisfied as possible doing what they have to do), provided efficiency is not seriously affected. Naturally, as soon as the competitive environment becomes tougher and efficiency more difficult to achieve, the first thing to be thrown overboard, as if they were useless ballast, are the policies which had been established to keep people happy.

Anthropological/Humanistic Model

In this model the organization is seen as an *institution* whose purpose is not only to achieve efficiency and attractiveness, but also *unity* or the *identification* of its members with the organization and its objectives. This gives sense to every human action that the organization coordinates. In the mechanistic model the only consideration was "what the company does". In the organic model the important question was what the company does and "how" it does it. In an institution, apart from these two aspects, there is the further consideration of "why" the company does what it does.

The anthropological model sees the organization as an institution that embodies certain concrete *values* that should permeate all its operations. What matters is what is done, not what people say ought to be done. In this sense, every organization has certain explicit or implicit values which become manifest in the course of the organization's life through the decisions that are made in all sorts of circumstances. Depending on what these values are, they prompt people either to identify with the objectives of the business or to reject them.

Up to this point, we have seen that motivation can be derived from the pursuit of consequences that are extrinsic to the individual action (incentives) or from the pursuit of consequences that are intrinsic to the action (the satisfaction of a job well done). It is easy to see that personal actions have other consequences that are not covered by any of the above categories but nonetheless constitute a powerful motivational force. This is the drive that moves a person to act for the sake of the consequences that his action will have on *the needs of another person*. This third type of motivation has been called *transcendent* motivation.

Thus, a complete view of human motivation must include these three types:

- *Extrinsic:* Any kind of motive that is attached to the fact of completing an action by someone other than the person who gets the job done. For example: remuneration or praise for one's work.
- *Intrinsic:* Any result that completing an action has for the person who does it and that depends only on the fact of performing that action. For example, the knowledge acquired or the pleasure of doing it.
- *Transcendent:* The results that the action has for other people (i.e. other than the one who performs the action). For example, helping a colleague or giving good service to a customer.

Normally, every action involves each of these three types of motive. Take the case of a salesman. He wants to sell because he wants to earn some money. But he is also looking for something he likes doing and that offers a challenge. If he is a good salesman, he will also think of the service to the customer, of the fact that he is helping the customer resolve a problem that he (the customer) has.

It is well known that the worst thing that could happen to a group of salesmen is that they lose confidence in the product they are selling and reach the conclusion that the customer would be better off buying a competitor's product. One then speaks of "problems of morale", "lack of motivation", etc. In fact, a large part of this frustration is nothing more than dissatisfaction at the level of transcendent motives. Knowing that what we do is *useful,* that it is appreciated, that it is needed, is a significant motivational factor.

Naturally, the relative importance of each of these three types of motive – extrinsic, intrinsic, transcendent – will be different for each individual. Thus, we can argue that people's motivational structures can be of higher or lower "quality". Any professional, and therefore any businessman or woman, does what he does to earn money, to do something that he enjoys doing and is qualified to do, and also to render a service and do something good for those who work with him.

There is a curious prejudice in our culture which says that a good doctor is one who thinks of his patients – even though he charges a fee – whereas a good businessman can can be one who thinks only of the money he will earn from what he does. And there obviously are doctors, teachers and businessmen who seem to think only of the money they are going to earn and to be unaware of any other type of motive. They all suffer from the same sickness: materialism. From a scientific point of view we can predict that if they are not cured soon, they will become more and more dissatisfied on the level of non-material needs and this will have very serious consequences for them and to a lesser degree for those around them.

The motivational quality of a person is determined precisely by the capacity of that person to be moved by each of the three types of motive. Even in everyday language we say someone is "very human" if he always considers other people and is always ready to help them, which indicates that his transcendent motives are dominant. Conversely, we say a person is very selfish or "inhuman" if he seeks only his personal satisfaction, without considering the harm he might do or the difficulties he might cause for others.

A complete theory of human motivation – one that recognizes that the motives for carrying out any action can only be understood in terms of the three components we have talked about above – requires a profound change in our way of thinking about organizations. This is the anthropological or humanistic outlook that underlies the concept of the business enterprise as an institution, not just a simple machine or social organism.

