Unit 4 Tutorials: Controlling

INSIDE UNIT 4

The Planning Process

by Sophia

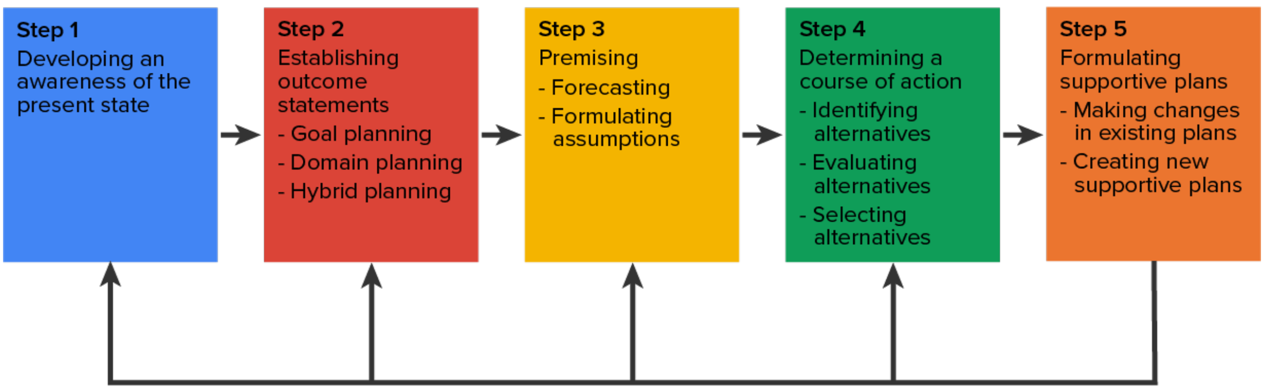
WHAT'S COVERED

In this lesson, you will learn about a five-step model used during a firm's planning and controlling processes. Specifically, this lesson will cover:

1. Step 1: Developing an Awareness of the Present State
2. Step 2: Establishing Outcome Statements
   a. Goal vs. Domain Planning
   b. Hybrid Planning
   c. Consequences of Goal, Domain, and Hybrid Planning
3. Step 3: Premising
4. Step 4: Determining a Course of Action
5. Step 5: Formulating Supportive Plans
6. The Relationship Between Planning, Implementation, and Controlling
   a. The Deming Cycle

BEFORE YOU START

Planning is a process. Ideally, it is future-oriented, comprehensive, systematic, integrated, and negotiated (Lorange & Vancil, 1977). It involves an extensive search for alternatives and analyzes relevant information, is systematic in nature, and is commonly participative (Smith et al., 1986). The planning model described in this section breaks the managerial function of planning into several steps, as shown in the diagram below. Following this step-by-step procedure helps ensure that organizational planning meets these requirements.



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

1. Step 1: Developing an Awareness of the Present State

According to management scholars Harold Koontz and Cyril O'Donnell, the first step in the planning process is awareness (Koontz & O'Donnell, 1972). It is at this step that managers build the foundation on which they will develop their plans. This foundation specifies an organization's current status, pinpoints its commitments, recognizes its strengths and weaknesses, and sets forth a vision of the future. Because the past is instrumental in determining where an organization expects to go in the future, managers at this point must understand their organization and its history. It has been said, "The further you look back, the further you can see ahead" (Edmondson, 2011).

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2. Step 2: Establishing Outcome Statements

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

2a. Goal vs. Domain Planning

Outcome statements can be constructed around specific goals or framed in terms of moving in a particular direction toward a viable set of outcomes. In **goal planning**, people set specific goals and then create action statements (Steiner & McCaskey, 1974).

> ↱ EXAMPLE Freshman Kristin Rude decides that she wants a Bachelor of Science degree in biochemistry (the goal). She then constructs a four-year academic plan that will help her achieve this goal. Kristin is engaging in goal planning. She first identifies a goal and then develops a course of action to realize her goal.

Another approach to planning is **domain/directional planning**, in which managers develop a course of action that moves an organization toward one identified domain (and therefore away from other domains) (McCaskey, 1974). Within the chosen domain may lie a number of acceptable and specific goals.

> ↱ EXAMPLE High school senior Neil Marquardt decides that he wants to major in a business-related discipline in college. During the next four years, he will select a variety of courses from the business school curriculum yet never select a major. After selecting courses based on availability and interest, he earns a sufficient number of credits within this chosen domain that enables him to graduate with a major in marketing. Neil never engaged in goal planning, but in the end he will realize one of many acceptable goals within an accepted domain.

IN CONTEXT

The development of the Post-it® product by the 3M Corporation demonstrates how domain planning works. In the research laboratories at 3M, efforts were being made to develop new forms and strengths of cohesive substances. One result was cohesive material with no known value because of its extremely low cohesive level. A 3M division specialist, Arthur L. Fry, frustrated by page markers falling from his hymn book in church, realized that this material, recently developed by Spencer F. Silver, would stick to paper for long periods and could be removed without destroying the paper. Fry experimented with the material as page markers and note pads—out of this came the highly popular and extremely profitable 3M product Scotch Post-it®. Geoff Nicholson, the driving force behind the Post-it® product, comments that rather than get bogged down in the planning process, innovations must be fast-tracked and decisions made whether to continue or move on early during the product development process (Huang, 2013).

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

BIG IDEA

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

TERMS TO KNOW

Goal Planning
Development of action statements to move toward the attainment of a specific goal.

Domain/Directional Planning
The development of a course of action that moves an organization toward one domain or direction (and, therefore, away from other domains or directions).

2b. Hybrid Planning

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

TERM TO KNOW

Hybrid Planning
The coupling of domain and goal planning.

2c. Consequences of Goal, Domain, and Hybrid Planning

Setting goals not only affects performance directly, but also encourages managers to plan more extensively. That is, once goals are set, people are more likely to think systematically about how they should proceed to realize the goals (Earley et al., 1987). When people have vague goals, as in domain planning, they find it difficult to draw up detailed action plans and are therefore less likely to perform effectively. Research suggests that goal planning results in higher levels of performance than does domain planning alone (Smith et al., 1986).

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3. Step 3: Premising

In this step of the planning process, managers establish the premises, or assumptions, on which they will build their action statements. The quality and success of any plan depends on the quality of its underlying assumptions. Throughout the planning process, assumptions about future events must be brought to the surface, monitored, and updated (Kilman, 1984).

Managers collect information by scanning their organization's internal and external environments. They use this information to make assumptions about the likelihood of future events.

> ↪ EXAMPLE As Kristin considers her four-year pursuit of her biochemistry major, she anticipates that in addition to her savings and funds supplied by her parents, she will need a full-time summer job for two summers in order to cover the cost of her undergraduate education. Thus, she includes finding full-time summer employment between her senior year of high school and her freshman year and between her freshman and sophomore years of college as part of her plan. The other two summers she will devote to an internship and finding postgraduate employment—much to mom and dad's delight!

BIG IDEA

Effective planning skills can be used throughout your life. The plan you develop to pay for and complete your education is an especially important one.

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4. Step 4: Determining a Course of Action

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

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5. Step 5: Formulating Supportive Plans

The planning process seldom stops with the adoption of a general plan. Managers often need to develop one or more supportive or derivative plans to bolster and explain their basic plan.

> ↪ EXAMPLE Suppose an organization decides to switch from a 5-day, 40-hour workweek (5/40) to a 4-day, 40-hour workweek (4/40) in an attempt to reduce employee turnover. This major plan requires the creation of a number of supportive plans. Managers might need to develop personnel policies dealing with payment of daily overtime. New administrative plans will be needed for scheduling meetings, handling phone calls, and dealing with customers and suppliers.

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6. The Relationship Between Planning, Implementation, and Controlling

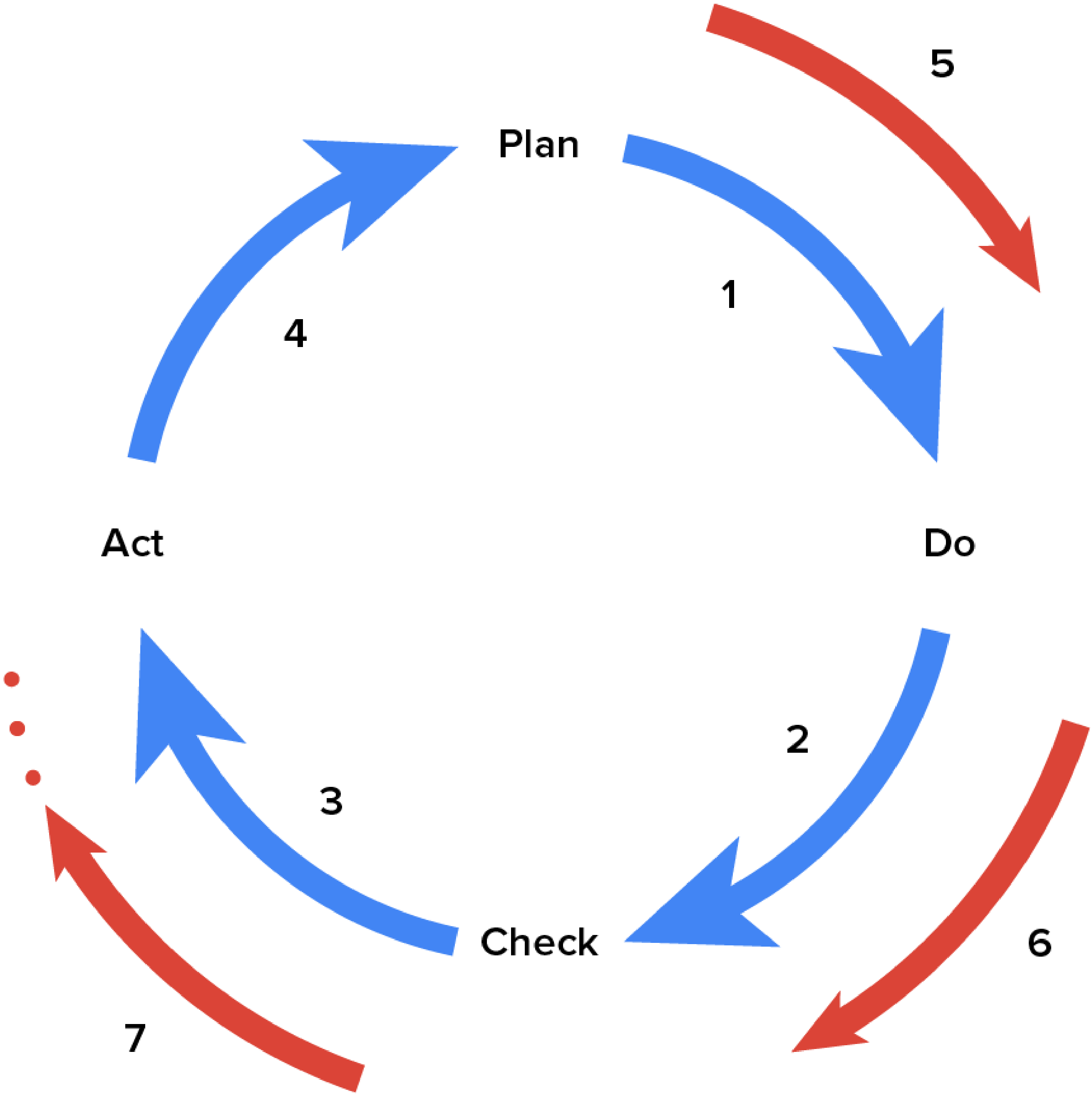
After managers have moved through the five steps of the planning process and have drawn up and implemented specific plans, they must monitor and maintain their plans. Through the controlling function (to be discussed in greater detail later in this Challenge), managers observe ongoing human behavior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

6a. The Deming Cycle

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

It has been noted on numerous occasions that many organizations that do plan fail to recognize the importance of continuous learning. Their plans are either placed on the shelf and collect dust or are created, implemented, and adhered to without a systematic review and modification process. Frequently, plans are implemented without first measuring where the organization currently stands so that future comparisons and evaluations of the plan’s effectiveness cannot be determined. The **Deming cycle**, shown in the diagram below, helps managers assess the effects of planned action by integrating organizational learning into the planning process. The cycle consists of four key stages:

1. Plan—create the plan using the model discussed earlier.
2. Do—implement the plan.
3. Check—monitor the results of the planned course of action; organizational learning about the effectiveness of the plan occurs at this stage.
4. Act—act on what was learned, modify the plan, and return to the first stage in the cycle, and the cycle begins again as the organization strives for continuous learning and improvement.



REFLECT

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

TERMS TO KNOW

Deming (Shewhart) Cycle
A planning model directed toward attaining continuous improvement by integrating organizational learning into the planning process (plan, do, check, act).

SUMMARY

In this lesson, you learned about a planning model that breaks the managerial function of planning into five steps:

Step 1: Developing an awareness of the present state, the first step of the process in which managers build the foundation on which they will develop their plans.
Step 2: Establishing outcome statements, which involves setting goals. You learned that outcome statements can be constructed around specific goals, or **goal planning**, or framed in terms of moving in a particular direction toward a viable set of outcomes, known as **domain planning**; **hybrid planning** refers to a coupling of domain and goal planning. You also learned that among the **consequences of goal, domain, and hybrid planning** is the research-supported outcome that goal planning results in higher levels of performance than does domain planning alone.
Step 3: Premising, whereby managers establish the premises, or assumptions, on which they will build their action statements.
Step 4: Determining a course of action, which involves managers developing an action statement that details what needs to be done, when, how, and by whom.
Step 5: Formulating supportive plans, to bolster and explain their basic plan.

Lastly, you covered **the relationship between planning, implementation, and controlling**, noting that after managers have moved through the five-step planning process and implemented specific plans, they must monitor and maintain their plans through the controlling function. Some organizations have linked their planning and controlling activities by adopting **the Deming cycle**, which consists of four key stages: plan, do, check, and act (then return to the first stage to begin the cycle again).

Best of luck in your learning!

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TERMS TO KNOW

Deming (Shewhart) Cycle
A planning model directed toward attaining continuous improvement by integrating organizational learning into the planning process (plan, do, check, act).

Domain/Directional Planning
The development of a course of action that moves an organization toward one domain or direction (and, therefore, away from other domains or directions).

Goal Planning
Development of action statements to move toward the attainment of a specific goal.

Hybrid Planning
The coupling of domain and goal planning.

Types of Plans

by Sophia

WHAT'S COVERED

In this lesson, you will learn to identify different types of plans and control systems employed by organizations. Specifically, this lesson will cover:

1. Major Plan Categories
   a. Hierarchical Plans
   b. Frequency-of-Use Plans
   c. Time Frame Plans
   d. Organizational Scope Plans
   e. Contingency Plans

1. Major Plan Categories

Managers create different types of plans to guide operations and to monitor and control organizational activities. In this section, we introduce several commonly used plans. The major categories are hierarchical, frequency-of-use (repetitiveness), time frame, organizational scope, and contingency.

1a. Hierarchical Plans

Organizations can be viewed as a three-layer cake with three levels—institutional, administrative, and technical core—each associated with a particular type of plan. The three types of hierarchical plans are strategic, administrative, and operating (technical core). All three hierarchical plans are interdependent.

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

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

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

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

TERMS TO KNOW

Strategic Plans
Hierarchical plans that address an organization's institutional-level needs and attempt to position it advantageously within its task environment.

Operating Plans
Direction and action statements for activities in the organization's technical core.

Administrative Plans
Plans that work to integrate institutional-level plans with the operating plans and tie together all of the plans created for the organization's technical core.

1b. Frequency-of-Use Plans

Another category of plans is frequency-of-use plans. Some plans are used repeatedly; others are used for a single purpose. **Standing plans**, such as rules, policies, and procedures, are designed to cover issues that managers face repeatedly.

EXAMPLE Managers may be concerned about tardiness, a problem that may occur often in the entire workforce. These managers might decide to develop a standing policy to be implemented automatically each time an employee is late for work. The procedure invoked under such a standing plan is called a standard operating procedure (SOP).

Single-use plans are developed for unique situations or problems and are usually replaced after one use. Managers generally use three types of single-use plans: programs, projects, and budgets.

TERMS TO KNOW

Standing Plans
Rules, policies, and procedures about how to deal with issues that managers face repeatedly.

Single-use Plans
Plans developed for unique situations or problems and one-time use.

1c. Time Frame Plans

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

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

TERM TO KNOW

Time Frame Plans

Duration is captured in short-, medium-, and long-range plans (long-range plans are usually less formal, less detailed, and more flexible in order to accommodate uncertainty).

1d. Organizational Scope Plans

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

1e. Contingency Plans

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

DID YOU KNOW

Most contingency plans are never implemented, but when needed, they are of crucial importance.

REFLECT

Define and describe the different types of plans outlined above and how organizations use them.

TERM TO KNOW

Contingency Plans

Plans that deal with alternative courses of action.

SUMMARY

In this lesson, you learned about the different types of plans managers create to guide operations and to monitor and control organizational activities, discussing the **major plan categories** that are commonly used:

- The three types of interdependent **hierarchical plans**—strategic plans, which address the organization's institutional-level needs; operating plans, which provide direction and action statements for activities in the organization's technical core; and administrative plans, which work to integrate institutional-level plans with the operating plans and tie together all of the plans created for the organization's technical core.
- **Frequency-of-use plans**, a category comprising plans that are used repeatedly (standing plans) and plans that are used for a single purpose (single-use plans).
- **Time frame plans** capture an organization's need to address the future, reflected in short-,

medium-, and long-range plans.

- **Organizational scope plans** vary in scope, with some focusing on an entire organization and others concentrating on a subset of organizational activities or operating units.
- **Contingency plans** involve the development of alternative courses of action to be implemented if events disrupt a planned course of action; while most contingency plans are never implemented, they are critically important if needed.

Best of luck in your learning!

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TERMS TO KNOW

Administrative Plans
Plans that work to integrate institutional-level plans with the operating plans and tie together all of the plans created for the organization's technical core.

Contingency Plans
Plans that deal with alternative courses of action.

Operating Plans
Direction and action statements for activities in the organization's technical core.

Single-use Plans
Plans developed for unique situations or problems and one-time use.

Standing Plans
Rules, policies, and procedures about how to deal with issues that managers face repeatedly.

Strategic Plans
Hierarchical plans that address an organization's institutional-level needs and attempt to position it advantageously within its task environment.

Time Frame Plans
Duration is captured in short-, medium-, and long-range plans (long-range plans are usually less formal, less detailed, and more flexible in order to accommodate uncertainty).

Goals or Outcome Statements

by Sophia

WHAT'S COVERED

In this lesson, you will learn the individual and organizational effects associated with goal setting and planning. Specifically, this lesson will cover:

1. Types of Organizational Goals
2. Goal Formulation
3. Multiple Goals and the Goal Hierarchy

1. Types of Organizational Goals

Creating goals is an inherent part of effective managerial planning. There are two types of organizational goals that are interrelated—official and operational goals (Perrow, 1961). **Official goals** are an organization's general aims as expressed in public statements, in its annual report, and in its charter.

Official goals are usually ambiguous and oriented toward achieving acceptance by an organization's constituencies. **Operational goals** reflect management's specific intentions. These are the concrete goals that organization members are to pursue (Daft, 2016, pp. 54-56).

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

TERMS TO KNOW

Official Goals
The aims of an organization that are expressed in highly abstract and general terms, generally employed for the organization's external constituents.

Operational Goals
The aims of an organization that reflect management's specific intentions.

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2. Goal Formulation

There are two different views about how organizational goals are formulated. The first view focuses on an organization and its external environment. Organizational goals emerge as managers try to maintain the delicate balance between their organization's needs and those of its external environment (Thompson & McEwen, 1958). The second view concentrates on the set of dynamics in the organization's internal environment. Internally, an organization is made up of many individuals, coalitions, and groups who continually interact to meet their own interests and needs (Daft, 2016, pp. 142-146). They bargain, trade, and negotiate, and through these political processes, organizational goals eventually emerge.

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

3. Multiple Goals and the Goal Hierarchy

Consistent with the two views of goal emergence, Peter Drucker offers the perspective that organizations must simultaneously pursue multiple goals. A well-known management scholar, consultant, and writer, Drucker believes that to achieve organizational success, managers must try to achieve multiple goals simultaneously—namely, market standing, innovation, productivity, profitability; physical and financial resources, manager performance and development, employee performance and attitude, and public responsibility (Drucker, 1954). The innovation goal of a research and development department, for example, might conflict with the production department's goal of efficiency (Hage, 1965). Managers must strive to integrate the network of goals and resolve internal conflicts when they arise.

Broad organizational goals, such as productivity, innovation, and profitability, are likely to be broken into subgoals at various organizational levels. The complexities posed by many interrelated systems of goals and major plans can be illustrated by a **goal hierarchy** (Richards, 1978). Thus, an organization sets organizational-level, divisional-level, departmental-level, and job-related goals. In the process, managers must make sure that lower-level goals combine to achieve higher-level goals.

REFLECT

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

TERM TO KNOW

Goal Hierarchy
The interrelationship among an organization's job-, department-, divisional-, and organizational-level goals.

SUMMARY

In this lesson, you learned about two **types of organizational goals** that are interrelated: official goals, which are usually ambiguous and oriented toward achieving acceptance by an organization's constituencies; and operational goals, which are the concrete goals that organization members pursue. You learned that goals are important because they define organizational purpose, motivate accomplishment, and provide a yardstick against which progress can be measured. You also learned that there are two different views about **goal formulation**. One view focuses on an organization and its external environment, while the second view concentrates on the set of dynamics in the organization's internal environment—although neither

approach alone can provide for long-term organizational success. Lastly, you learned about the perspective that organizations must simultaneously pursue **multiple goals**, and that the complexities posed by many interrelated systems of goals and major plans can be illustrated by a **goal hierarchy**.

Best of luck in your learning!

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TERMS TO KNOW

Goal Hierarchy
The interrelationship among an organization's job-, department-, divisional-, and organizational-level goals.

Official Goals
The aims of an organization that are expressed in highly abstract and general terms, generally employed for the organization's external constituents.

Operational Goals
The aims of an organization that reflect management's specific intentions.

Formal Organizational Planning in Practice

by Sophia

WHAT'S COVERED

In this lesson, you will learn how planning occurs in today's organizations. Specifically, this lesson will cover:

1. Encouraging Preplanning
2. Does Planning Really Pay Off?
3. The Location of the Planning Activity
4. Planning Specialists

1. Encouraging Preplanning

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

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

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

BIG IDEA

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

2. Does Planning Really Pay Off?

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

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

While the evidence is not abundant, studies suggest that firms that engage in planning are more financially successful than those that do not (*Broadwayworld.com*, 2017).

BIG IDEA

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

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3. The Location of the Planning Activity

Classical management thinking advocates a separation of “planning” and “doing.” According to this school of thought, managers plan for technical core employees and formulate most of the plans for the upper levels of the organization, with little participation from lower-level managers and workers. In contrast, behavioral management theorists suggest involving organization members in drawing up plans that affect them. Implementation of a management-by-objectives program, for example, is one means by which this participative planning can be realized. Researchers at the Tavistock Institute in England promote the idea of self-managed work groups as a means of expanding the level of employee involvement.

CONCEPT TO KNOW

According to their socio-technical model, work groups assume a major role in planning (as well as in organizing, directing, and controlling) the work assigned to them.

Many organizations—for example, the John Lewis Partnership, Volvo, and Motorola—have had successful experiences with employee involvement in planning and controlling activities (Taylor, 2018).

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4. Planning Specialists

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

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

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

REFLECT

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

SUMMARY

In this lesson, you learned how planning occurs in today's organizations. You learned that despite the advantages of planning, many managers resist it; instead of preplanning, they simply fail to plan or engage in in-process planning. However, as you learned, there are several techniques that can be used to **encourage preplanning**. You also learned that in order for managers to invest the time and energy needed to overcome resistance to planning, they must answer the question, "**Does planning really pay off?"** According to research, the answer is yes; studies suggest that firms that engage in planning are more financially successful than those that do not. You learned that there are different schools of thought regarding **the location of the planning activity**, although many organizations have had successful experiences with employee involvement in planning and controlling activities. Lastly, you learned that to keep pace with organizational complexity, technological sophistication, and environmental uncertainty, many organizations use **planning specialists** to coordinate the complex array of plans created for the various levels within an organization.

Best of luck in your learning!

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U.S. businesses restructuring operations to reap future financial success, says Intelenet Global Services (2017, July 10). Broadwayworld.com. www.broadwayworld.com/bwwgeeks/article/US-Businesses-Restructuring-Operations-to-Reap-Future-Financial-Success-Says-Intelenet-Global-Services-20170710

Employees' Responses to Planning

by Sophia

WHAT'S COVERED

In this lesson, you will learn about the impact that control has on organization members. Specifically, this lesson will cover:

1. Goal Theory
   a. Characteristics of Goals That Motivate Performance
2. Goal Setting and Employee Job Satisfaction
   a. Managing Through Goal Setting
3. Controlling as an Organizational Activity
   a. Controlling and the Control Process
   b. The Need for Control
   c. A Control Model

1. Goal Theory

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

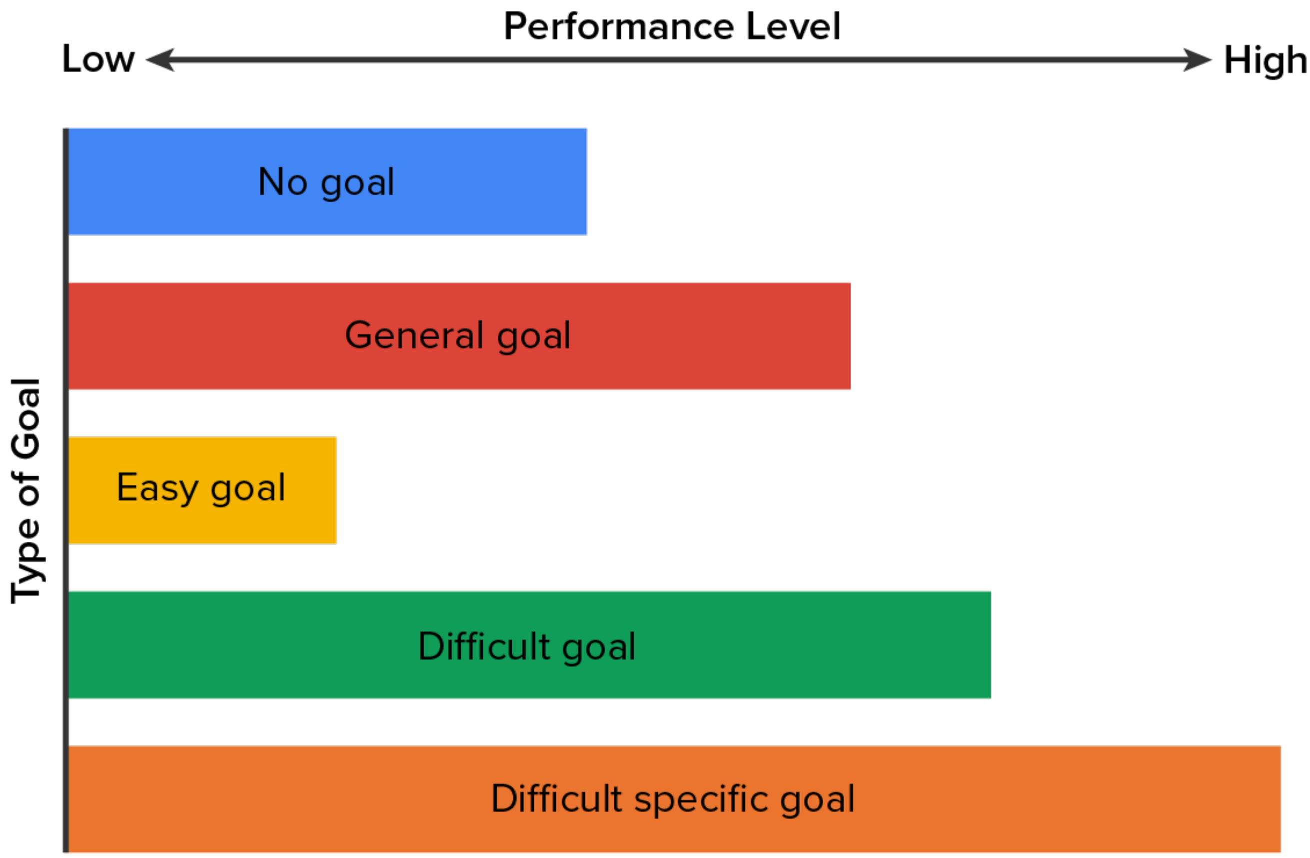
We turn to **goal theory** for our answer. Research provides us with a clear and unequivocal picture of the effects of setting goals for organizational members. Goal theory specifies that certain types of goals motivate employee behavior and thereby contribute to the level of employee performance. Goal theory, while somewhat narrow in scope, is the most completely supported theory of motivation (Locke & Latham, 1990). You have learned or will learn about the implications of goal setting as a fundamental part of the planning process and as a standard for the exercise of control when studying motivation. For goals to be effective, they must be difficult, specific, and accepted by the employee, and they must be met with feedback from management. Manufacturers often use production goals to motivate employees.

TERM TO KNOW

Goal Theory
The most completely supported theory of motivation that specifies a link between certain types of goals and motivation, improving employee performance.

1a. Characteristics of Goals That Motivate Performance

Goal theory (and the research related to it) highlights several important goal attributes—goal difficulty, goal specificity, goal acceptance and commitment, and goal feedback. As the diagram below shows, workers who have a goal, even if it is quite general, usually perform better than those with no goals. Yet certain types of goals are more effective than others. Two primary characteristics of goals that enhance their motivating potential are goal specificity and goal difficulty (Locke, 1982). With regard to goal specificity, a goal that states “improve your performance” or “do your best” is generally not very effective because it is too general.

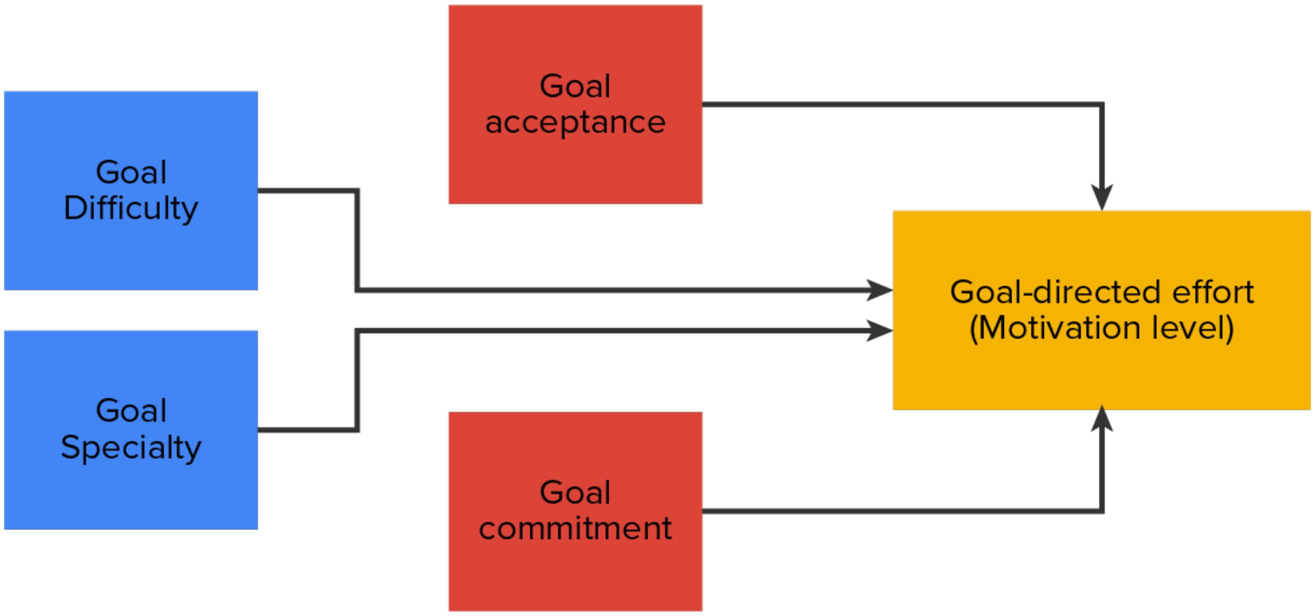


The second component of an effective goal is goal difficulty. People with difficult goals perform better than those with easy goals (note the third and fourth bars in the diagram above). If goals are perceived as too difficult or impossible, however, they lose their motivating effectiveness. Ideally, goals will be both specific and difficult. Thus, setting specific and challenging goals contributes more to planning effectiveness and organizational performance than does working under “no goal” or “do your best” goal conditions (Locke et al., 1981).

CONCEPT TO KNOW

Even a goal that is both difficult and specific, however, is not going to be effective unless it is accepted by the person who is expected to achieve it (Locke & Garland, 1983).

Goal acceptance is the degree to which people accept a goal as their own (“I agree that this report must be finished by 5 p.m.”) (Locke et al., 1981). Goal commitment is more inclusive, referring to our level of attachment to or determination to reach a goal (“I want to get that report done on time.”) (Locke & Latham, 1988). Goals sometimes fail to motivate people when managers assign them without making sure that workers have accepted or committed to the goals. The following diagram summarizes the conditions necessary to maximize goal-directed effort:



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

Finally, keep in mind that, whereas goal acceptance occurs before people work on a task and can be encouraged through promises of reward, goal commitment can be nurtured throughout the performance period as workers receive rewards for progress. There are those who believe goal acceptance and commitment can be nurtured when workers come together as members of a family working toward the common goal of proving their worth (Conger, 1991).

BIG IDEA

Encourage the development of work group norms that contribute to goal commitment. Use legitimate authority to encourage the setting of specific and difficult goals. Stimulate workers to develop a sense of ownership in goals, thus producing goal acceptance and commitment.

2. Goal Setting and Employee Job Satisfaction

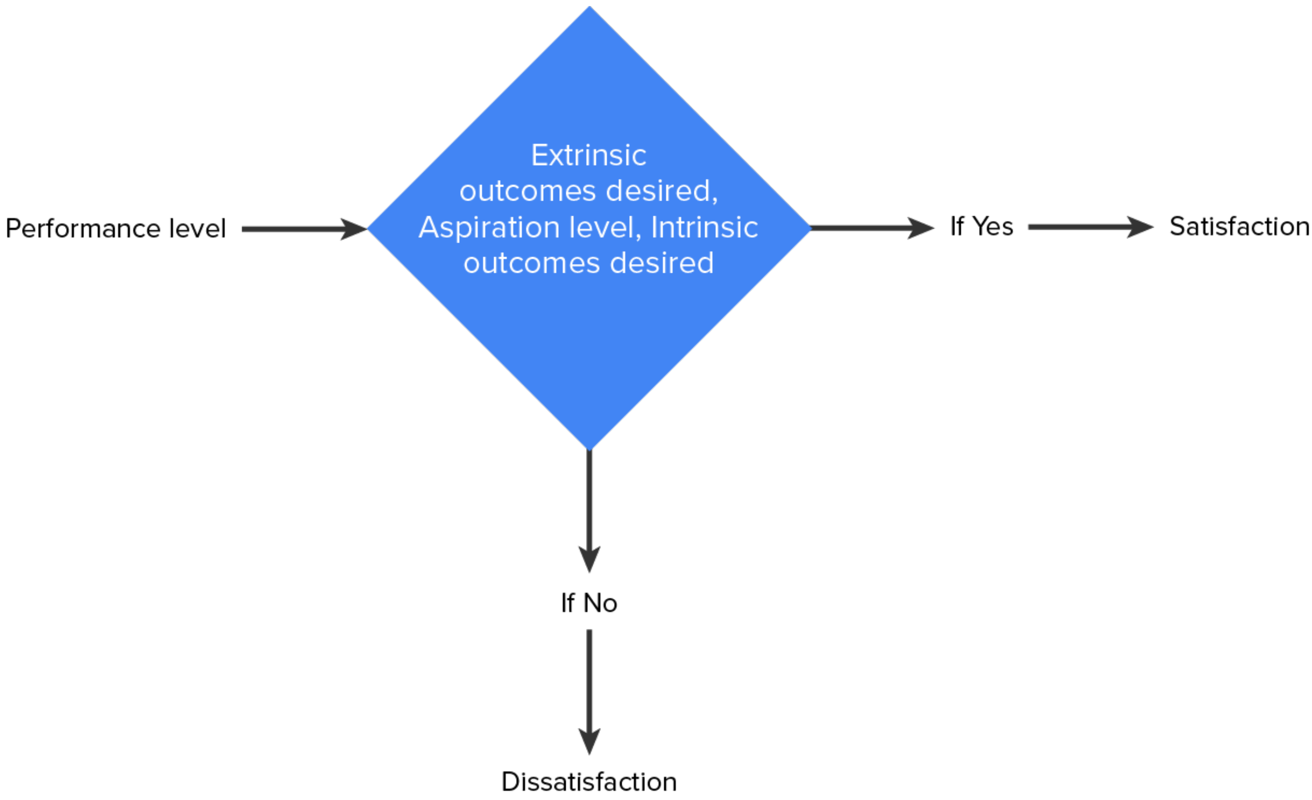
The statement "goal setting enhances job satisfaction" is not exactly accurate (Locke & Latham, 1990). The relationship between goal setting and planning and job satisfaction is somewhat more complex. Goal setting, and therefore planning, impacts job satisfaction by working through the employee's level of performance and level of aspiration. Job satisfaction (or dissatisfaction) is most likely determined by the level of performance and not by the goals that have been set.

An employee's affective reaction to performance is determined not by the performance level itself but by the level of performance in relation to his or her aspiration level (Lewin, 1958).

CONCEPT TO KNOW

Job satisfaction, therefore, stems from the employee's evaluation of his or her actual performance in comparison to his or her aspiration level (or performance goal).

In cases (see the diagram below) where performance reaches or passes the level aspired to, a positive emotion (job satisfaction) is likely to be produced. Performance that fails to reach aspirations causes a negative emotion (job dissatisfaction). In addition, if performance is valued by the employee because of the extrinsic rewards tied to it, high performance will create job satisfaction only if achieving the performance goal leads to the receipt of these valued extrinsic rewards (Locke & Latham, 1990).



BIG IDEA

Goal setting is indirectly and contingently related to job satisfaction. If goal setting contributes to employees reaching their performance aspirations and/or the outcomes that are associated with that performance, job satisfaction is a likely by-product.

2a. Managing Through Goal Setting

What can managers do to motivate employees through goal setting? First, it is important to encourage goal acceptance and commitment. This can be accomplished by working with organizational members to set difficult, specific, and reasonable goals and to make certain that members perceive them as reasonable. If necessary, provide training and other support needed to make the goals attainable. Offer feedback that lets people know when they are approaching the goal. Avoid using threats. Feedback that criticizes without providing insight into ways to contribute to performance improvements is both frustrating and unlikely to be effective. One of Deming's concerns about goal setting is that it creates fear in employees—fear of the failure to reach the goal. He sees fear as a serious disease that contributes to poor organizational performance (Deming, 1986). Instead, a positive, success-oriented approach is almost always more effective.

If and when negative feedback is needed to correct errors, a manager's criticisms of an employee should be credible, constructive, and objective.

CONCEPT TO KNOW

It is important to recall that feedback that simply criticizes, without providing insight into how to make the needed corrections, will produce few, if any, positive results.