I have dealt with these conceptions at some length because they lie at the root of the different approaches to people management in organizations. Moreover, they help us recognize the basic assumptions that govern our own ideas and which model we identify with more. Obviously, no one wastes time explaining exactly what model he has used to reach a given decision, but it is extremely important to know whether we are working with an incomplete model on account of the practical consequences of using such a model.

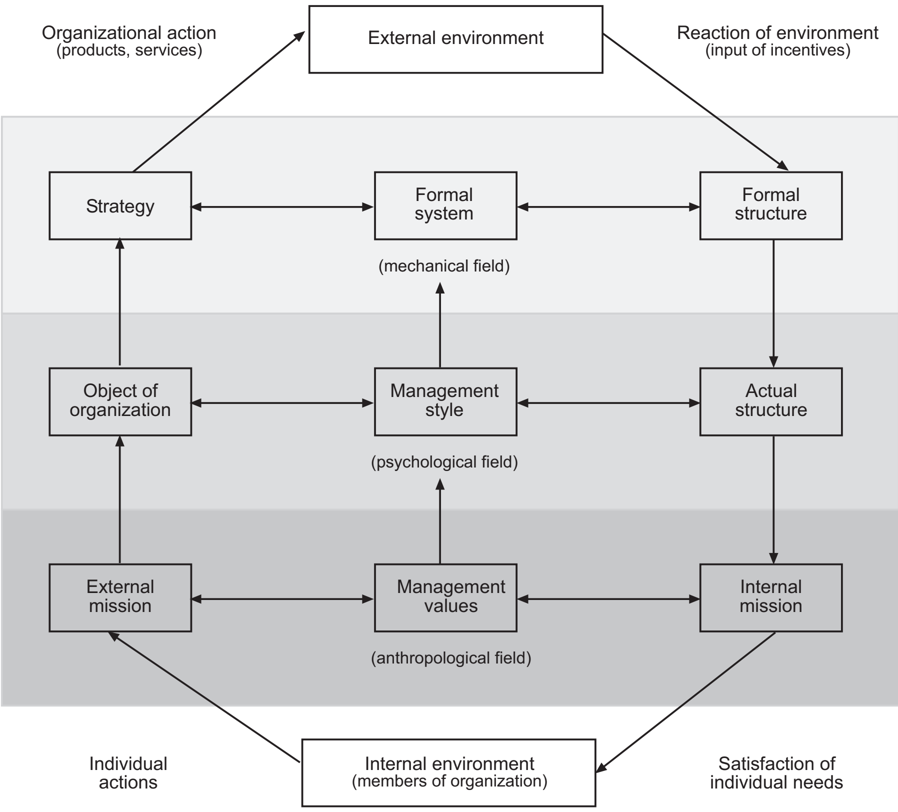
If a person tries to manage an institution by applying rules that would be valid when working with a machine, the result is likely to be total chaos. It would be like a child applying the rules he uses to drive his pedal car to driving a full-size bus.

Furthermore, competency in managing people includes the ability to maintain satisfactory human relations while making decisions aimed at accomplishing business objectives. That competency is directly related to the model of the company or the organizational theory that one uses.

Table 2 shows the minimum set of variables required to represent a company within the anthropological paradigm ("institution with values": group of free people who may learn both positively and negatively).

Table 2

Representation of the Company within the Anthropological Paradigm



In the table, we also see the mechanical and psycho-sociological variables, which are the only ones taken into account in the other two paradigms: mechanistic ("machine": stable system that does not learn) and psycho-sociological ("social organism": ultrastable system that only learns positively).

Those variables may be interpreted as follows:

- *Formal structure (organization chart)*. Formal roles, functions or jobs assigned to people when designing the organization and allocating tasks.

- *Formal system (management systems)*. Includes selection, compensation, promotion systems, etc. Also, the systems needed in order to implement (structure and plan) a particular strategy and ensure that tasks are carried out (control).

- *Strategy*. Organizational actions aimed at keeping organizations alive and in a position to fulfill their mission, adapting their actions to the state of the external environment. Depending on their function, we may distinguish between financial, marketing, personnel strategies, etc.

- *Actual structure (members of workforce)*. Specific people who perform the formal functions or roles. Their cognitive and motivational qualities must be the right ones for the tasks assigned to them.