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3. Controlling as an Organizational Activity

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

3a. Controlling and the Control Process

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

Like the managerial functions of planning, organizing, and directing, controlling is a complex activity that is performed at many organizational levels. Upper-level managers, for example, monitor their organization's overall strategic plans, which can be implemented only if middle-level managers control the organization's divisional and departmental plans, which, in turn, rely on lower-level managers' control of groups and individual employees.

TERM TO KNOW

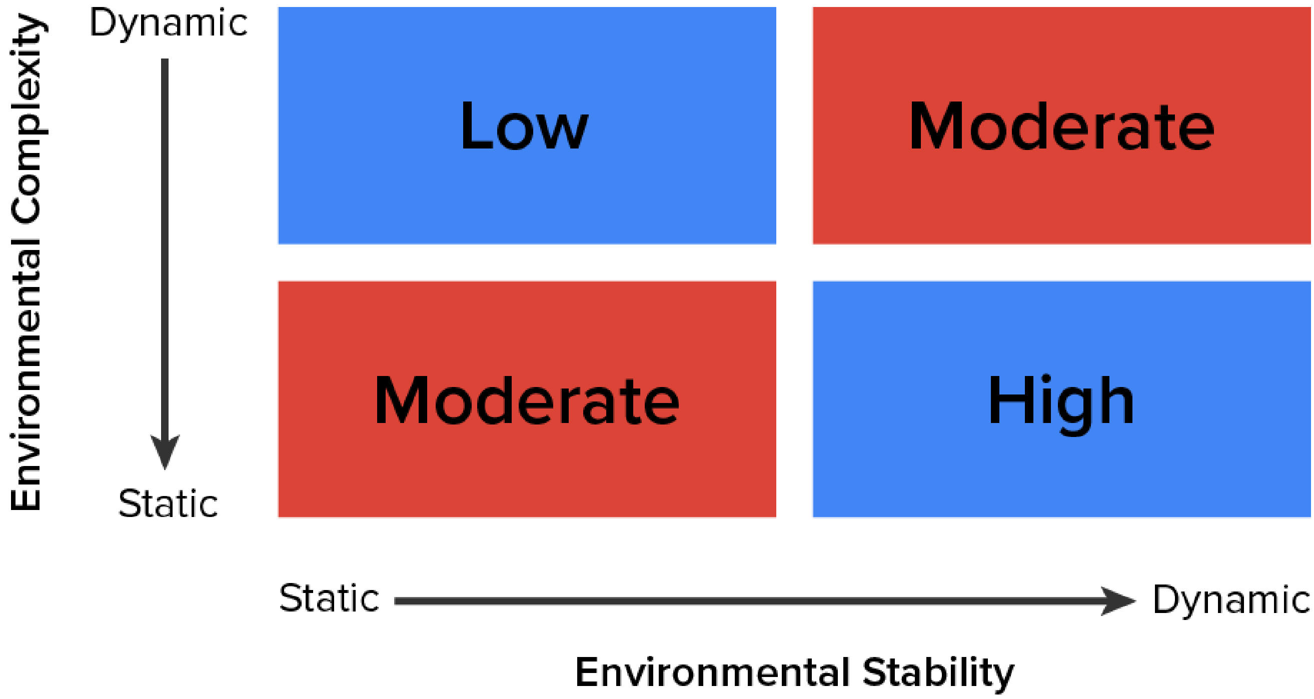
Controlling
Monitoring the behavior of organizational members and the effectiveness of the organization itself to determine whether organizational goals are being achieved and taking corrective action if necessary.

3b. The Need for Control

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

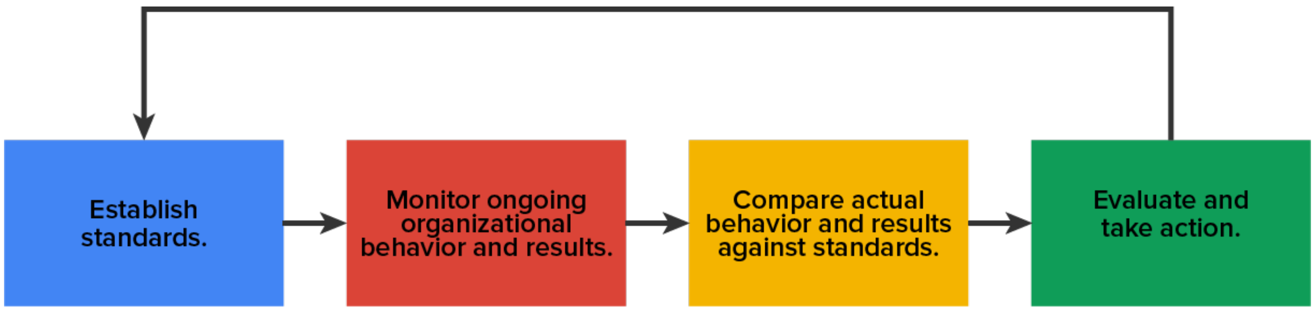
Organizations that operate with relatively stable external environments usually need to change very little, so managers eventually are able to control their organizations by using a set of routine procedures. With greater levels of environmental change and the accompanying uncertainty, however, controlling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

Environmental complexity also affects the nature of control systems. Simple environments contain a limited number of highly similar components that are relatively easy to control through common sets of rules and procedures. The same bureaucratic control system, for example, can be used at most branch offices of a large bank. As complexity increases through organizational growth, product diversification, and so on, managers' needs for up-to-date information and coordination among organizational activities intensify. The complexity that calls for increased control, however, also requires open, organic systems that can respond quickly and effectively to complex environments. The following diagram shows the level of control organizations need under different environmental conditions.



3c. A Control Model

In essence, control affects every part of an organization. Among some of the major targets of the organization’s control efforts are the resources it receives, the output it generates, its environmental relationships, its organizational processes, and all managerial activities. Especially important targets of control include the functional areas of operations, accounting, marketing, finance, and human resources. The diagram below illustrates that controlling is a four-step process.



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

SUMMARY

In this lesson, you learned about the effects of setting goals for organizational members. To determine if goal setting has a favorable impact on employee motivation, performance, and job satisfaction, you began by discussing the most completely supported theory of motivation, **goal theory**, which specifies that certain types of goals motivate employee behavior and thereby contribute to the level of employee performance. You learned that goal theory highlights several important **characteristics of goals that motivate performance**: goal difficulty, goal specificity, goal acceptance and commitment, and goal feedback. You also learned that the relationship between **goal setting and employee job satisfaction** is complex, noting that job satisfaction stems from the employee's evaluation of his or her actual performance in comparison to his or her aspiration level (or performance goal). You learned that to effectively **manage through goal setting**, managers should encourage goal acceptance and commitment, provide training and other support, and offer constructive feedback. Lastly, you explored **controlling as an organizational activity**, learning that an important managerial activity is **controlling and the control process**, described by the four-step process of a traditional **control model**, involving monitoring and evaluating organizational effectiveness and initiating the actions needed to maintain or improve effectiveness. **The need for control** can vary across organizations, depending on the amount of environmental change and complexity they face.

Best of luck in your learning!

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TERMS TO KNOW

Controlling

Monitoring the behavior of organizational members and the effectiveness of the organization itself to determine whether organizational goals are being achieved and taking corrective action if necessary.

Goal Theory

The most completely supported theory of motivation that specifies a link between certain types of goals and motivation, improving employee performance.

Management by Objectives: A Planning and Control Technique

by Sophia

WHAT'S COVERED

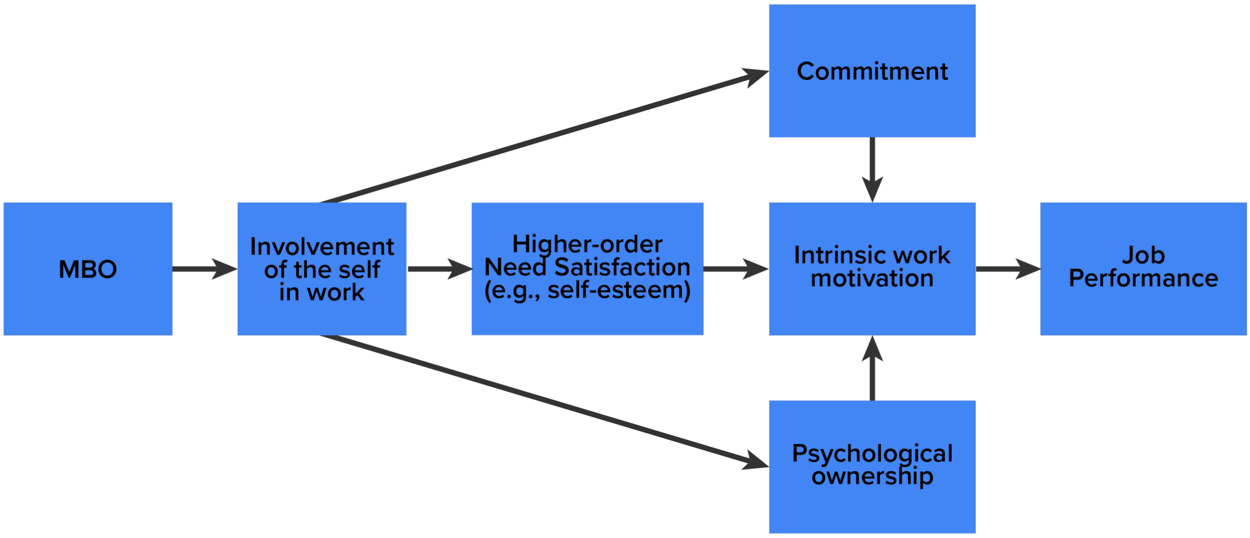
In this lesson, you will learn about management by objectives as a philosophy and as a management tool/technique. Specifically, this lesson will cover:

1. Management by Objectives Philosophy (MBO)
2. The Theory of MBO
3. Evidence of Effectiveness

1. Management by Objectives Philosophy (MBO)

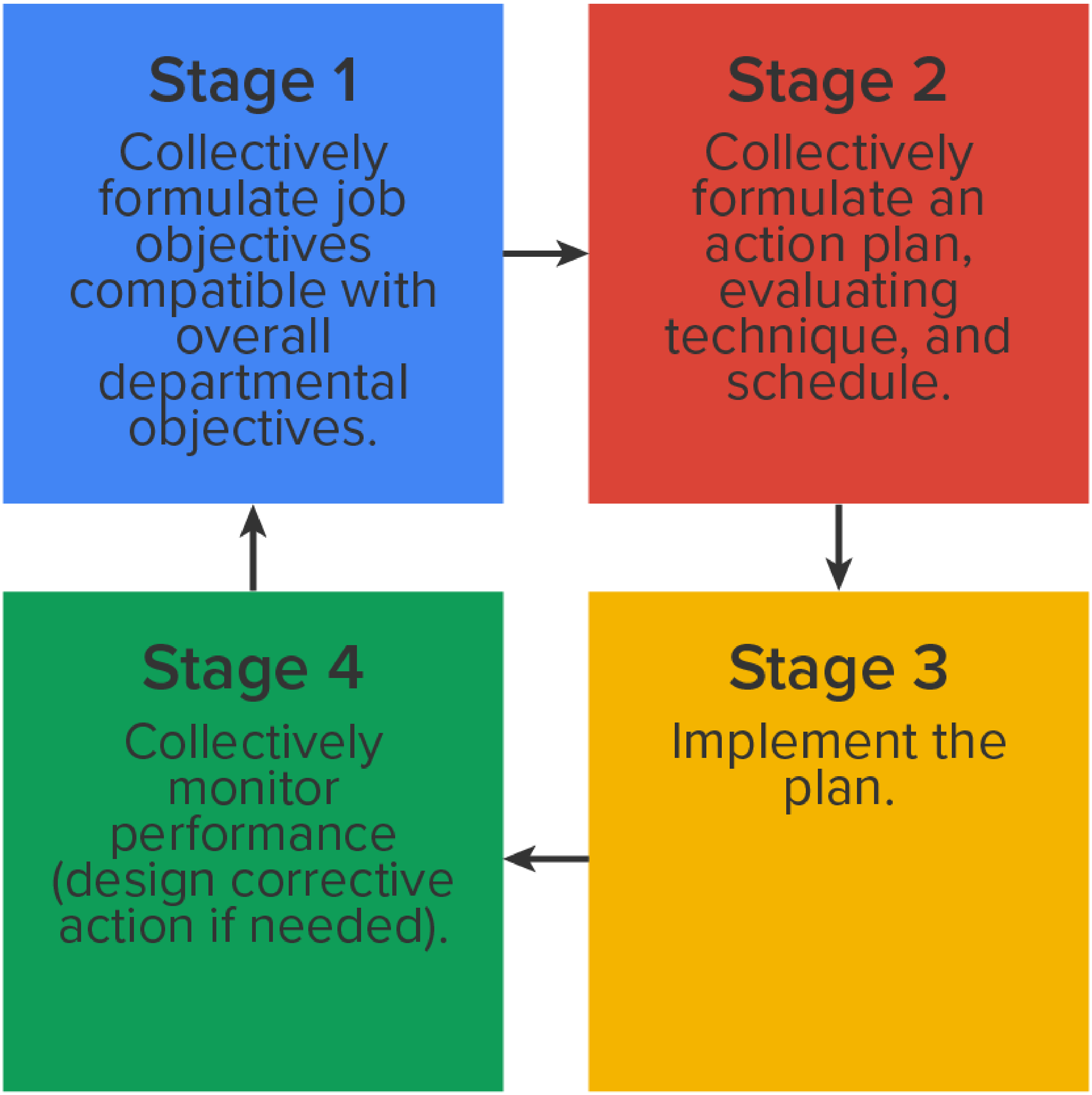
When people are personally committed to their organization's plans, those plans are more likely to be accomplished. This truism is the philosophy underlying management by objectives.

Management by objectives (MBO) is a philosophy of management, a planning and controlling technique, and an employee-involvement program (Drucker & Raia, 1974). As a management philosophy, MBO stems from the human resource model and Theory Y's assumption that employees are capable of self-direction and self-control. MBO also is anchored in Maslow's need theory. The reasoning is that employee involvement in the planning and control processes provides opportunities for the employee to immerse the self in work-related activities, to experience work as more meaningful, and to satisfy higher-order needs (such as self-esteem), which leads to increased motivation and job performance (see the diagram below). It is hypothesized that, through involvement, employee commitment to a planned course of action will be enhanced and job satisfaction will be increased.



Although there are many variations in the practice of MBO, it is basically a process by which an organization's goals, plans, and control systems are defined through collaboration between managers and their employees. Together they identify common goals, define the results expected from each individual, and use these measurements to guide the operation of their unit and to assess individual contributions (Odiorne, 1979). In this process, the knowledge and skills of many organizational members are used. Rather than managers telling workers, "These are your goals,"—the approach of classical management philosophy—managers ask workers to join them in deciding what their goals should be.

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



TERM TO KNOW

Management By Objectives (MBO)
A philosophy of management, a planning and controlling technique, and an employee involvement program that specifies employees are capable of self-direction and self-control.

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2. The Theory of MBO

MBO has the potential to enhance organizational effectiveness. The following four major components of the MBO process are believed to contribute to its effectiveness: (1) setting specific goals; (2) setting realistic and acceptable goals; (3) joint participation in goal setting, planning, and controlling; and (4) feedback (Rodgers & Hunter, 1991). First, as we saw earlier, employees working with goals outperform employees working without goals. Second, it is assumed that participation contributes to the setting of realistic goals for which there is likely to be goal acceptance and commitment. Setting realistic and acceptable goals is an important precondition for successful outcomes, especially if the goals are difficult and challenging in nature. Finally, feedback plays an important role. It is only through feedback that employees learn whether they should sustain or redirect their efforts in order to reach their goal, and it is only through feedback that they learn whether or not they are investing sufficient effort.

BIG IDEA

From a theoretical perspective, there are several reasons why MBO should produce a positive impact on employee performance, motivation, commitment, and job satisfaction.

In the next section, we briefly look at what the research tells us about the effectiveness of MBO programs.

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3. Evidence of Effectiveness

In both the public and private sectors, MBO is a widely employed management tool. A recent review of the research on MBO provides us with a clear and consistent view of the effects of these programs. In the 70 cases studied by Robert Rodgers and John Hunter, 68 showed increased productivity gains, and only 2 showed losses (Rodgers & Hunter, 1991). In addition, the increases in performance were significant. Rodgers and Hunter report that the mean increase exceeded 40 percent.

While the results are generally positive in nature, differences in performance effects appear to be associated with the level of top management commitment. In those cases where top management is emotionally, intellectually, and behaviorally committed to MBO, the performance effects tend to be the strongest. The weakest MBO effects appear when top management does very little to "talk the value/importance of MBO" and they don't use the system themselves, even as they implement it for others (Hollman, 1976). This evidence tells us that "the processes" used to implement MBO may render a potentially effective program ineffective. Thus, not only should managers pay attention to the strategies used to facilitate planning and controlling (like MBO), they should also be concerned with how they go about implementing the plans. MBO requires top management commitment, and it should be initiated from the top down (Aplin & Schoderbek, 1976).

Research shows that an MBO program can play a meaningful role in achieving commitment to a course of action and improving performance. In fact, research clearly documents instances where MBO programs have increased organizational effectiveness. Still, there have been failures. After reviewing 185 studies of MBO programs, one researcher concluded that they are effective under some circumstances but not all (Kondrasuk, 1981). For example, MBO tends to be more effective in the short term (less than two years), in the private sector, and in organizations removed from direct contact with customers. These factors also affect the success of an MBO program:

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

of their larger work unit?

To be truly effective over the long haul, MBO programs probably need to be coupled with some type of gainsharing program (that is, programs whereby organizations share some of the financial gains accrued from the ideas, productivity improvements, and cost savings that stem from employee participation). Based on his extensive observation of involvement-oriented organizations, Edward E. Lawler III notes that information, knowledge, power, and rewards are four key components of an effective and sustained high involvement (Lawler, 1986). Typically, MBO systems don't provide mechanisms through which employees share in the economic gains that may accrue to the organization as a result of their expanded role and responsibility.

BIG IDEA

In light of the conditions that influence the effectiveness of MBO programs, management is challenged to provide an appropriate context for the design and maintenance of an effective MBO system.

REFLECT

1. What is management by objectives?

SUMMARY

In this lesson, you learned about the effects of management by objectives as a philosophy and as a management tool/technique. You learned that the **management by objectives philosophy (MBO)** stems from the assumption that employees are capable of self-direction and self-control, and hypothesizes that through involvement, employee commitment to a planned course of action will be enhanced and job satisfaction will be increased. As a process by which an organization's goals, plans, and control systems are defined through collaboration between managers and their employees, **the theory of MBO** posits that four major components of the MBO process are believed to contribute to its effectiveness: setting specific goals; setting realistic and acceptable goals; joint participation in goal setting, planning, and controlling; and feedback. You also explored **evidence of effectiveness** of MBO as a management tool, noting that while research indicates significant increases in performance, the success of an MBO program requires top management commitment, and can also be affected by a variety of factors.

Best of luck in your learning!

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TERMS TO KNOW

Management By Objectives (MBO)
A philosophy of management, a planning and controlling technique, and an employee involvement program that specifies employees are capable of self-direction and self-control.