- *Object of the organization (distinctive competency).* What the organization is able to do well (products or services). It depends on the skills and attitudes developed by the organization's members – sometimes over long periods – in performing their tasks. It is closely related to intrinsic and transcendent motives. Merely by adopting an opportunistic adaptive strategy, for example, a company may start to make inferior products – even if in doing so it makes more money – and allow the entire production and sales organization to become demoralized.

- *Management style.* The way the company's operations are conducted and decisions are made, in order to help the organization's members to develop the necessary skills and attitudes to improve the distinctive competency. Two processes determine management style: communication (explaining why employees must follow a certain line) and participation in the various stages of decision making (defining the problem, generating alternatives, evaluating the alternatives in the light of certain criteria, deciding, and preparing an action plan).

- *External mission.* Real needs of external customers that the organization seeks to satisfy with its products and services.

- *Internal mission.* Real needs that the organization seeks to satisfy in its members as producers; that is, insofar as their actions determine the quality of the products or services required in order to achieve the external mission. It refers to the development of the motivation by intrinsic and transcendent motives that the organization tries to foster in its members through appropriate learning.

- *Management values.* These are expressed in the way people are treated in the organization and the criteria that are used in decision making. They include what the organization understands by real needs when it comes to making decisions and how priorities are established among them (which ones are sacrificed and to what extent in order to satisfy others).

As may be seen in the diagram, three variables are needed to represent the relationship of the organization with the external environment: external mission, object and strategy. A further three are needed to represent the relationship between the organization and its internal environment (personal characteristics of the individuals who make up the organization): internal mission, actual structure and formal structure. And a third group of variables represents the properties of the organization as such: management systems (which relate strategy to formal roles), management styles (which relate the company's object to the specific people who work in it) and management values (which relate the external mission to the internal mission).

As we said earlier, in the anthropological model or paradigm the company is seen as an institutuion – a human reality – whose ultimate purpose is to organize people's abilities to satisfy those same people's needs. And any realistic vision of the company will recognize three characteristic dimensions that define a company's quality, its *ability to do things* through the learning it facilitates in its members with respect to operational capabilities, and its *ability to know what things must be done* in order to satisfy the *real needs* of its *consumers* (external mission).

In that sense, we can say that the company is an *instrument that serves* to satisfy human needs *by raising the motives* of the people who belong to it.

It is often repeated that the company is a place where people must learn and that it is the job of managers to teach their employees. Very likely, many of those who say that do not realize just how true it is, and how deep the learning must go for the company to become stronger and more united. In companies, people need to learn more than just the technical side of their profession; they also must learn to *be professionals*, to turn their technical knowledge into an instrument to serve others. This latter kind of learning – motivational learning – is the *primordial function of true leadership* by those who manage the organization.

Let us now see what managerial functions must be present in every human organization.

The Managerial Function

In every organization there are two types of activities: programmed and managerial activities. The latter are those that supply all that is not provided for in the programmed activities in order to solve problems. Management is responsible for the smooth running of the organization. The management task can be broken down into the following three areas:

- *Strategic activities:* Formulating the organization's objectives and targets.
- *Executive activities:* Specifying and communicating the activities that each person must carry out in order for the organization's objectives and targets to be achieved.
- *Leadership actitivities:* Motivating people so that they in fact carry out those activities.

To perform these tasks a manager needs different capabilities and skills in each case. Thus, we can distinguish between three different dimensions of the manager: his quality as a strategist, his quality as an executive and his quality as a leader. Obviously, a manager may be extremely good in one of these aspects and not so good in another. Also, an organization may need one type of talent more than another at any given moment or under certain circumstances. Any attempt to describe the "ideal" manager is therefore generally useless. Nevertheless, if there is one distinctive trait that a manager should have, it is that of leadership. Without this trait, the business could easily disintegrate.

Obviously, the concept of management we are developing here is based on the only comprehensive view of business reality, namely that derived from the anthropological/humanistic model. The other models are merely special cases that reduce the management function, depriving it of some of its aspects, and that are therefore of limited validity. The mechanistic theories focus exclusively on the technical component of management; the psycho-sociological theories look at the technical and psycho-sociological components. Only the anthropological model embraces the three components of the management function: technical, psycho-sociological and ethical.