MTI—Its Importance Now and In the Future

by Sophia

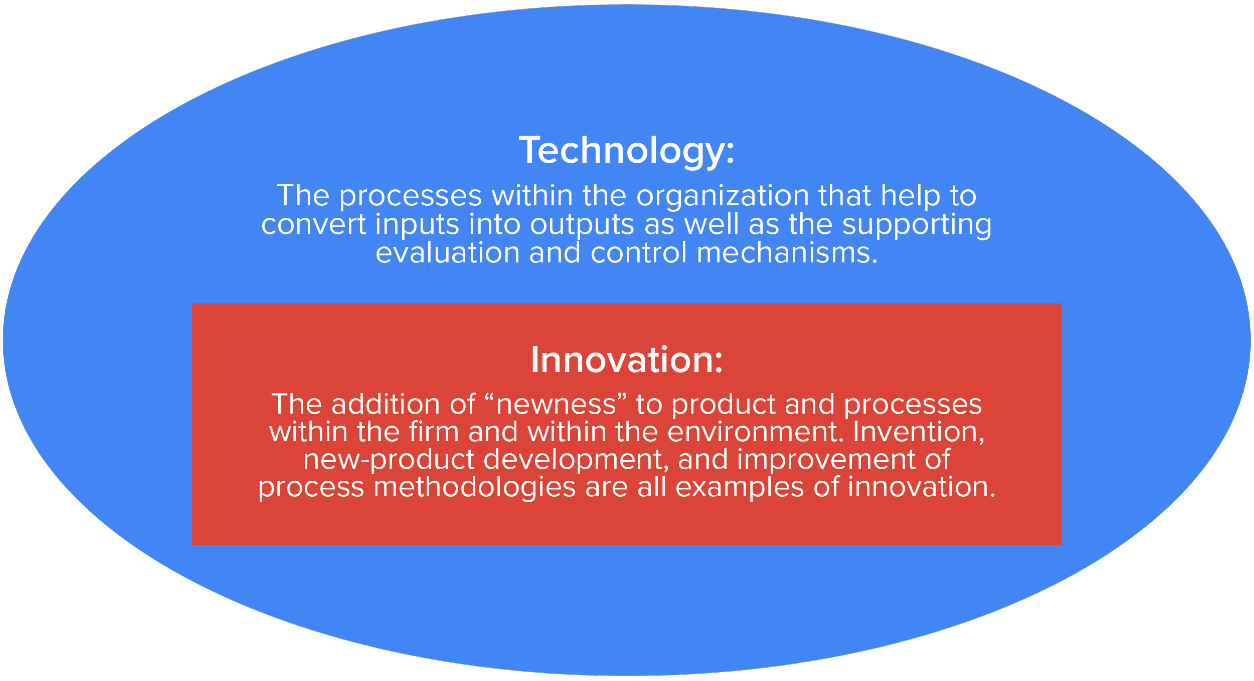
WHAT'S COVERED

In this lesson, you will learn about management of technology and innovation (MTI), and why it is crucial. Specifically, this lesson will cover:

1. Management of Technology and Innovation (MTI)
   a. Management of Technology
   b. Management of Innovation

1. Management of Technology and Innovation (MTI)

Management of technology and innovation is critical to the organization. Because of innovations and new technologies, we have historically seen the emergence of innovative organizational structures and new ways of performing work. For example, the Industrial Revolution ushered in the functional structure for organizations. As business moved from small craft businesses like blacksmiths to railroads, there was a need to introduce a more complex business structure. Today, we see the innovations in information technology changing structures to more network-based with people being able to work remotely.



BIG IDEA

The changes in structure are innovations in the technology of how work is accomplished; the innovations brought on by the invention of new products influence the technology we use and how we use it.

1a. Management of Technology

Technology can be defined in a number of ways. The basic purpose of a system (such as an organization) is to convert inputs into outputs. Therefore, we will define organizational technology as the processes within the organization that help to convert inputs into outputs as well as the supporting evaluation and control mechanisms.

CONCEPT TO KNOW

The **management of technology** involves the planning, implementation, evaluation, and control of the organization’s resources and capabilities in order to create value and competitive advantage.

This involves managing:

1. Technology strategy—the logic of how technology will be used and what role technology will have in the organization. For example, will innovation (i.e., first-to-market strategies) be the focus, or will the firm want to do things better to obtain market share and value (let others take the initial risks)?
2. Technology forecasting—the use of tools to study the environment for potential technological changes that can both positively and negatively affect the firm’s value proposition. Digitization of a variety of products such as watches and cameras provided great opportunities for some firms and caused others to go bankrupt. Forecasting (or at least keeping an eye on the changes in technology) is very important in management of technology.

3. Technology roadmapping—the process of taking an innovation or technology and trying to build more value by looking for ways to use the technology in different markets and places.
4. Technology project portfolios—the use of portfolio techniques in development and use of technology enhances the potential value of technologies being developed and the technologies that are currently part of a firm's portfolio. Disney was a leading producer of animated films. However, Disney did not stop there—the portfolio of characters in the films are now marketed as products and displayed in Disney theme parks, and Disney very carefully manages the availability of the animated films.

TERMS TO KNOW

Technology
The branch of knowledge that deals with the creation and use of technical means and the application of this knowledge for practical ends.

Management of Technology
The planning, implementation, evaluation, and control of the organization's resources and capabilities in order to create value and competitive advantage.

1b. Management of Innovation

Innovation activities are an important subset of technology activities. Innovation includes "newness" in the development and use of products and/or processes within a firm and within an industry. Invention, new product development, and process improvement methods are all examples of innovation. **Management of innovation** includes both change management and managing organizational processes that encourage innovation. The management of innovation is more than just planning new products, services, brand extensions, or technology inventions—it is about imagining, mobilizing, and competing in new ways. For the organization, innovation management involves setting up systems and processes that allow newness that adds value to emerge.

DID YOU KNOW

Some firms, like Google and 3M, give some employees time during the workweek to work on their own ideas with the hope of sparking new ideas that will add value. Google News and 3M Post-it Notes are products that emerged from this practice.

In order to manage innovation processes successfully, the firm must undertake several activities:

1. *Casting a wide net* while trying to keep up with potential changes in the firm, the market, the competition, etc., is crucial. Eastman Kodak was the dominant U.S. camera manufacturer. On several occasions in their history they missed opportunities to take advantage of innovations in their product line—they did not cast their net out. Land, the founder of Polaroid, went to Kodak with his invention of instant photographs—Kodak said no. Kodak did not see smartphones as a potential competitor until it was too late. Kodak was especially vulnerable because the firm was a late entrant into the digital camera market. As a result of failure to cast a wide net in keeping up with trends and innovations, Kodak went bankrupt.
2. *Creating newness* with existing products can expand the portfolio of value of a product. 3M has done this with all kinds of tape and with different formats and forms of Post-it Notes. Asking, "How else can the product be altered or used?" is critical to developing platforms of products.
3. *Creating a culture open to newness* is critical to cultivating ideas. If the leadership of the firm is open to ideas from all over the organization, then the firm will be more innovative. Some large firms such as Texas Instruments encourage employees to start new businesses if TI does not want to keep a product in house. Often, TI is the first investor and customer of these small firms.

4. *Communicating knowledge* throughout the firm is important. This knowledge can be positive and negative at first glance. For Post-it Notes, the glue used emerged from the laboratory efforts to create a stronger glue to compete with Elmer's Super Glue. Obviously, the outcome did not meet the original goal, but the communication of the new formula's characteristics—tacky and leaves no residue—triggered other uses.
5. *Changing with courage* is necessary if a firm is going to manage innovation and stay competitive. Too often firms get comfortable with where they are, narrow their focus in studying the environment, and focus on building strength in their current market. This leads to **strategic inertia**—not innovating and losing customers and market share to more innovative companies. Just as Kodak failed to change, so did IBM—famously, the CEO of IBM was quoted as saying, "Who wants a computer on their desk?" as IBM continued manufacturing mainframes while desktops and then laptops were emerging.

TERMS TO KNOW

Innovation
Invention, new product development, and process improvement methods are all examples of innovation.

Management of Innovation
Includes both change management and managing organizational processes that encourage innovation.

REFLECT

1. How are management of technology and management of innovation similar? How are they different?
2. How can firms create value through good management of technology and innovation?

SUMMARY

In this lesson, you learned that **management of technology and innovation (MTI)** is critical to the organization. You learned that the **management of technology** involves the planning, implementation, evaluation, and control of the organization's resources and capabilities in order to create value and competitive advantage; this involves managing technology strategy, technology forecasting, technology roadmapping, and technology project portfolios. You also learned that **management of innovation**—such as invention, new product development, and process improvement methods—includes both change management and managing organizational processes that encourage innovation. In order to manage innovation processes successfully, an organization must cast a wide net, create newness, create a culture open to newness, communicate knowledge, and change with courage.

Best of luck in your learning!

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TERMS TO KNOW

Innovation

Invention, new product development, and process improvement methods are all examples of innovation.

Management of Innovation

Includes both change management and managing organizational processes that encourage innovation.

Management of Technology

The planning, implementation, evaluation, and control of the organization’s resources and capabilities in order to create value and competitive advantage.

Technology

The branch of knowledge that deals with the creation and use of technical means and the application of this knowledge for practical ends.

Developing Technology and Innovation

by Sophia

WHAT'S COVERED

In this lesson, you will learn how organizations develop technology and innovation. Specifically, this lesson will cover:

1. Organization-Level Activities
2. Three Basic Types of Organizational Processes

BEFORE YOU START

There are a number of ways that organizations can develop and manage technology and innovation. We will focus on organization-level activities and the three strategic processes in this section.

1. Organization-Level Activities

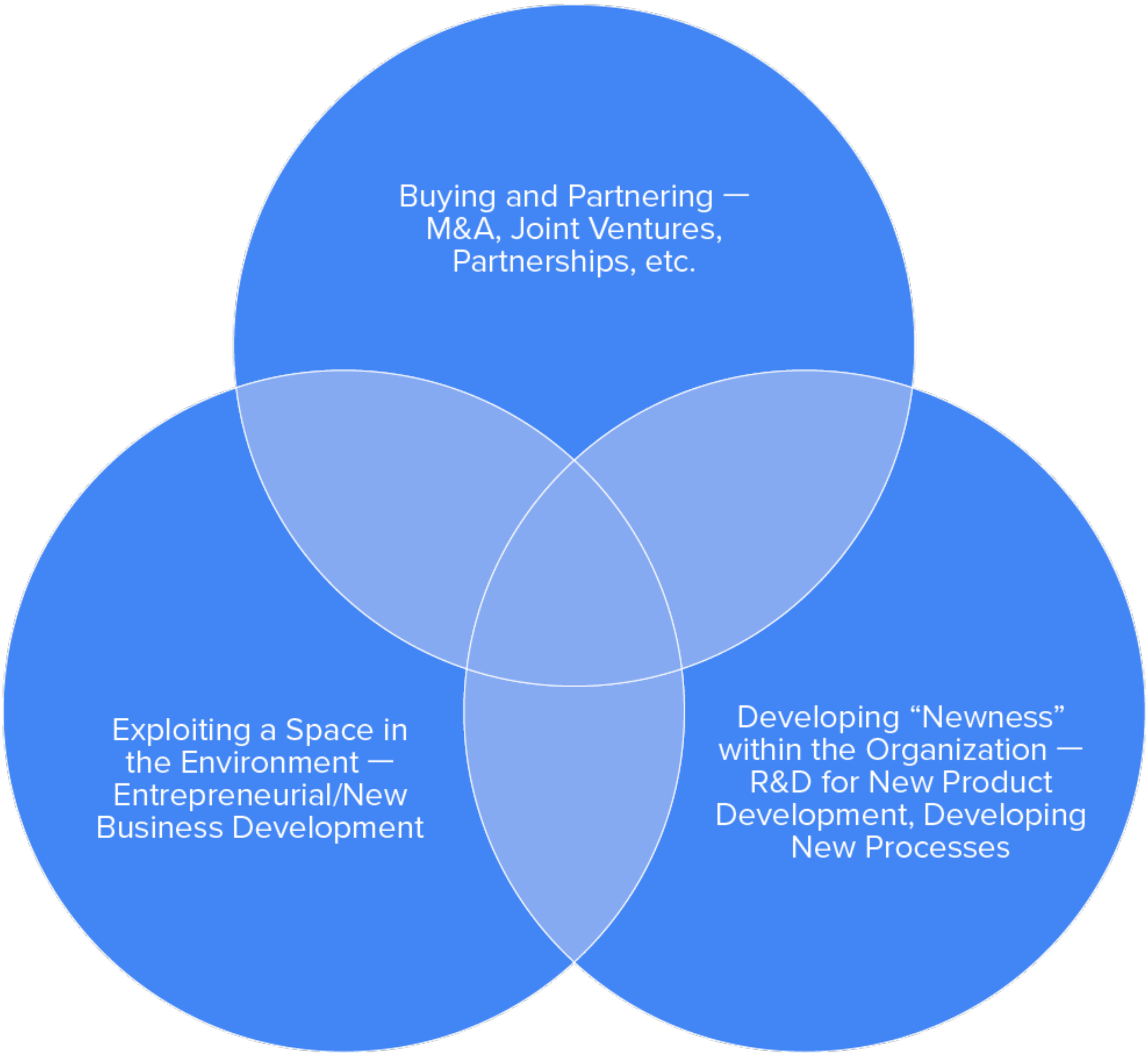
In order for a firm to develop a successful management of technology and innovation strategy, it is imperative that the organization be readied for the effort. This requires agility because changes and adjustments to products and processes are filled with risk and uncertainty. However, agility is inherently less efficient if it is to be effective. Therefore, the management of technology and innovation must balance short-term efficiency with long-term effectiveness in the market if the firm is to add value and thrive in a changing environment. Strong dynamic capabilities are needed if the organization is going to be able to address the challenges of innovation and dynamic competition (Teece et al., 2016).

There are four things the firm should do to balance the conflicting demands of being agile in a dynamic environment. These are:

1. Design systems and processes that can identify, assess, and develop technology-based opportunities (or protect from new technology threats). The systems and processes should be able to sense what is coming.
2. Identify communication needs and efficiently turn data into information so that the right information can be available to make the best decision in a timely fashion. The current interest in big data and what it can tell firms is tied to the notion that we have a lot of bytes of data available because of computer technology that is not being used effectively or efficiently.
3. Develop employees through training and learning opportunities. This becomes more critical as the competitive environment for the organization becomes more dynamic. The management of technology and innovation requires that all levels of the organization are involved and that efforts are made to ensure that employees are allowed to enhance their skills for themselves and the organization. The more dynamic the environment, the more important skill enhancement is for the firm and the individual.
4. Use good change management processes to help the firm succeed in introducing newness into the organization.

2. Three Basic Types of Organizational Processes

There are three basic organizational processes—buying and partnering, developing newness within the firm, and entrepreneurially exploiting a space in the environment. The diagram below delineates the three types. Buying and partnering includes mergers and acquisitions, joint ventures, contractual agreements, and other forms of acquiring technology/innovation from external sources. Internal sources of new technology/innovation for the organization include research and development of new products as well as reconfiguring or developing new processes, or ways of doing things. This can be organization structure or redesigning an assembly line. Adding robotics to a manufacturing process may be an internally driven process, or a firm may buy a robotics manufacturer to acquire the capability to add robotics to the assembly process.



Creating new technologies/innovations involves exploiting a space in the environment through entrepreneurial or new business development activities.

DID YOU KNOW

Michael Dell started Dell in his dormitory room at University of Texas. He wanted a better computer than he could buy, so he bought parts and assembled his own. Friends asked him to build one for them. He realized there was an innovative process of customizing computers and delivering directly from the manufacturer to the customer. Michael Dell's exploitation of the custom-built, direct manufacturer-to-customer delivery led to a multibillion dollar business.

The following table lists the advantages and disadvantages of each of the technology/innovation creation methods.

Method	Advantages	Disadvantages
External Processes: M&A, joint ventures, contractual relationships, cross-organizational projects, informal relationships	1. Quicker 2. Blending rather than discovering 3. Often less costly	1. Requires bringing different firm cultures together 2. Often leads to perception of winners and losers 3. Not-invented-here syndrome
Internal Processes: R&D	1. Clear ownership of the technology/innovation 2. Legal protections may be stronger	1. Often takes longer 2. Key personnel may leave at a critical time 3. Can be very costly
New Business/Entrepreneurship	1. Usually more agile and flexible in the marketplace 2. Dedicated leadership—it is their "baby"	1. Highest risk factor 2. Lack of skills within the firm to do things besides innovation 3. Usually have very little slack

REFLECT

1. How do managers develop technology and innovation?
2. What are the advantages and disadvantages of each creation method?

SUMMARY

In this lesson, you learned about the ways organizations develop technology and innovation. You learned that there are four **organization-level activities** a firm should perform to develop a successful management of technology and innovation strategy: design systems and processes that can identify, assess, and develop technology-based opportunities; identify communication needs and efficiently turn data into information; develop employees through training and learning opportunities; and use good change management processes. You also learned about the **three basic types of organizational processes**, which are buying and partnering, developing newness within the firm, and entrepreneurially exploiting a space in the environment.

Best of luck in your learning!

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Teece D., Peterar M., Leih, S. (2016). Dynamic capabilities and organizational agility: Risk, uncertainty, and strategy in the innovation economy. *California Management Review. 58*(4), 3-35.

Sources of Technology and Innovation

by Sophia

WHAT'S COVERED

In this lesson, you will learn about some of the sources of technology and innovation development, and when they are best used. Specifically, this lesson will cover:

1. External Processes for Developing and Acquiring Technology and Innovation
   a. Common Types of External Processes
2. Research and Development (R&D)
3. Scanning the External Environment

1. External Processes for Developing and Acquiring Technology and Innovation

The external processes for developing and acquiring technology and innovation include a variety of options. They are most successfully used under the following circumstances:

1. The product line or the processes of the firm have fallen behind those of its competitors.
2. A new entrant into the market of the industry has changed the competitive dynamics.
3. A firm believes that its product mix or way of doing things is not going to be successful in the long run.

The major advantage of using an external process is speed—the time needed to blend an acquired technology or innovation is usually much shorter than the time required to try to make a discovery and bring it to market or implement it within the firm. Often, the external processes are less costly. The disadvantages are tied to the need to blend different firms or bring “others” into the activities of the firm. For example, there may be cultural conflicts in an acquisition or there may be resistance to acceptance of the newness that is brought into the firm.

1a. Common Types of External Processes

The most common types of external processes used to enhance technology and innovation in a firm include:

1. **Mergers/acquisitions (M&A)**, which involve ownership changes within the firms. For an acquisition, one firm buys another; for a merger, the two firms come together and form a new firm. The essence of both of these approaches is that a new, larger organizational entity is formed. The new firm should have more market power (be larger) and should gain knowledge about a technology or domain of activity. The blending of two cultures, two sets of processes, and two structures are all potential disadvantages of M&A activity.
2. **Joint ventures** are long-term alliances that involve the creation of a new entity to specifically carry out a product/process innovation. The entity is usually governed by a contractual relationship that specifies the

contributions and obligations of the partners in the joint venture. There are potential culture clashes as well as the potential for **strategic drift**—losing strategic focus on the reasons for the joint venture.

3. **Franchise agreements** are usually long-term agreements that involve long payoffs for the sharing of known technology. Fast food restaurants, such as McDonald's, use franchise agreements with store owners. McDonald's provides R&D for new processes and new products. The store owners (franchisees) pay a fee for the use of the name and the marketing of the product. The contract and monitoring costs associated with franchise agreements are the big disadvantage of this type of alliance.
4. **Licensing agreements** involve technology acquisition without R&D. For example, Dolby contracts with producers of various types of sound equipment to allow them to use their technology to have better sound quality. Licensing agreements are quite common in high-tech industries. The contract costs and constraints are the disadvantages of licensing agreements.
5. **Formal and informal contracts** are used to allow firms to share technology between them. For formal contracts, the length of time the contract is enforceable is a defining characteristic. The more formal a contract, usually the longer it is, and it usually includes more details about the usage and limitations of the technology. For the informal contract, the advantage is that if the activity is no longer beneficial, it is much easier to disband.

TERMS TO KNOW

Mergers and Acquisitions
For an acquisition, one firm buys another; for a merger, the two firms come together and form a new firm.

Joint Ventures
Long-term alliances that involve the creation of a new entity to specifically carry out a product/process innovation.

Strategic Drift
Occurs when a joint venture loses strategic focus on the reasons for the joint venture.

Franchise Agreements
Long-term agreements that involve long payoffs for the sharing of known technology.

Licensing Agreements
Involve technology acquisition without research and development.

Formal and Informal Contracts
Used to allow firms to share technology between each other.

2. Research and Development (R&D)

The most common type of internal process for technology and innovation in the organization is**research and development (R&D)**. R&D involves the seeking and developing of new technologies, products, and/or processes through creative efforts within the firm. The benefits of internal processes include ownership of the technology/innovation that provide legal protections (i.e., patents and trademarks). In addition, the understanding and the knowledge gained from the process of R&D can give the firm a head start on the next generation of technology. Apple's place as a first mover in the technology of laptops and smartphones allowed it to maintain a creative advantage for a number of years. The disadvantages of R&D are that it is usually slower and more costly and can be disrupted by the departure of key personnel.

DID YOU KNOW

The death of Steve Jobs has slowed the innovation of Apple in the eyes of many consumers.

TERM TO KNOW

Research and Development (R&D)
Involves the seeking and developing of new technologies, products, and/or processes through creative efforts within the firm.

3. Scanning the External Environment

To keep pace with changes in technology and to keep up with needed innovation processes, individuals within the firm must keep track of what competitors are doing as well as what inventions or discoveries may usurp an industry's place in the market. This is an external process, and that involves scanning the environment. The information gathered during scanning should inform the firm about the general trends and opportunities to create new value. Internally, the firm wants to understand the task and processes as well as understand the skills that currently exist in the organization.

By identifying potential future scenarios in the external environment and understanding what resources and capabilities the firm has, the task for those managing technology and innovation becomes answering the key questions:

1. Where are we now?
2. Where do we want to be?
3. What do we need to move from here to there?

REFLECT

How do you keep up with a constantly evolving environment of technology and innovation?

SUMMARY

In this lesson, you learned about some of the sources of technology and innovation development, and when they are best used. You learned that there are a variety of options for **external processes for developing and acquiring technology and innovation**; these external process are typically faster and less costly. You learned that **common types of external processes** include mergers/acquisitions (M&A), joint ventures, franchise agreements, licensing agreements, and formal and informal contracts. You also learned that the most common type of internal process for technology and innovation in the organization is **research and development (R&D)**, which involves the seeking and developing of new technologies, products, and/or processes through creative efforts within the firm. Lastly, you learned that to keep up with needed innovation processes, individuals within the firm must keep track of what competitors are doing as well as relevant inventions or discoveries in the market, via an external process that involves **scanning the environment**.

Best of luck in your learning!

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TERMS TO KNOW

Formal and Informal Contracts
Used to allow firms to share technology between each other.

Franchise Agreements
Long-term agreements that involve long payoffs for the sharing of known technology.

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Long-term alliances that involve the creation of a new entity to specifically carry out a product/process innovation.

Licensing Agreements
Involve technology acquisition without R&D.

Mergers and Acquisitions
For an acquisition, one firm buys another; for a merger, the two firms come together and form a new firm.

Research and Development (R&D)
Involves the seeking and developing of new technologies, products, and/or processes through creative efforts within the firm.

Strategic Drift
Occurs when a joint venture loses strategic focus on the reasons for the joint venture.

An Introduction to Human Resource Management

by Sophia

WHAT'S COVERED

In this lesson, you will learn about the evolution of human resource management and the value it adds in today's organizations. Specifically, this lesson will cover:

1. An Introduction to Human Resource Management
2. The Purpose of Human Resource Management
3. The Value of Human Resource Management
4. Key Life Cycle Process Areas

1. An Introduction to Human Resource Management

Human resource management is an area that has evolved a great deal over the last few decades. From the days of the very tactical "personnel" management to the current and more strategic state of human resources, businesses and HR professionals alike have changed the way they see the function. In the current economy, human capital assets (i.e., people) are the greatest value creators. Companies compete for talent, and they distinguish themselves in their business performance by the talent they have in their ranks. Human resource management, therefore, becomes a key lever companies can utilize to find, recruit, develop, and grow talent for competitive advantage. This chapter discusses the value and benefits that human resource management brings to an organization, as well as the challenges that the function still faces as a strategic partner to the business.

TERMS TO KNOW

Human Resource Management
The management of people within organizations, focusing on the touchpoints of the employee life cycle.

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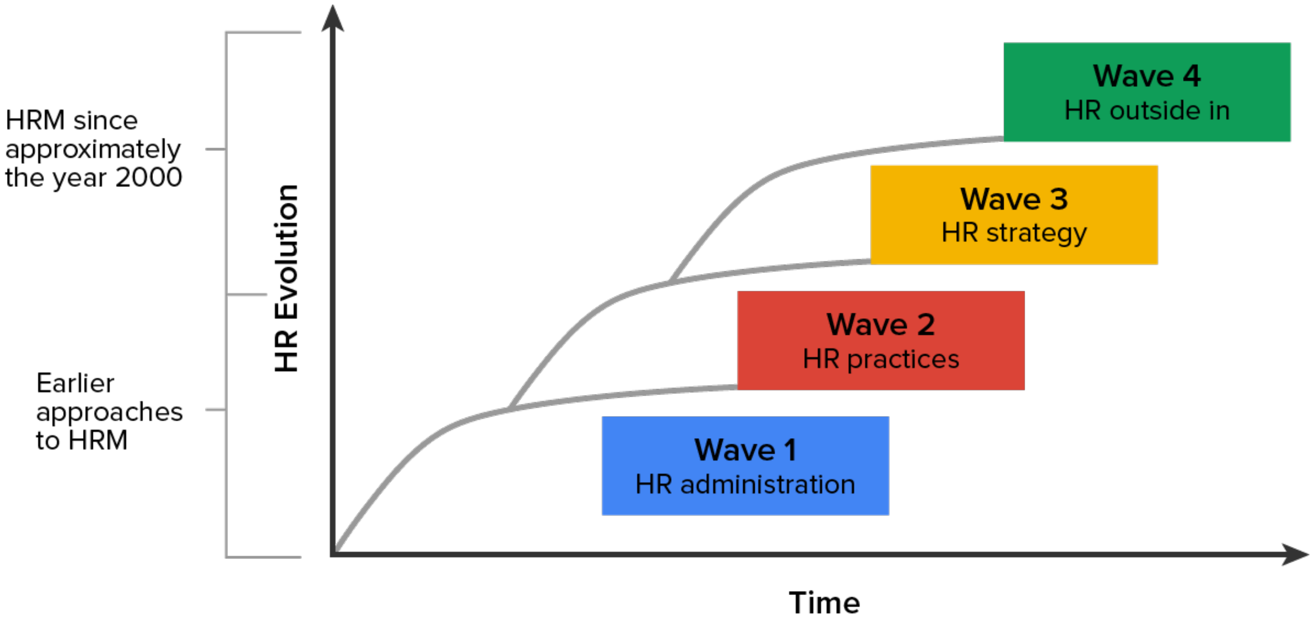
2. The Purpose of Human Resource Management

Human resource management over the years has served many purposes within an organization. From its earliest inception as a primarily compliance-type function, it has further expanded and evolved into its current state as a key driver of human capital development. In the book, *HR From the Outside In*, the authors describe the evolution of HR work in "waves" (Ulrich et al., 2012)



- Wave 1 focused on the administrative work of HR personnel, such as the terms and conditions of work, delivery of HR services, and regulatory compliance. This administrative side still exists in HR today, but it is often accomplished differently via technology and outsourcing solutions. The quality of HR services and HR's credibility came from the ability to run administrative processes and solve administrative issues effectively.
- Wave 2 focused on the design of innovative HR practice areas such as compensation, learning, communication, and sourcing. The HR professionals in these practice areas began to interact and share with each other to build a consistent approach to human resource management. The HR credibility in Wave 2 came from the delivery of best-practice HR solutions.
- Wave 3 HR, over the last 15–20 years or so, has focused on the integration of HR strategy with the overall business strategy. Human resources appropriately began to look at the business strategy to determine what HR priorities to work on and how to best use resources. HR began to be a true partner to the business, and the credibility of HR was dependent upon HR having a seat at the table when the business was having strategic discussions.
- In Wave 4, HR continues to be a partner to the business, but has also become a competitive practice for responding to external business conditions. HR looks outside their organizations to customers, investors, and communities to define success—in the form of customer share, investor confidence, and community reputation. HR's credibility is thus defined in terms of its ability to support and drive these external metrics. Although each "wave" of HR's evolution is important and must be managed effectively, it is the "outside in" perspective that allows the human resource management function to shine via the external reputation and successes of the organization.

IN CONTEXT

Human resources is a key function within any company, but not all companies are able to afford or justify full-time HR staff. Over the last decade, HR outsourcing has become a good business decision for many small companies whose current staff doesn't have the bandwidth or expertise to take on the risks of employee relations issues, benefits and payroll, or HR compliance responsibilities. This has led many HR practitioners to try out their entrepreneurial skills in the areas of HR outsourcing and "fractional HR."

Human resources outsourcing is very commonly used by smaller companies (and often large companies too) to cover such tasks as benefits and payroll management. This is an area that has been outsourced to third parties for many years. More recent is the trend to have "fractional HR" resources to help with the daily/weekly/monthly HR compliance, employee relations, and talent management issues that companies need to address. Fractional HR is a growing industry, and it has become the service offering of many entrepreneurial HR ventures. Fractional HR is essentially as it sounds—it is the offering of HR services to a company on a part-time or intermittent basis when the company may not be able to justify the cost of a full-time HR resource. An HR professional can be available onsite for a specified number of hours or days weekly or monthly, depending on the company's needs and budget. The HR professional handles everything from HR compliance issues and training to employee issues support. Also, for companies that are keen on development of employees, the HR resource can drive the talent management processes—such as performance management, succession planning, training, and development—for companies who require more than just basic HR compliance services.

How does a business leader decide whether HR outsourcing is needed? There are generally two factors that drive a leader to consider fractional HR or HR outsourcing—time and risk. If a leader is spending too much time on HR issues and employee relations, he may decide that it is a smart tradeoff to outsource these tasks to a professional. In addition, the risk inherent in some HR issues can be very great, so the threat of having a lawsuit or feeling that the company is exposed can lead the company to seek help from a fractional HR professional.

HR entrepreneurs have taken full advantage of this important trend, which many say will likely continue as small companies grow and large companies decide to off-load HR work to third parties. Some HR companies offer fractional HR as part of their stated HR services, in addition to payroll and benefits support, compensation, and other HR programmatic support. Having a fractional HR resource in place will often illuminate the need for other HR services and program builds, which are generally supported by those same companies. Whether you are an individual HR practitioner or have a small company of HR practitioners and consultants, fractional HR and HR outsourcing can be a very viable and financially rewarding business model. It can also be very personally rewarding, as the HR professional enables smaller companies to grow and thrive, knowing that its HR compliance and processes are covered.

BRAINSTORM

1. What do you believe is contributing to the growth of the fractional HR and HR outsourcing trend? Do you expect this trend to continue?
2. At what point should a company consider bringing on a full-time HR resource instead of using a fractional HR resource? What questions should the company ask itself?

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3. The Value of Human Resource Management

Human resource management provides value to an organization, to a large extent, via its management of the overall **employee life cycle** that employees follow—from hiring and onboarding, to performance management and talent development, all the way through to transitions such as job change and promotion, to retirement and exit.

BIG IDEA

Human capital is a key competitive advantage to companies, and those who utilize their human resource partners effectively to drive their human capital strategy will reap the benefits.

TERMS TO KNOW

Employee Life Cycle

The various stages of engagement of an employee—attraction, recruitment, onboarding, development, retention, separation.

Human Capital

The skills, knowledge, and experience of an individual or group, and the associated value to an organization.

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4. Key Life Cycle Process Areas

Human resource management includes the leadership and facilitation of the following key life cycle process areas:

- Human resources compliance
- Employee selection, hiring, and onboarding
- Performance management
- Compensation rewards and benefits
- Talent development and succession planning

Human resources is responsible for driving the strategy and policies in these areas to be in accordance with and in support of the overall business strategy. Each of these areas provides a key benefit to the organization and impacts the organization's value proposition to its employees.

REFLECT

1. How has the function of human resource management evolved over the years?
2. In what way do you usually interact with human resources?

SUMMARY

In this lesson, you covered **an introduction to human resource management** and the value and benefits that it brings to an organization as a lever to find, recruit, develop, and grow talent for competitive advantage. You learned about **the purpose of human resource management**, which has evolved from a primarily compliance-type function to a key driver of human capital development. This is a process that can be described in terms of the waves of evolution, with Wave 1 focused on the administrative work of HR personnel; Wave 2 focused on the design of innovative HR practice areas such as compensation, learning, communication, and sourcing; Wave 3 focused on the integration of HR strategy with the overall business strategy; and Wave 4, in which HR continues to be a partner to the business, as well as a competitive practice for responding to external business conditions. You learned that while human resources is a key function within any company, not all companies can afford or justify full-time HR staff, leading some companies to use full-time or fractional HR outsourcing. You also learned that **the value of human resource management** is inherent in its management of the overall employee life cycle, including the leadership and facilitation of **key life cycle process areas**.

Best of luck in your learning!

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Ulrich, D., Younger, J., Brockbank, W., & Ulrich, M. (2012). *HR from the outside in: Six competencies for the future of human resources*. McGraw Hill Professional.

TERMS TO KNOW

Employee Life Cycle
The various stages of engagement of an employee—attraction, recruitment, onboarding, development, retention, separation.

Human Capital
The skills, knowledge, and experience of an individual or group, and the associated value to an organization.

Human Resource Management
The management of people within organizations, focusing on the touchpoints of the employee life cycle.

Human Resource Management and Compliance

by Sophia

WHAT'S COVERED

In this lesson, you will learn how the compliance role of human resources adds value to an organization. Specifically, this lesson will cover:

1. Human Resource Compliance
   a. Common Employer-Employee Relationship Laws and Regulations
2. Notification and Accountability Best Practices

1. Human Resource Compliance

Human resource compliance is an area that traces back to the very origin of the human resources function—to administrative and regulatory functions. Compliance continues to be a very important area that HR manages, and there are numerous regulations and laws that govern the employment relationship. HR professionals must be able to understand and navigate these laws to help their organizations remain compliant and avoid having to pay fines or penalties. The additional threat of reputational harm to the organization is another reason that HR needs to be aware and alert to any potential gaps in compliance.

Some of the most common examples of laws and regulations that govern the**employer-employee relationship** include the following (SHRM.org):

Human Resource Compliance Acts	Description
Age Discrimination in Employment Act (ADEA)	The Age Discrimination in Employment Act (ADEA) of 1967 protects individuals who are 40 years of age or older from employment discrimination based on age. These protections apply to both employees and job applicants. It also makes it unlawful to discriminate based on age with respect to any terms of employment, such as hiring, firing, promotion, layoff, compensation, benefits, job assignments, and training.
Americans with Disabilities Act (ADA)	The Americans with Disabilities Act (ADA) of 1990 prohibits private employers, state and local governments, employment agencies, and labor unions from discriminating against qualified individuals with disabilities. The ADA defines an individual with a disability as a person who: 1) has a mental or physical impairment that substantially limits one or more major life activities, 2) has a record of such impairment, or 3) is regarded as having such impairment. An employer is required to make a reasonable accommodation to the known disability of a qualified applicant or employee if it would not impose an “undue hardship” on the operation of the employer’s business.
	The Fair Labor Standards Act (FLSA) of 1938 established the minimum wage, overtime pay,

Fair Labor Standards Act (FLSA)	recordkeeping, and youth employment standards affecting full-time and part-time workers in the private sector and in federal, state, and local governments. Special rules apply to state and local government employment involving fire protection and law enforcement activities, volunteer services, and compensatory time off instead of cash overtime pay.
Family and Medical Leave Act (FMLA)	The Family and Medical Leave Act (FMLA) of 1993 entitles eligible employees to take up to 12 weeks of unpaid, job-protected leave in a 12-month period for specified family and medical reasons. FMLA applies to all public agencies, including state, local, and federal employers, local education agencies (schools), and private-sector employers who employed 50 or more employees in 20 or more workweeks in the current or preceding calendar year, including joint employers and successors of covered employers.
National Labor Relations Act (NLRA)	The National Labor Relations Act (NLRA) of 1947 extends rights to many private-sector employees, including the right to organize and bargain with their employer collectively. Employees covered by the Act are protected from certain types of employer and union misconduct and have the right to attempt to form a union where none exists.
Worker Adjustment and Retraining Notification Act (WARN)	The Worker Adjustment and Retraining Notification Act (WARN) of 1988 generally covers employers with 100 or more employees, not counting those who have worked less than six months in the last 12 months and those who work an average of less than 20 hours a week. Regular federal, state, and local government entities that provide public services are not covered. WARN protects workers, their families, and communities by requiring employers to provide notification 60 calendar days in advance of plant closings and mass layoffs.

HINT

These are just a few of the key regulatory federal statutes, regulations, and guidance that human resources professionals need to understand to confirm organizational compliance. For additional information on HR compliance resources, the **Society of Human Resource Management (SHRM)** at SHRM.org maintains a plethora of resources for the HR professional and the businesses that they support.

TERMS TO KNOW

Human Resource Compliance
The HR role to ensure adherence to laws and regulations that govern the employment relationship.

Employer-Employee Relationship
The employment relationship; the legal link between employers and employees that exists when a person performs work or services under specific conditions in return for payment.

Society of Human Resource Management (SHRM)
The world's largest HR professional society, with more than 285,000 members in more than 165 countries. It is a leading provider of resources serving the needs of HR professionals.

2. Notification and Accountability Best Practices

To ensure the successful management and oversight of the many compliance rules and regulations, the human resources team must utilize best practices to inform and hold employees accountable to HR compliance practices. Some of these best practices include education and training, documentation, and audit. Each of these helps HR achieve its important goal of maintaining HR compliance for the organization.

Education and training in the areas of compliance and labor law is critical to ensure that all applicable laws and regulations are being followed. These laws can change from year to year, so the HR professionals in the organization need to ensure that they are engaged in ongoing education and training. In many organizations, managers receive training on key rules and regulations (such as FMLA or ADA, to name a few) so that they have a foundation of knowledge when dealing with employee situations and potential risk areas. Human resources and management need to partner to ensure alignment on compliance issues—especially when there is a risk that an employee situation treads into compliance regulation territory.

Documentation of the rules and regulations—in the form of an employee handbook—can be one of the most important resources that HR can provide to the organization to mitigate compliance risk. The handbook should be updated regularly and should detail the organization's policies and procedures and how business is to be conducted. Legal counsel should review any such documentation before it is distributed to ensure that it is up-to-date and appropriate for the audience.

Scheduling HR compliance audits should be part of the company's overall strategy to avoid legal risk. Noncompliance can cause enormous financial and reputational risk to a company, so it is important to have audits that test the organization's controls and preparedness.

BIG IDEA

When the human resources function takes the lead in implementing audits and other best practices, they create real value for the organization.

REFLECT

1. What are some of the key regulations that guide the compliance work of human resource management?
2. What does an employee handbook provide to an organization?

SUMMARY

In this lesson, you learned how the compliance role of human resources adds value to an organization. You learned that **human resource compliance** is an area with its roots in administrative and regulatory functions, involving understanding and navigating the numerous regulations and laws that govern the employment relationship. You learned about some of the **common employer-employee relationship laws and regulations**, such as the Age Discrimination in Employment Act (ADEA), Americans with Disabilities Act (ADA), Fair Labor Standards Act (FLSA), Family and Medical Leave Act (FMLA), National Labor Relations Act (NLRA), and Worker Adjustment and Retraining Notification Act (WARN). Lastly, you learned that to ensure the successful management and oversight of the many compliance rules and regulations, the human resources team must adhere to **notification and accountability best practices**, including education and training, documentation, and audit.