Let us take a closer look at each of the three dimensions of management.

The Manager as a Strategist

The strategic dimension of management seeks the achievement of good results on the level of the *efficiency* of an organization. It also involves discovering *opportunities* in the environment that enable the organization to generate high value through its operations. It is a matter of finding a *saleable* product.

Opportunities exist; they are not created by management. Nevertheless, the ability to recognize a given situation – which everyone shares – as an opportunity presupposes an ability to see certain aspects of reality that most people fail to see. Many people are unaware of the immense creative energy that lies at the origin of so many enterprises. Once an enterprise is under way and proving successful, it is easy to get the impression that “anyone could have thought of it” and that the entrepreneur “was lucky or had certain privileges”. Unfortunately, it is rarely appreciated that many a success story is founded, purely and simply, on the outstanding human capacity that enabled a particular individual to do something that no one would otherwise have done.

Thus, a strategist is one who is capable of making good use of the opportunities afforded by the environment in order to do business. Normally, we say that a person is a *good businessman*. Every company manager should be a strategist to at least some degree.

This dimension predominates in the people who in the business world are known as “pure entrepreneurs”, meaning that these are the sort of people who like starting new enterprises, but do not want them to turn into large businesses. They tend to leave the business before that can happen and to launch some new enterprise. Some of them are aware that they lack the executive capabilities needed to run a large organization; others simply do not like the idea of creating a large organization because they feel that it will get out of hand or because it causes problems they feel unable to resolve. It may also be that they do not realize their own limitations until they have failed as executives. Their success as entrepreneurs may have led them, through sheer inertia, to allow the organization to grow to the point where they need to show excellence in a dimension of management other than that which enabled them to succeed in the first place.

The Manager as an Executive

A manager’s executive skill is demonstrated in the ability to discover the talents and skills of the people he manages. He is able to harness the internal motives of his subordinates by designing tasks in a way that stimulates this level of motivation. A manager with great executive capacity tends to see the organization as a living organism that grows and learns. He is less concerned with what the organization does than with what it is capable of doing. He discerns a potential in people that they themselves may not be aware of, then organizes and distributes tasks in such a way as to make the saleable product producible.

Executive ability presupposes outstanding skill in communicating difficult objectives to a large number of individuals and requires an in-depth understanding of the weaknesses and positive traits of each individual. Of course, a manager with executive ability will obtain significant results in what we have called the dimension of *attractiveness* of an organization.

The Manager as a Leader

A manager with leadership quality is not only concerned that things be done in a way that makes the organization efficient. Nor is it enough for him that these things be more or less appealing to those who have to do them. Above all, he wants people to develop their full potential and to internalize the organization's mission. A leader tries to maintain and cultivate the unity of the organization. He is therefore concerned with problems such as developing a sense of responsibility among his subordinates, that they be capable of acting out of a sense of duty, and so on. Basically, he tries to teach his subordinates to judge their actions according to how those actions affect other people. For this reason, the saleable and producible product must also be useful in that it satisfies customers' *real needs*.

Just as the strategic and executive dimensions presuppose certain natural abilities in the individual that may be developed through the educational process, the existence and development of the leadership dimension depends solely on the individual. Leaders are not born. People become leaders through their own personal effort, in a long process whereby they gradually acquire the capacity to promote the good of others while overcoming their own self-centredness. We shall now see just how difficult a task this is for a manager.

If a leader is someone who embodies certain values, makes other people acknowledge those values and identify with the mission of the enterprise, then it is obvious that these values cannot be just any values. When Louis XIV said "I (...and my wishes) am the state", it was difficult for anyone else to identify with his mission. There is really only one sort of values that people identify with: values based on the idea that individuals and their development are what matter most.

The leader operates on a level of reality that constitutes the realm of *human freedom,* the level we have called transcendent motivation. A leader is not satisfied – as an executive or strategist might be – if a subordinate obeys him and obtains the required results, but out of fear, or because he expects a reward, or for any motive other than the *real value* of whatever it was he was asked to do.

Given that the motives that lead a person to act in one way or another cannot be imposed from outside, and that no one can do all that is necessary to get another person to act for transcendent motives, what can a manager do to improve the motivational structures of the people in his charge and thus also the unity of the organization?

1. *Not prevent his subordinates from acting for transcendent motives if they want to do so.* It may seem straightforward, but this is not an easy condition to fulfill, as we find extrinsic, intrinsic and transcendent motives in *conflict* within ourselves. Any manager who pays too much attention to maximizing efficiency will provoke a great number of situations in which his subordinates will find it very difficult to maintain their transcendent motivation. If, as we have said, the company is not a stable system but a dynamic reality engaged in a constant learning process, at whose cost is the maximization of results to be achieved? Who picks up the tab?

Such conflict situations can be isolated occurrences (a supervisor reprimands an employee for wasting time and losing sales when what the employee was doing was trying to help a customer as best he could) or they can be institutionalized in the form of a system whereby incentives are tied to individual performance targets.

2. *Teach his subordinates to consider the consequences that their actions might have for other people.* The fact is that transcendent motivation is a fairly powerful force in human beings. Very often, a small conscious effort is all that is needed to set it in motion.

It is not difficult to appreciate the amount of dedication a manager needs in order to teach his subordinates on this level. His influence obviously cannot extend to more than a few people, given that the process requires frequent and intense personal contact. Nevertheless, the training a leader gives his subordinates consists mainly in teaching them to act in the same way toward their own subordinates. If we think about it, this “cascade” procedure is the only way to diffuse, within an organization, a whole management style and a positive culture that will make the company stronger and more secure in the face of any adversity.

3. *Set an example.* This is the necessary condition which must be fulfilled if the above two points are to have positive results. Insofar as the manager himself acts from transcendent motives, he will be doing the best he can to persuade others to do the same.

Conversely, if a manager’s dominant motives are of a different nature, it will be extremely dangerous for him to appeal to his employees’ transcendent motives, since his own real motives will be discovered sooner or later – usually sooner than he thinks – and people can react unpredictably when they feel that they have been deceived. In fact, at the base of all this is the principle of reciprocity in interpersonal relationships. This is the foundation on which trust is built and developed day by day.

Setting an example is also a necessary condition for securing authority, which is a leader’s main strength. Let us remind ourselves of a very useful distinction that we have inherited from Roman Law and that characterises two very different ways of influencing the behavior of others. Formal *power* – the power conferred on a person by virtue of his position in order that his orders be carried out – is one thing. The *authority* that person may have, whereby his orders are carried out without coercion, is quite another.

Authority, or personal power, is based on the free acceptance, on the part of those who obey, of the orders given by a superior.

Every manager has a certain amount of both formal power (he can raise salaries, fire people, etc.) and authority or personal power (his subordinates may feel confident that his orders are for everybody's good and are therefore worth obeying).

Setting an example is the only way a manager can win authority in relation to his subordinates. A person has authority over another only if the other person *trusts* him. It is only when one person knows the other person's *intentions* and believes that the latter is not indifferent to his own good that a relationship of authority becomes possible. Confidence in the other person's *ability* to make the right decisions is also essential. The best leader is one who uses his power to help people in such a way that they eventually cease to need him.

A manager wins more or less authority according to how well he uses the power at his disposal. Building up authority – like building up trust – is a long process, but once it has been lost, it is difficult to recover. The reason for the loss of authority is invariably the *incorrect use* of power. The ways of using formal power incorrectly can be summed up as follows:

a) *Unfair use of power:* Taking from someone what belongs to him.

b) *Not using power when it is needed:* When a manager fails to make use of his power, he jeopardizes the efficiency and attractiveness that the organization needs in order to survive.

c) *Unnecessary use of power:* Imposing unnecessary restrictions on the freedom of subordinates. This gradually erodes the manager's authority.

Oscar Wilde said (cynically) that man ends up killing what he loves most: assassins do so with a knife and fully aware of what they are doing; honest men do so out of negligence or by omission... Something similar could be happening to our businesses if, more or less knowingly, they are being run as purely financial concerns.

That is why it is important to insist that managing a company is the art of combining the three levels of objectives we have been talking about in this paper: efficiency, attractiveness and unity. We cannot afford to ignore any of them if we want to respond adequately to the problems we will meet as our organization grows and we lead it toward the goal of excellence.