Best of luck in your learning!

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TERMS TO KNOW

Employer-Employee Relationship
The employment relationship; the legal link between employers and employees that exists when a person performs work or services under specific conditions in return for payment.

Human Resource Compliance
The HR role to ensure adherence to laws and regulations that govern the employment relationship.

Society of Human Resource Management (SHRM)
The world's largest HR professional society, with more than 285,000 members in more than 165 countries. It is a leading provider of resources serving the needs of HR professionals.

Performance Management

by Sophia

WHAT'S COVERED

In this lesson, you will learn how performance management practices impact an organization's overall performance. Specifically, this lesson will cover:

1. Introduction to Performance Management
2. Approaches to Implementation
3. Performance Management System Challenges

1. Introduction to Performance Management

Performance management practices and processes are among the most important that HR manages, yet they are also among the most contentious processes in an organization. Many people view performance management as a human resources role and believe that it is in some parallel path with the business. On the contrary, for the process to be successful, it should not only be human resources that is responsible for driving performance. For the (typically) annual performance management process, human resources and line management should partner on the implementation and ongoing communication of the process. Although HR is responsible for creating and facilitating the performance management processes, it is the organizational managers that need to strongly support the process and communicate the linkage of performance management to overall organizational goals and performance. If a business manager can't track and drive performance at the individual level, then the overall organization won't know how it's tracking on overall organizational goals. Before discussing the state of performance management in the workplace today, it is important to understand the origin of performance management. Performance management began as a simple tool to drive accountability (as it still does) but has evolved more recently into a tool used for employee development.

DID YOU KNOW

Performance management can be traced back to the U.S. military's "merit rating" system, which was created during World War I to identify poor performers for discharge or transfer (*Harvard Business Review*, 2016). After World War II, about 60% of all U.S. companies were using a performance appraisal process. By the 1960s, nearly 90% of all U.S. companies were using them.

Although the rules around job seniority determined pay increases and promotions for the unionized worker population, strong performance management scores meant good advancement prospects for managers. In the beginning, the notion of using this type of system to improve performance was more of an afterthought, and not the main purpose. By the 1960s or so, when we started to see a shortage of managerial talent, companies began to use performance systems to develop employees into supervisors, and managers into executives.

EVENTS TO KNOW

> In 1981, when Jack Welch became CEO of General Electric, he championed the forced ranking system—another military creation. He did this to deal with the long-standing concern that supervisors failed to label real differences in performance (*Harvard Business Review*, 2016). GE utilized this performance management system to shed the people at the bottom. They equated performance with people's inherent capabilities and ignored their potential to grow. People were categorized as "A" players (to be rewarded), "B" players (to be accommodated), and "C" players (to be dismissed).

In the GE system, development was reserved for the "A" players—and those with high potential were chosen to advance to senior positions. Since the days of GE's forced ranking, many companies have implemented a similar forced ranking system, but many have backed away from the practice. After Jack Welch retired, GE backed away from the practice as well.

BIG IDEA

Companies, GE included, saw that this practice negatively fostered internal competition and undermined collaboration and teamwork and thus decided to drop forced ranking from their performance management processes.

TERM TO KNOW

Performance Management
The process by which an organization ensures that its overall goals are being met by evaluating the performance of individuals within that organization.

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2. Approaches to Implementation

In a survey by Deloitte Services, 58% of executives believed that their current performance management approach drives neither employee engagement nor high performance. They needed something more nimble, real-time, and individualized—and focused on fueling performance in the future rather than assessing it in the past (Buckingham & Goodall, 2015). In light of this study, Deloitte became one of the companies that has recently sought to redesign their performance processes. As part of their "radical redesign," they seek to see performance at the individual level, and thus they ask team leaders about their own future actions and decisions with respect to each individual. They ask leaders what they'd do with their team members, not what they think of them (Buckingham & Goodall, 2015). Although there has been some discussion over the last several years about some companies wanting to drop performance appraisals completely, most of the research seems to support that the total absence of performance management doesn't help either. A recent global survey by CEB Global reports that more than 9,000 managers and employees think that not having performance evaluations is worse than having them (Goler et al., 2016). Their findings indicate that even though every organization has people who are unhappy with their bonuses or disappointed that they weren't promoted, research shows that employees are more willing to accept an undesirable outcome when the process is fair.

BIG IDEA

The key question really becomes: How can HR help the business create a process to fairly evaluate performance and enhance employee development while not burdening the business with undue bureaucracy and non-value-added activities?

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3. Performance Management System Challenges

As organizations evaluate their options for a performance management system, human resources and business leadership need to consider several challenges that will need to be addressed—no matter what the system (Capelli & Tavis, 2016).

The first is the challenge of aligning individual and company goals. Traditionally, the model has been to "cascade" goals down through the organization, and employees are supposed to create goals that reflect and support the direction set at the top. The notion of SMART goals (Specific, Measurable, Achievable, Relevant, Timebound) has made the rounds over the years, but goal setting can still be challenging if business goals are complex or if employee goals seem more relatable to specific project work than to the overall top-line goals. The business and the individual need to be able to respond to goal shifts, which occur very often in response to the rapid rate of change and changing customer needs.

HINT

This is an ongoing issue that human resources and business leadership will need to reconcile.

The next key challenge to think about when designing a performance management process is rewarding performance. Reward structures are discussed later in this chapter, but reward systems must be rooted in performance management systems. Currently, the companies that are redesigning their performance processes are trying to figure out how their new practices will impact their **pay-for-performance** models. Companies don't appear to be abandoning the concept of rewarding employees based on and driven by their performance, so the linkage between the two will need to be redefined as the systems are changed.

The identification of poor performers is a challenge that has existed since the earliest days of performance management, and even the most formal performance management process doesn't seem to be particularly good at weeding out poor performers. A lot of this is due to the managers who evaluate employees and are reluctant to address the poor performers that they're seeing. Also, the annual performance management process tends to make some managers feel that the poor performance should be overlooked during the year and only addressed (often ineffectively) during a once-per-year review. Whatever new performance management models an organization adopts, they will have to ensure that poor performance is dealt with in real time and is communicated, documented, and managed closely.

Avoiding legal troubles is another ongoing challenge for organizations and is another reason for real-time communication and documentation of performance issues. Human resources supports managers as they deal with employee relations issues, and the thought of not having a formal, numerical ratings system is unfathomable for some people who worry about defending themselves against litigation. However, because even formal performance processes can be subjective and may reveal ratings bias, neither the traditional formal process nor some of the radical new approaches can guarantee that legal troubles will never develop.

CONCEPT TO KNOW

The best strategy for effective and fair performance management is real-time communication and documentation of issues. The employee is told about his or her performance issues (in as close to real time as possible), and the manager has documented the performance issues and conversations objectively and has engaged human resources with any larger or more complex issues.

"Managing the feedback firehose" and keeping conversations, documentation, and feedback in a place where it can be tracked and utilized is an ongoing challenge. The typical annual performance process is not conducive to capturing ongoing feedback and conversations. There have been some new technologies introduced that can be used to capture ongoing conversations between managers and employees.

↪ EXAMPLE General Electric uses an app called PD@GE (PD = performance development) that allows managers to pull up notes and materials from prior conversations with employees. IBM has a similar app that allows peer-to-peer feedback.

Although there are clearly some technology solutions that can be used to help communicate and collect feedback, human resources will need to continue to communicate and reinforce rules around objectivity and appropriate use of the tools.

BIG IDEA

Performance management processes—traditional and inventive new approaches alike—will face the same challenges over time. Human resource management professionals need to be aware of these challenges and design a performance management system that addresses them in the format and within the context of their culture.

REFLECT

1. Where did the concept of performance management originate?
2. What are some of the key challenges of any performance management process?

TERMS TO KNOW

Pay-For-Performance Model
The process and structure for tying individual performance levels to rewards levels.

SUMMARY

In this lesson, you covered an **introduction to performance management**, noting that while these practices and processes are among the most important that HR manages, they are also among the most contentious processes in an organization. In addition, although HR is responsible for creating and facilitating the performance management processes, the organizational managers must also strongly support the process and link performance management to overall organizational goals and performance. You learned that recent studies indicate that current performance management approaches are not always effective in driving employee engagement and high performance, leading to redesigns in **approaches to implementation** that focus on processes that fairly evaluate performance and enhance employee development without undue bureaucracy and non-value-added activities. You also learned about several **performance management system challenges**, including aligning individual and company goals, rewarding performance, identification of poor performers, avoiding legal troubles, and communicating and collecting feedback.

Best of luck in your learning!

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TERMS TO KNOW

Pay-For-Performance Model
The process and structure for tying individual performance levels to rewards levels.

Performance Management
The process by which an organization ensures that its overall goals are being met by evaluating the performance of individuals within that organization.

Influencing Employee Performance and Motivation

by Sophia

WHAT'S COVERED

In this lesson, you will learn how companies use rewards strategies to influence employee performance and motivation. Specifically, this lesson will cover:

1. Performance Management and Rewards Systems
2. Performance Management Program Components
3. Rewards System Processes

1. Performance Management and Rewards Systems

Both performance management and rewards systems are key levers that can be used to motivate and drive individual and group performance, which leads to overall organizational performance, productivity, and growth. Performance and rewards systems are also "cultural" in that they provide a glimpse into the way a company manages the performance (or nonperformance) of its employees, and to what extent they are willing to differentiate and reward for that performance. There has been a great deal of discussion over the years to identify best practices in the ways we differentiate and reward employees, which will also drive employee performance and motivation.

Before we can talk about best practices and findings in rewards and motivation systems, we must first define the terms. **Rewards systems** are the framework that an organization (generally via human resources) creates and manages to ensure that employee performance is reciprocated with some sort of reward (e.g., monetary or other extrinsic reward) that will drive and motivate the employee to continue to perform for the organization. Rewards programs consist primarily of compensation programs and policies, but can also include employee benefits and other extrinsic rewards that fulfill employee needs.

Within human resource management, the primary focus of a rewards program in an organization is to successfully implement a compensation system. Most organizations strive to implement a **pay-for-performance** compensation program that offers competitive pay in the marketplace and allows differentiation of compensation based on employee performance. Pay for performance begins with a philosophy that an organization adopts which states that they seek to reward the best-performing employees to enhance business performance and take care of those who can have the greatest impact.

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

- Recognize and reward high performers (46.9%)

- Increase the likelihood of achieving corporate goals (32.5%)
- Improve productivity (7.8%)
- Move away from an entitlement culture (7.8%)

The study also showed that the drivers differed depending on whether the company was high performing or lower performing (Miller, 2011). Almost half of high-performing organizations indicated that recognizing and rewarding top performers was the main driver of their pay-for-performance strategy, making it number one on the list of primary drivers. Lower-performing organizations did not appear to be as sure about the drivers behind their strategy. The number one driver among this group was achieving corporate goals. It appears that those top-performing organizations that implement a pay-for-performance strategy truly believe in the idea of differentiating among different levels of performance.

TERMS TO KNOW

Rewards Systems
The framework that an organization creates and manages to ensure that employee performance is reciprocated with some sort of reward that will drive and motivate the employee to continue to perform for the organization. Rewards programs consist primarily of compensation programs and policies, but can also include employee benefits and other extrinsic rewards that fulfill employee needs.

Pay-for-Performance Model
The process and structure for tying individual performance levels to rewards levels.

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2. Performance Management Program Components

A pay-for-performance program may have many components, and the human resources organization has the challenge of designing, analyzing, communicating, and managing the different components to ensure that the philosophy and the practices themselves are being carried out appropriately and legally. Human resource management's role in establishing pay for performance is that HR must engage business leadership to establish the following elements of the framework:

1. *Define* the organization's pay philosophy. Leadership needs to agree that they will promote a culture that rewards employees for strong performance.
2. *Review* the financial impacts of creating pay-for-performance changes. How much differentiation of performance will we have? What is the cost of doing this?
3. *Identify* any gaps that exist in the current processes. If any of the current human resources and compensation policies conflict with pay for performance, they should be reviewed and changed. Examples may lie in the performance management process, the merit increase process, and the short-term and long-term bonus processes. If the performance management process has gaps, these should be corrected before pay for performance is implemented; otherwise this will generate more distrust in the system. The salary structure should also be benchmarked with market data to ensure that the organization is compensating according to where it wishes to be in the marketplace.
4. *Update* compensation processes with new pay-for-performance elements. This includes the design of a **merit matrix** that ties employee annual pay increases to performance. Other areas of focus should be the

design of a short-term bonus matrix and a long-term bonus pay-for-performance strategy. In other words, how does performance drive the bonus payouts? What is the differential (or multiplier) for each level?

5. *Communicate* and train managers and employees on the pay-for-performance philosophy and process changes. Explain the changes in the context of the overall culture of the organization. This is a long-term investment in talent and performance.

TERM TO KNOW

Merit Matrix
A calculation table that provides a framework for merit increases based on performance levels.

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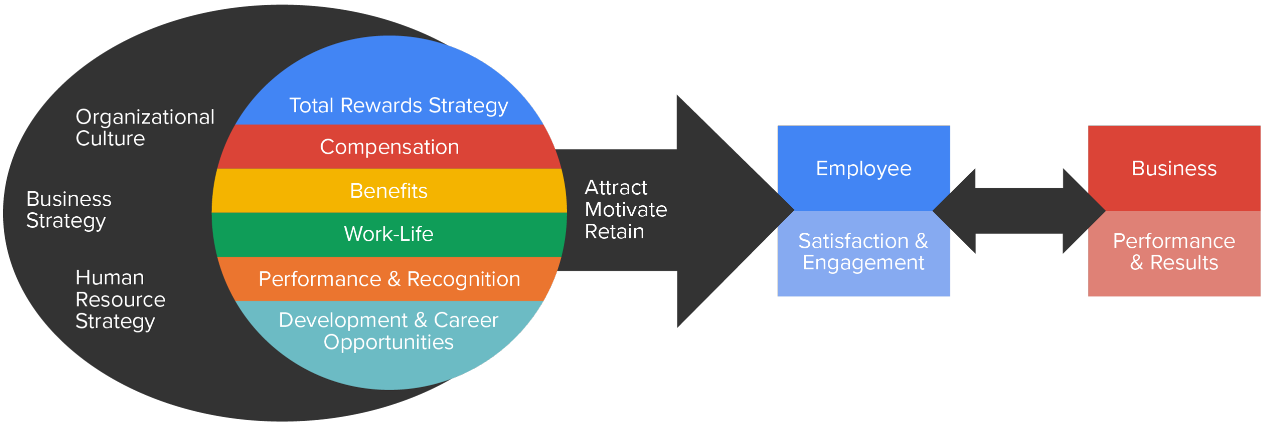
3. Rewards System Processes

Human resource management professionals play a key role in the rewards processes, and employee compensation is only one piece (although a key piece!) of the "total rewards" pie. World at Work defines a **total rewards strategy** as comprised of six elements of total rewards, including:

- *Compensation*—Pay provided by an employer to its employees for services rendered (i.e., time, effort, and skill). This includes both fixed and variable pay tied to performance levels.
- *Benefits*—Programs an employer uses to supplement the cash compensation employees receive. These health, income protection, savings, and retirement programs provide security for employees and their families.
- *Work-life effectiveness*—A specific set of organizational practices, policies, and programs, plus a philosophy that actively supports efforts to help employees achieve success at both work and home.
- *Recognition*—Formal or informal programs that acknowledge or give special attention to employee actions, efforts, behavior, or performance and support business strategy by reinforcing behaviors (e.g., extraordinary accomplishments) that contribute to organizational success.
- *Performance management*—The alignment of organizational, team, and individual efforts toward the achievement of business goals and organizational success. Performance management includes establishing expectations, skill demonstration, assessment, feedback, and continuous improvement.
- *Talent development*—Provides the opportunity and tools for employees to advance their skills and competencies in both their short- and long-term careers.



REFLECT

1. What does a pay-for-performance strategy mean for a company?
2. What is the first step in defining an organization's pay-for-performance strategy?

TERMS TO KNOW

Total Rewards Strategy
As coined by World at Work, includes compensation, benefits, work-life effectiveness, recognition, performance management, and talent development.

SUMMARY

In this lesson, you learned how companies use rewards strategies to influence employee performance and motivation. You learned that both **performance management and rewards systems** are key levers that can be used to motivate and drive individual and group performance, which leads to overall organizational performance, productivity, and growth. You learned that rewards programs consist primarily of compensation programs and policies, such as a pay-for-performance model, although the drivers for moving to this type of program differ between high-performing and lower-performing companies. You also learned that HR management's role in establishing pay for performance involves engaging business leadership to establish key **performance management program components**: defining the organization's pay philosophy; reviewing the financial aspects; identifying gaps in the current processes; updating compensation processes; and communicating and training managers and employees. Lastly, you learned that HR management professionals play a key role in **rewards system processes**, including compensation, benefits, work-life effectiveness, recognition, performance management, and talent development.

Best of luck in your learning!

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TERMS TO KNOW

Merit Matrix
A calculation table that provides a framework for merit increases based on performance levels.

Pay-for-Performance Model
The process and structure for tying individual performance levels to rewards levels.

Rewards Systems
The framework that an organization creates and manages to ensure that employee performance is reciprocated with some sort of reward that will drive and motivate the employee to continue to perform for the organization. Rewards programs consist primarily of compensation programs and policies, but can also include employee benefits and other extrinsic rewards that fulfill employee needs.

Total Rewards Strategy
As coined by World at Work, includes compensation, benefits, work-life effectiveness, recognition, performance management, and talent development.

Building an Organization for the Future

by Sophia

WHAT'S COVERED

In this lesson, you will learn about talent acquisition and how it can create a competitive advantage for an organization. Specifically, this lesson will cover:

1. Talent Acquisition
2. Recruiting Leadership Candidates
   a. Leadership Recruiting Best Practices

1. Talent Acquisition

We've discussed some of the key focus areas that human resource management professionals need to address to ensure that employees are performing their roles well and are being fairly rewarded for their contributions. We haven't yet addressed how we think about where these employees come from—Whom do we hire? What skills do we need now and in the future? Where will we even look for these employees? What are some best practices? **Talent acquisition** is the area within human resource management that defines the strategy for selection, recruiting, and hiring processes, and helps the organization fight the "**war for talent**" during good times and bad.

Hiring strong talent is a key source of competitive advantage for a company, yet so many companies do it poorly. Often, the recruiting and hiring processes happen reactively—someone leaves the organization and then people scramble to fill the gap. Very few companies take a longer-term, proactive approach and work to create a strategic plan for talent acquisition. In organizations today, there are often pieces of the talent acquisition process that are outsourced to external recruiters, as opposed to being managed internally by human resources employees (Fernandez-Araoz et al., 2009). While outsourcing specific searches is not an issue, there must be internal HR/talent acquisition employees responsible for creating the overall strategic plan for the recruiting function. Contract recruiters may then take responsibility for a piece of the overall process by leveraging the strategy and competencies that the HR team puts forth (Fernandez-Araoz et al., 2009).

TERMS TO KNOW

Talent Acquisition
The process of finding and acquiring skilled candidates for employment within a company; it generally refers to a long-term view of building talent pipelines, rather than short-term recruitment.

War for Talent
Coined by McKinsey & Company in 1997, it refers to the increasing competition for recruiting and retaining talented employees.

2. Recruiting Leadership Candidates

Recruiting and hiring of high-level leadership candidates has special risks and rewards associated with it. The risk that a key leadership position is vacant or becoming vacant poses a risk to the organization if it is left open for too long. These high-level positions are often harder to fill, with fewer candidates being available and the selection of the right talent being so critical to the organization's future. The reward, however, is that with due diligence and clear goals and competencies/skills defined for the position, the HR/talent acquisition professional can create a competitive advantage through the recruitment of key high-level talent.

2a. Leadership Recruiting Best Practices

The following best practices illustrate the key steps for effective recruiting of key leadership hires. Both human resources and business leadership should partner to discuss and define each of the elements to ensure alignment and support of the recruiting plan and process (Fernandez-Araoz et al., 2009).

STEP BY STEP

1. Anticipate your needs. Every two to three years there should be a review of high-level leadership requirements based on the strategic plan. Some of the questions to answer here are:

- How many people will we need, and in what positions, in the next few years?
- What will the organizational structure look like?
- What must our leadership pipeline contain today to ensure that we find and develop tomorrow's leaders?

2. Specify the job. For each leadership position identified, specify competencies needed in each role. For example:

- Job-based: What capabilities will the job require?
- Team-based: Will the applicant need to manage political dynamics?
- Firm-based: What resources (supporting, talent, technology) will the organization need to provide the person who fills this role?

3. Develop the pool. Cast a wide net for candidates by asking suppliers, customers, board members, professional service providers, and trusted insiders for suggestions. It helps to start this process even before you have a role that you're hiring for. During succession planning and talent discussions internally, it helps to start making a list of internal and external contacts and potential candidates before the need arises.

4. Assess the candidates. Have the hiring manager, the second-level manager, and the top HR manager conduct a "behavioral event interview" with each candidate. Candidates will describe experiences they've had that are like situations they'll face in the organization. Gain an understanding of how the candidate acted and the reasoning behind their actions. Make sure to evaluate a broad range of references to ask about results the candidate achieved.

5. Close the deal. Once you have chosen the final candidate, you can increase the chance that the job offer will be accepted by:

- Sharing passion about the company and role, and showing genuine interest in the candidate;
- Acknowledging the opportunities and challenges of the role, differentiating the opportunities at your

organization from those of your competitor; and

- Striking a creative balance between salary, bonuses, and other long-term incentives.

6. Integrate the newcomer. It is important to integrate new hires into the company's culture:

- During the first few months, have the managers and the HR team check in with each new hire.
- Assign a mentor (star employee) to provide ongoing support to each new hire.
- Check in with the new hire to ensure that they are getting enough support, and inquire about what other support might be needed. Ensure that new hires are adequately building new relationships throughout the organization.

By following these best practices, human resources and business leadership can ensure that the new hire is integrating well and has the best possible start in the new role.

BIG IDEA

Talent acquisition is a key element of any human resource management program, and the right process can mean the difference between a poor hire and a distinct competitive advantage gained through top talent.

REFLECT

1. What are some best practices for recruiting and hiring leadership candidates?
2. How can we ensure a more successful integration of the new hire?

SUMMARY

In this lesson, you learned about **talent acquisition**—the area within human resource management that defines the strategy for selection, recruiting, and hiring processes—and how it can create a competitive advantage for an organization by helping it to win the "war for talent" (the competition for recruiting and retaining talented employees). You also learned that **recruiting leadership candidates** has special risks and rewards associated with it. However, with both human resources and business leadership following these **leadership recruiting practices**, they can ensure effective recruiting of key leadership hires: 1) anticipate your needs; 2) specify the job; 3) develop the pool; 4) assess the candidates; 5) close the deal; and 6) integrate the newcomer.

Best of luck in your learning!

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TERMS TO KNOW

Talent Acquisition
The process of finding and acquiring skilled candidates for employment within a company; it generally refers to a long-term view of building talent pipelines, rather than short-term recruitment.

War for Talent
Coined by McKinsey & Company in 1997, it refers to the increasing competition for recruiting and retaining talented employees.

Talent Development and Succession Planning

by Sophia

WHAT'S COVERED

In this lesson, you will learn about the benefits of talent development and succession planning. Specifically, this lesson will cover:

1. Talent Development and Succession Planning
2. The Talent Review Process
   a. Potential
   b. Facilitation
3. Succession Planning
4. Follow-up Development Activities

1. Talent Development and Succession Planning

Talent development and succession planning are two of the most critical human resource management processes within an organization. You can work tirelessly to recruit and hire the right people, and you can spend a lot of time defining and redesigning your performance and rewards programs, but if you can't make decisions that effectively assess and develop the key talent that you have, then everything else feels like a wasted effort. **Talent development** describes all processes and programs that an organization utilizes to assess and develop talent. **Succession planning** is the process for reviewing key roles and determining the readiness levels of potential internal and external candidates to fill these roles. It is an important process that is a key link between talent development and talent acquisition/recruiting.

The human resources function facilitates talent development activities and processes, but they are also heavily reliant on business inputs and support. Each of the talent development processes that will be discussed here require heavy involvement and feedback from the business. Like performance management, talent development is a process that HR owns and facilitates, but it is a true business process that has a fundamental impact on an organization's performance.

BIG IDEA

Talent is a competitive advantage, and in the age of the "war for talent," an organization needs to have a plan for developing its key talent.

TERMS TO KNOW

Talent Development
Integrated HR processes that are created to attract, develop, motivate, and retain employees.

Succession Planning
The process of identifying and developing new leaders and high-potential employees to replace

current employees at a future time.

2. The Talent Review Process

One of the key tools that is used in talent development is the talent review. This process generally follows an organization's performance management process (which is primarily focused on current employee performance) and is more focused on employee development and potential for the future. Talent reviews often employ the use of a **9-box template**, which plots employee performance versus employee potential and provides the reviewer with nine distinct options, or boxes, to categorize where the employee is.

Refer to the following performance and potential grid:

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

The performance axis ratings are low/medium/high and based on the employee's recent performance management rating (Low = below target, medium = at target, and high = above target). Like the performance rating, this reflects performance against objectives and the skills and competencies required in the employee's current role and function. Performance can change over time (for example, with a promotion or job change). Performance is overall a more objective rating than potential, which leaves the rater to make some assumptions about the future.

TERM TO KNOW

9-box Template
A matrix tool used to evaluate an organization's talent pool based on performance and potential factors.

2a. Potential

Potential is defined as an employee's ability to demonstrate the behaviors necessary to be successful at the next highest level within the company. **Competencies** and behaviors are a good indicator of an employee's potential. Higher-potential employees, no matter what the level, often display the following competencies: business acumen, strategic thinking, leadership skills, people skills, learning agility, and technology skills. Other indicators of potential may include:

- Top performance in current job
- Success in other positions held (within or outside of the company)
- Education/certifications

- Significant accomplishments/events
- Willingness and desire to advance

In the talent review, the potential axis equates to potential for advancement within the organization: low = not ready to advance, medium = close to ready, and high = ready to advance. Potential does not equate to the value of an individual within the organization, nor does it state the quality of individual. There are likely many strong performers (top contributors) in every company who prefer to stay in their current role for years and be specialists of their own processes. A specialist or expert may not want to manage people, and thus would be rated as low on potential due to the lack of interest in advancement. Advancement may also mean relocation or lifestyle change that an employee is not willing to make at that time, so the employee would be rated low on potential for that reason. Potential can certainly change over time, given people's individual situations and life circumstances. Potential tends to be the more subjective ratings axis, as it involves some assumptions into what a team member could be capable of based on limited information that is available now.

IN CONTEXT

Technology in Human Resources

There has been a boom in HR technology and innovation over the last several years—and it is making some of the traditional HR systems from last decade seem enormously outdated. Some of the trends that are driving this HR tech innovation include mobile technology, social media, data analytics, and learning management. Human resources professionals need to be aware of some of the key technology innovations that have emerged as a result of these trends because there's no sign that they will be going away any time soon.

Josh Bersin of Bersin by Deloitte, Deloitte Consulting LLP, wrote about some of these HR technology innovations in his SHRM.org article "9 HR Tech Trends for 2017" (Jan. 2017). One of these technology innovations is the "performance management revolution" and the new focus on managing performance by team and not just by hierarchy. Performance management technologies have become more agile and real time, with built-in pulse surveys and easy goal tracking. Now, instead of the formal, once-a-year process that brings everything to a halt, these performance management technologies allow ongoing, real-time, and dynamic input and tracking of performance data.

Another HR tech trend named is the "rise of people analytics." Data analytics has become such a huge field, and HR's adoption of it is no exception. Some disruptive technologies in this area are predictive—they allow analysis of job change data and the prediction of successful versus unsuccessful outcomes. Predictive analytics technologies can also analyze patterns of e-mails and communications for good time-management practices, or to predict where a security leak is likely to occur. One other incredible analytics application consists of a badge that monitors employees' voices and predicts when an employee is experiencing stress.

Learning processes have changed greatly with the advent of some of these innovative HR technologies. Although many larger companies have legacy learning management systems (like Cornerstone, Saba, and SuccessFactors), there are many new and competitive options that focus on scaling video learning to the entire organization. The shift has gone from learning management to learning—with the ability to not only register and track courses online, but to take courses online. Many companies are realizing that these YouTube-like learning applications are a great complement to their existing learning systems, and it is predicted that the demand will continue to grow.

Other trends of note include technologies that manage the contingent workforce, manage wellness, and automate HR processes via artificial intelligence. It is amazing to think about so many interesting and innovative technologies that are being designed for human resources. The investment in human capital is one of the most critical investments that a company makes, and it is refreshing to see that this level of innovation is being created to manage, engage, and develop this investment.

BRAINSTORM

1. How does real-time performance management compare to the traditional annual performance process? How can a real-time process help an employee be more effective? What are some potential drawbacks?
2. Why do you think learning systems evolved in this way? Is there still a place for group classroom training? What types of learning might require classroom training, and what is better suited for online and YouTube-style learning?

TERMS TO KNOW

Potential
An employee's ability to demonstrate the behaviors necessary to be successful at the next highest level within the company.

Competencies
A set of defined behaviors that an organization might utilize to define standards for success.

2b. Facilitation

A human resources team member should facilitate the talent review process and provide leaders with clear session objectives and specific instructions in order to maintain the integrity and confidentiality of this important talent process.

After everyone being discussed has been placed in one of the boxes on the 9-box template, the leadership team should discuss key development actions for each employee. If there isn't time to discuss development activities for each employee, the group should start with the high-potential employees. After the talent review calibration process is complete, human resources should keep a master list of the documented outcomes, as well as the development activities that were suggested for everyone. HR should follow up with each of the leaders to help with the planning and execution of the development activities as needed. The key outputs of the talent review process include:

- Identification of the "high-potential" employees in the organization
- Definition of development actions/action plans for each employee
- Insight into talent gaps and issues
- Input into the succession planning process

3. Succession Planning

Succession planning generally follows shortly after (if not right after) a talent review because human resources and organizational leadership now have fresh information on the performance and potential of employees in the organization. Succession planning is a key process used to identify the depth of talent on the “bench” and the readiness of that talent to move into new roles. The process can be used to identify gaps or a lack of bench strength at any levels of the organization, but it is usually reserved for leadership roles and other key roles in the organization. In succession planning, human resources will generally sit down with the group leader to discuss succession planning for his or her group and create a defined list of leadership and other critical roles that will be reviewed for potential successors.

Once the roles for succession planning analysis have been defined, both HR and the business leader will define the following elements for each role:

- Name of incumbent
- Attrition risk of incumbent
- Names of short-term successor candidates (ready in <1 year)
- Names of mid-term successor candidates (ready in 1–3 years)
- Names of long-term successor candidates (ready in 3+ years)
- Optional—9-box rating next to each successor candidate’s name

The names of longer-term successor candidates are not as critical, but it is always helpful to understand the depth of the bench. With the information recently collected during the talent review process, HR and management will have a lot of quality information on the internal successor candidates. It is important to include external successor candidates in the succession planning analysis as well. If there are no candidates that are identified as short-, mid-, or long-term successor candidates for a role, then the word “EXTERNAL” should automatically be placed next to that role. Even if there are internal candidates named, any external successor candidates should still be captured in the analysis as appropriate.

4. Follow-up Development Activities

Talent reviews and succession planning processes both generate excellent discussions and very insightful information on the state of talent in the organization. Human resources facilitates both processes, in very close partnership with the business, and ultimately keeps the output information from the sessions—i.e., the final succession plan, the final 9-box, and the follow-up development actions and activities as defined in the talent review session. With this information, HR possesses a level of knowledge that will allow it to drive talent development and coach managers on the follow-up actions that they need to set in motion. Some examples of follow-up development activities that may be appropriate based on the outputs of the succession and 9-box events include **training, stretch assignments, individual assessments, and individual development plans**. Training and training plans identify the learning events that an individual would benefit from, either in a classroom or online format. Stretch assignments may be an appropriate development action for an employee who is being tested for or who wants to take on additional responsibility. Individual assessments, such as a **360 assessment** for managers, is a good developmental tool to provide feedback from managers, peers, direct reports, customers, or others who interact with the employee regularly. Finally, an individual development plan is an important document that employees should use to map out their personal development goals and actions, and to track their own status and progress toward those goals.

Talent development is a collection of organization-wide processes that help to evaluate talent strengths and gaps within the organization. Although many of the processes are carried out in a group setting, the output of talent development needs to be very individualized via a collection of development tools and strategies to enhance performance. Human resources is a key resource and partner for these tools and strategies, and thus plays a critical role in the future of talent for the organization.

BIG IDEA

Human resource management is a complex and often difficult field because of the nature of the key area of focus—people. In working with people, we begin to understand both the expressed and the hidden drives—intentions and emotions that add complexity and additional context to the processes and tasks that we set forth. We also begin to understand that an organization is a group of individuals, and that human resources plays a critical role in ensuring that there are philosophies, structures, and processes in place to guide, teach, and motivate individual employees to perform at their best possible levels.

REFLECT

1. What is the difference between the performance and potential categories used in the talent review?
2. What roles should an organization discuss as part of the succession planning process?

TERMS TO KNOW

Training
A forum for learning in-person or online.

Stretch Assignments
Challenge roles for high-potential employees.

Individual Assessments
Personality and work style inventories of employees.

Individual Development Plans
Documents that highlight an individual employee’s opportunities for growth and path of action.

360 Assessment
An evaluation tool that collects feedback from managers, peers, direct reports, and customers.

SUMMARY

In this lesson, you learned that **talent development and succession planning** are two of the most critical human resource management processes within an organization, used to effectively assess and develop the key talent within a company. Talent development refers to integrated HR processes that are created to attract, develop, motivate, and retain employees, and a key tool used in these processes is **the talent review process**. You learned that talent reviews often utilize a 9-box template to plot employee performance versus employee **potential**, which is an employee’s ability to demonstrate the behaviors necessary to be successful at the next highest level within the company. You also learned that **facilitation** of the talent review process by an HR team member is needed to provide leaders with clear session objectives and specific instructions in order to maintain the integrity and confidentiality of this important talent process. You learned that **succession planning** typically follows shortly after a talent review, to capitalize on the fresh information on the performance and potential of employees in the organization; it is a key process used to identify the depth of talent on the “bench” and the readiness of that talent to move into new roles, especially leadership roles.

Lastly, you learned that as a pivotal facilitator of both talent reviews and succession planning, HR is poised to drive talent development and coach managers on key **follow-up development activities**, such as training, stretch assignments, individual assessments, and individual development plans.

Best of luck in your learning!

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TERMS TO KNOW

360 Assessment
An evaluation tool that collects feedback from managers, peers, direct reports, and customers.

9-box Template
A matrix tool used to evaluate an organization's talent pool based on performance and potential factors.

Competencies
A set of defined behaviors that an organization might utilize to define standards for success.

Individual Assessments
Personality and work style inventories of employees.

Individual Development Plans
Documents that highlight an individual employee's opportunities for growth and path of action.

Stretch Assignments
Challenge roles for high-potential employees.

Succession Planning
The process of identifying and developing new leaders and high-potential employees to replace current employees at a future time.

Talent Development
Integrated HR processes that are created to attract, develop, motivate, and retain employees.

Training
A forum for learning in person or online.

Ethics and Business Ethics Defined

by Sophia

WHAT'S COVERED

In this lesson, you will learn about ethics and business ethics. Specifically, this lesson will cover:

1. The Importance of Ethics in Business
   a. Ethical Issues
   b. Preventing Crisis

1. The Importance of Ethics in Business

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

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

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

Ethics and business ethics continue to gain influence in corporations, universities, and colleges nationally and internationally. No longer considered a luxury but a necessity, business ethics has awakened a need in the public consciousness due to crises in many areas.

EVENTS TO KNOW

The 2008 subprime lending crisis—economic effects which persisted for years—revealed widespread corruption of large investment banks and lending institutions internationally. Unsupported mortgages were fraudulently offered with no legitimate financial backing. Some large financial institutions, such as Lehman Brothers Holdings, Inc., went bankrupt; millions of mortgage holders lost their homes. An estimated cost of that crisis to the global economy is over $22 trillion U.S. dollars (Melendez, 2013).

In the early 2000s, CEOs and top-level leaders from notable corporations such as Enron, Tyco, WorldCom, and others were caught committing outrageously greedy and fraudulent crimes of white-collar theft from their organizations and shareholders. Enron’s crisis took an estimated $67 billion of shareholder wealth out of the U.S. economy (Flanigan, 2002). These criminal activities ushered in national laws such as the Sarbanes-Oxley Act, which we discuss later.

DID YOU KNOW

The now classic film *The Smartest Guys in the Room* depicts how Enron's leaders during that time, Kenneth Lay, Jeff Skilling, and Andrew Fastow, deceived employees, Wall Street, and shareholders.

TERMS TO KNOW

Ethics
The code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong.

Normative Ethics
The field of ethics concerned with asking how we should live and act.

Business Ethics
The area of applied ethics that focuses on real-world situations and the context and environment in which transactions occur.

1a. Ethical Issues

While these recent historical crises illustrate the continuing relevance and importance of business ethics, ethical issues are not only concerned with financial and economically motivated crimes and misbehaviors. Fast forward to the rise of artificial intelligence (AI), which also is calling attention to the relevance and need for ethics in scientific institutions, businesses, and governments. The public needs to be informed of potential and actual harmful consequences—as well as all the recognizable benefits—of these technologies that are in large part driven by algorithms ("a sequence of instructions telling a computer what to do") (Auerbach, 2015). Intentional and unintentional misuses of such designs embedded in artificially intelligent technologies can negatively and harmfully affect individual lives as well as entire societies.

DID YOU KNOW

Studies show that a number of minority members of society are often discriminated against by institutions using faulty algorithms to qualify customers for mortgages and to predict who is at risk of being incarcerated. Often times, racial and low-income minorities are discriminated against by such technology designs (Angwin, 2016).

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

Another timely ethical issue is climate change and the environment. Lack of sustainable environmental practices that curb air pollution and destructive uses of land, water, and natural resources have, according to a large community of reputable scientists, threatened Earth's—and our neighborhoods'—atmosphere (Ripple, 2017). Scientific studies and United Nations reports affirm that changes to the earth's atmosphere, melting glaciers, and rising seas are occurring at accelerated rates.

DID YOU KNOW

"California's coastline could rise up to 10 feet by 2100, about 30 to 40 times faster than sea-level rise experienced over the last century" (Chiu, 2017).

While university, business, and local community groups are rallying for legal actions to curtail and reverse environmental polluters, current political forces push against such regulations designed to protect against further erosion of the physical environment (Friedman, 2018).

BIG IDEA

The point here is that these issues described above are not only technological, economic, and political in nature. They are also moral and ethical, because the public's health, welfare, and safety are at risk.

TERM TO KNOW

Corporate Social Responsibility (CSR)
Scientific and ethical practices that ethicists, business leaders, and consumers can implement to support moral self-regulation of technologies.

1b. Preventing Crisis

Relevant ethical questions can be asked to prevent a crisis:

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

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

BIG IDEA

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

REFLECT

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

TERM TO KNOW

Stakeholder

Any group or individual who can affect or is affected by the achievement of an organization's objectives. The use of the term stakeholder has become commonplace in organizations.

SUMMARY

In this lesson, you learned about **the importance of ethics in business**, at the individual, organizational, and leadership levels. You learned that ethics involves how we act, live, lead our lives, and treat others, while business ethics refers to applied ethics that focuses on real-world situations and the context and environment in which transactions occur. You examined several critical **ethical issues** that put the public's health, welfare, and safety at risk: misuses of algorithms embedded in artificially intelligent technologies, noting that scientific and ethical practices in corporate social responsibility (CSR) are one way that ethicists, business leaders, and consumers can support moral self-regulation of technologies; and the timely ethical issue of climate change and the environment. You also explored a list of relevant questions that can be asked to **prevent a crisis**, while business ethics and corporate social responsibility courses become increasingly important, and groups like NGOs and political action movements shine a spotlight on injustices and potentially dangerous ethical problems.

Best of luck in your learning!

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TERMS TO KNOW

Business Ethics
The area of applied ethics that focuses on real-world situations and the context and environment in which transactions occur.

Corporate Social Responsibility (CSR)
Scientific and ethical practices that ethicists, business leaders, and consumers can implement to support moral self-regulation of technologies.

Ethics
The code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong.

Normative Ethics
The field of ethics concerned with asking how we should live and act.

Stakeholder
Any group or individual who can affect or is affected by the achievement of an organization's objectives. The use of the term stakeholder has become commonplace in organizations.

Dimensions of Ethics: The Individual Level

by Sophia

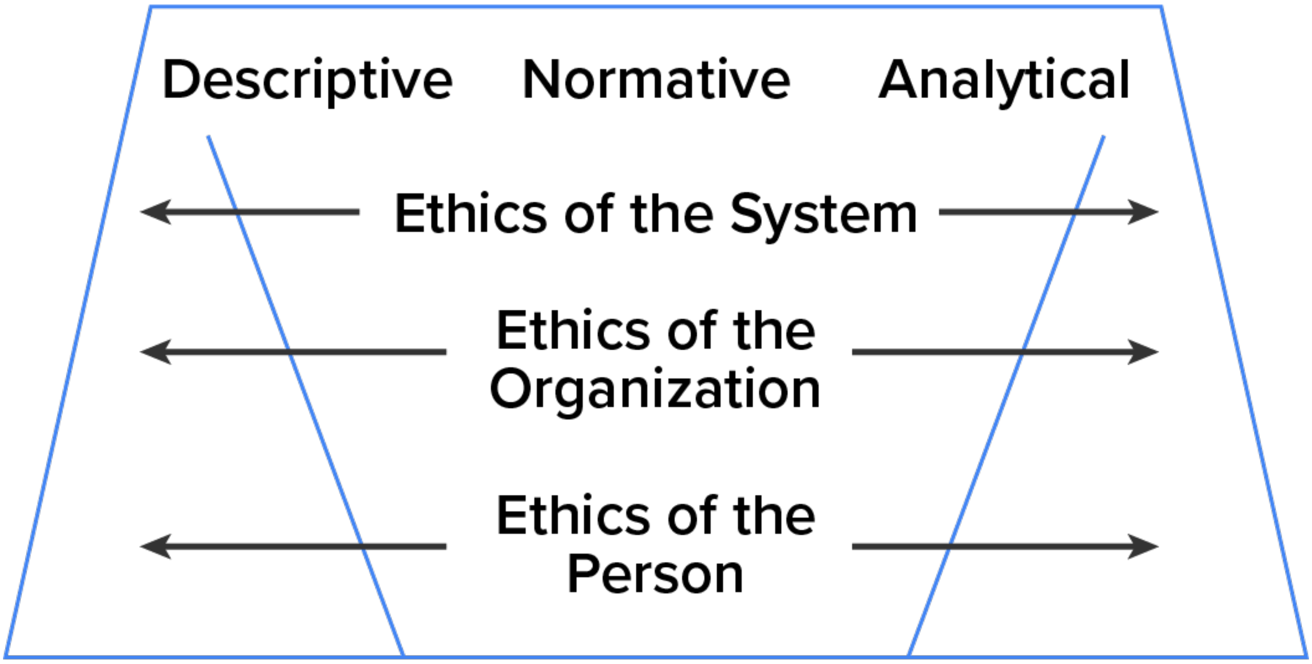
WHAT'S COVERED

In this lesson, you will learn about the types of values that motivate ethics at the individual level. Specifically, this lesson will cover:

1. Ethics at the Individual Level
2. Ethical Values
   a. Terminal and Instrumental Values

1. Ethics at the Individual Level

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



Source: Adapted from Matthews, John B., Goodpaster, Kenneth E., and Laura L. Nash. (1985). *Policies and persons: A casebook in business ethics*, 509. New York: McGraw- Hill.

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

BIG IDEA

Organizational culture often has a profound influence on individual choices and can support and encourage ethical actions or promote unethical and socially irresponsible behavior.

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2. Ethical Values

Of the values that make up an organization's culture and an individual's motivations, ethical values are now considered among the most important.

DID YOU KNOW

When Google took its company public in 2004, its prospectus included an unusual corporate goal: "Don't be evil." That can be a challenge when you're a multibillion-dollar corporation operating around the world, with investors expecting you to produce a profit. Google's operations in the United States and overseas have generated controversy and debate as to how well it's living up to its stated goal.

There is a continuing need to integrate ethical values in corporations. The Ethics & Compliance Initiative found 22 percent of global workers reported pressure to compromise their standards (ECI, 2016). Top corporate managers are under scrutiny from the public as never before, and even small companies are finding a need to put more emphasis on ethics to restore trust among their customers and the community.

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

BIG IDEA

Becoming aware and conscious of our values is a first step toward being able to act ethically and responsibly in order to prevent or lessen harm to ourselves or others.

TERMS TO KNOW

Ethical Dilemma
A situation in which a difficult choice has to be made between two courses of action with ethical consequences.

2a. Terminal and Instrumental Values

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

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

If the end (terminal) value creates undue pressures and is unrealistic and unattainable, then the means (instrumental) value would likely create tension and unethical behavior as well. This example in some ways mirrors what recently happened at Wells Fargo & Company—an American international banking and financial services holding company headquartered in San Francisco.

DID YOU KNOW

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

There are many lessons to take from the Wells Fargo fiasco. From an individual ethical perspective, one insight is to be aware of the underlying values of organizational and other job- and task-related directives issued. Another is to discover your own values and ethical principles that can guide you in work, study, and personal situations so that someone else's problems may not have to become yours. Caroucci found that "five ways organizations needlessly provoke good people to make unethical choices" are the following:

1. People feel psychologically unsafe to speak up.
2. There is excessive pressure to reach unrealistic performance targets compromises people's choices.
3. When individuals face conflicting goals, they feel a sense of unfairness and compromise their reasoning.
4. Ethics are only talked about when there is a scandal.
5. When there is no positive example available, individuals react instead of choosing ethical decisions.

BIG IDEA

Familiarizing yourself with ethical principles in the following section is another way of helping you think through complicated situations to make conscious, values-based decisions to do "the right thing" (Carouchi, 2016).

REFLECT

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

TERMS TO KNOW

Terminal Values
Desired goals, objectives, or end states that individuals wish to pursue.

Instrumental Values
The preferred means of behavior used to obtain desired goals.

SUMMARY

In this lesson, you learned about the types of values that motivate **ethics at the individual level**, understanding that at the individual level, a person's values and beliefs are influenced by family, community, peers and friends, local and national culture, society, religious communities, and geographic environment, while in organizations, an individual's ethical stance may be affected by peers, subordinates, supervisors, and the organizational culture. You learned that **ethical values** are considered some of the most important that comprise an organization's culture and an individual's motivations. However, sometimes a lack of awareness of how to sort out and think through potential consequences of individual actions or inaction can lead to an ethical dilemma. You also learned about the categorization of values as **terminal and instrumental values**, understanding that terminal values are desired goals, objectives, or end states that individuals wish to pursue (e.g., freedom, equality, happiness, etc.), while instrumental values are preferred means of behavior used to obtain those goals (e.g., being honest, courageous, ambitious, etc.). Identifying and separating terminal from instrumental values in any given situation can help you distinguish the ends from the means—and vice versa—in making decisions, thereby helping you choose more ethical options.

Best of luck in your learning!

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TERMS TO KNOW

Ethical Dilemma

A situation in which a difficult choice has to be made between two courses of action with ethical consequences.

Instrumental Values

The preferred means of behavior used to obtain desired goals.

Terminal Values

Desired goals, objectives, or end states that individuals wish to pursue.

Ethical Principles and Responsible Decision-Making

by Sophia

WHAT'S COVERED

In this lesson, you will learn about the major ethical principles that can guide individuals and organizations. Specifically, this lesson will cover:

1. Ethical Principles
    a. Utilitarianism: A Consequentialist, "Ends Justifies Means" Approach
    b. Universalism: A Duty-Based Approach
    c. Rights: A Moral and Legal Entitlement-Based Approach
    d. Justice: Procedures, Compensation, and Retribution
    e. Virtue Ethics: Character-Based Virtues
    f. The Common Good
    g. Ethical Relativism: A Self-Interest Approach

1. Ethical Principles

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

Ethical principles are different from values in that the former are considered as rules that are more permanent, universal, and unchanging, whereas values are subjective, even personal, and can change with time. Principles help inform and influence values. Some of the principles presented here date back to Plato, Socrates, and even earlier to ancient religious groups. These principles can be, and are, used in combination; different principles are also used in different situations (Covey, 2004). The principles that we will cover are utilitarianism, universalism, rights/legal, justice, virtue, common good, and ethical relativism approaches. As you read these, ask yourself which principles characterize and underlie your own values, beliefs, behaviors, and actions. It is helpful to ask and if not clear, perhaps identify the principles you most often use now and those you aspire to use more, and why. Using one or more of these principles and ethical approaches intentionally can also help you examine choices and options before making a decision or solving an ethical dilemma.

HINT

Becoming familiar with these principles, then, can help inform your moral decision process and help you observe the principles that a team, workgroup, or organization that you now participate in or will be joining may be using.

Using creativity is also important when examining difficult moral decisions when sometimes it may seem that there are two “right” ways to act in a situation or perhaps no way seems morally right—which may also signal that not taking an action at that time may be needed, unless taking no action produces worse results.

1a. Utilitarianism: A Consequentialist, “Ends Justifies Means” Approach

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

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

1b. Universalism: A Duty-Based Approach

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

Cooper, Santora, and Sarros wrote, “Universalism is the outward expression of leadership character and is made manifest by respectfulness for others, fairness, cooperativeness, compassion, spiritual respect, and humility.” Corporate leaders in the “World’s Most Ethical Companies” strive to set a “tone at the top” to exemplify and embody universal principles in their business practices (Sarros et al., 2008).

DID YOU KNOW

Howard Schultz, founder of Starbucks; cofounder Jim Sinegal at Costco; Sheryl Sandberg, chief operating officer of Facebook; and Ursula M. Burns, previous chairperson and CEO of Xerox have demonstrated setting effective ethical tones at the top of organizations.

Limitations here also show that using this principle may not always prove realistic or practical in all situations. In addition, using this principle can require sacrifice of human life—that is, giving one’s life to help or save others—which may seem contrary to the principle.

DID YOU KNOW

The film *The Post*, based on fact, portrays how the daughter of the founder of the famed newspaper, the *Washington Post*, inherited the role of CEO and was forced to make a decision between publishing a whistle-blower’s classified government documents of then top-level generals and officials or keeping silent and protecting the newspaper. The classified documents contained information proving that generals and other top-level government administrators were lying to the public about the actual status of the United States in the Vietnam War. Those documents revealed that there were doubts the war could be won, while thousands of young Americans continued to die fighting. The dilemma for the *Washington Post’s* then CEO centered on her having to choose between exposing the truth based on freedom of speech—which was the mission and foundation of the newspaper—or staying silent and suppressing the classified information. She chose, with the support of and pressure from her editorial staff, to release the classified documents to the public. The Supreme Court upheld her and her staff's decision. A result was inflamed widespread public protests from American youth and others. President Johnson was pressured to resign, Secretary of State McNamara later apologized, and the war eventually ended with U.S. troops withdrawing.

BIG IDEA

Universalist ethical principles may present difficulties when used in complex situations, but such principles can also save lives, protect the integrity of a nation, and stop meaningless destruction.

TERM TO KNOW

Universalism
A principle that considers the welfare and risks of all parties, along with the needs of the decision makers, when considering policy decisions and outcomes.

1c. Rights: A Moral and Legal Entitlement-Based Approach

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

This principle, as with universalism, can always be used when individuals, groups, and nations are involved in decisions that may violate or harm such rights as life, liberty, the pursuit of happiness, and free speech.

Some limitations when using this principle are (1) it can be used to disguise and manipulate selfish and unjust political interests, (2) it is difficult to determine who deserves what when both parties are "right," and (3) individuals can exaggerate certain entitlements at the expense of others. Still, the U.S. Constitution's **Bill of Rights**, ratified in 1791, remains the foundation of **civil liberties**, and protects the basic rights and freedoms of all individuals.

TERM TO KNOW

Rights
Legal rights are entitlements that are limited to a particular legal system and jurisdiction, while moral rights are universal and based on norms in every society.

United States Constitution
Legal rights are entitlements that are limited to a particular legal system and jurisdiction, while moral rights are universal and based on norms in every society.

Declaration of Independence
A document that declared early America's independence from British rule, written to guarantee the right to life, liberty and the pursuit of happiness for all people.

Bill of Rights
The first 10 Amendments to the Constitution of the United States.

Civil Liberties

Essential individual rights that are protected by law and cannot be limited by government. Civil liberty protections are found in the Bill of Rights and include religious freedom, freedom of speech, freedom of the press, freedom to assemble, and freedom to petition the government.

1d. Justice: Procedures, Compensation, and Retribution

This principle has at least four major components that are based on the tenets that (1) all individuals should be treated equally; (2) **justice** is served when all persons have equal opportunities and advantages; (3) fair decision practices, procedures, and agreements among parties should be practiced; and (4) punishment is served to someone who has inflicted harm on another, and compensation is given to those for a past harm or injustice committed against them.

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

1. Is it fair?
2. Is it right?
3. Who gets hurt?
4. Who has to pay for the consequences?
5. Do I/we want to assume responsibility for the consequences?

It is interesting to reflect on how many corporate disasters and crises might have been prevented had the leaders and those involved taken such questions seriously before proceeding with decisions. For example, the following precautionary actions might have prevented the disaster: updating the equipment and machinery that failed in the BP and the *Exxon Valdez* oil crises; and investment banks and lending institutions following rules not to sell subprime mortgages that could not and would not be paid, actions that led to the near collapse of the global economy.
Limitations when using this principle involve the question of who decides who is right and wrong and who has been harmed in complex situations. This is especially the case when facts are not available and there is no objective external jurisdiction of the state or federal government. In addition, we are sometimes faced with the question, "Who has the moral authority to punish or to pay compensation to whom?" Still, as with the other principles discussed here, justice stands as a necessary and invaluable building block of democracies and freedom.

TERM TO KNOW

Justice

Four major tenets: (1) All individuals should be treated equally; (2) Justice is served when all persons have equal opportunities and advantages; (3) Fair decision practices, procedures, and agreements among parties should be practiced; (4) Punishment is served to someone who inflicts harm.

1e. Virtue Ethics: Character-Based Virtues

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

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

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

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

TERM TO KNOW

Virtue Ethics

Grounded in one's character, focusing on what type of person one ought to be.

1f. The Common Good

The common good is defined as "the sum of those conditions of social life which allow social groups and their individual members relatively thorough and ready access to their own fulfillment." Decision makers must take into consideration the intent as well as the effects of their actions and decisions on the broader society and the common good of the many (Velasquez et al., 1987).

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

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

1g. Ethical Relativism: A Self-Interest Approach

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

Obvious limitations of relativism include following one's blind spots or self-interests that can interfere with facts and reality. Followers of this principle can become absolutists and "true believers"—many times believing and following their own ideology and beliefs. Countries and cultures that follow this orientation can result in dictatorships and absolutist regimes that practice different forms of slavery and abuse to large numbers of people. For example, South Africa's all-white National Party and government after 1948 implemented and enforced a policy of apartheid that consisted of racial segregation. That policy lasted until the 1990s, when several parties negotiated its demise—with the help of Nelson Mandela. Until that time, international firms doing business in South Africa were expected to abide by the apartheid policy and its underlying values. Many companies in the United States, Europe, and elsewhere were pressured in the 1980s and before by public interest groups whether or not to continue doing business in South Africa.

BIG IDEA

At the individual level, then, principles and values offer a source of stability and self-control while also affecting job satisfaction and performance. At the organizational level, principled and values-based leadership influences cultures that inspire and motivate ethical behavior and performance. The following section discusses how ethical leadership at the top and throughout organizations affects ethical actions and behaviors (Sisodia, 2007).

REFLECT

1. What are some ethical guidelines individuals and organizations can use to make ethical choices?
2. Can being aware of the actual values you use to guide your actions make a difference in your choices?

HINT

With emerging issues like climate change, artificial intelligence, and a widening wealth divide in developed countries, ethics and strategy go hand-in-hand. For your Touchstone assignment presentation, you must address any potential ethical issues associated with your recommended strategy. For example, what if you decided to fully-automate your entire customer service team of 5,000 employees with robotics and artificial intelligence in order to pursue a low-cost strategy? Yes, your organization's operating expenses would dramatically decline, but you would also put 5,000 already lower-level employees completely out of work and possibly unable to make their rent or mortgage payments.

TERM TO KNOW

Ethical Relativism
Holds that people set their own moral standards for judging their actions, based on self-interest.

SUMMARY

In this lesson, you learned about the following major **ethical principles** that can guide individuals and organizations, with the understanding that ethical principles—compared to values—are considered as rules that are more permanent, universal, and unchanging:

- **Utilitarianism: A Consequentialist, "Ends Justifies Means" Approach**. This holds that an action is morally right if it produces the greatest good for the greatest number of people.
- **Universalism: A Duty-Based Approach**. This is a principle that considers the welfare and risks of all parties when considering policy decisions and outcomes.
- **Rights: A Moral and Legal Entitlement-Based Approach**. This principle is grounded in legal rights, which are entitlements that are limited to a particular legal system and jurisdiction (in the U.S., the Constitution and Declaration of Independence are the basis for citizens' legal rights); and moral rights, which are universal and based on norms in every society.
- **Justice: Procedures, Compensation, and Retribution**. A principle based on four major tenets: (1) All individuals should be treated equally; (2) Justice is served when all persons have equal opportunities and advantages; (3) Fair decision practices, procedures, and agreements among parties should be practiced; (4) Punishment is served to someone who inflicts harm.
- **Virtue Ethics: Character-Based Virtues**. This is based on character traits such as being

truthful, practical wisdom, happiness, flourishing, and well-being.

- **The Common Good**. This principle requires us to make goals and take actions that take others, beyond ourselves and our self-interest, into account.
- **Ethical Relativism: A Self-Interest Approach**. This is not a "principle" to be followed or modeled, but rather an orientation holding that people set their own moral standards for judging their actions.

Best of luck in your learning!

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TERMS TO KNOW

Bill of Rights
The first 10 Amendments to the Constitution of the United States.

Civil Liberties
Essential individual rights that are protected by law and cannot be limited by government. Civil liberty protections are found in the Bill of Rights and include religious freedom, freedom of speech, freedom of the press, freedom to assemble, and freedom to petition the government.

Declaration of Independence
A document that declared early America's independence from British rule, written to guarantee the right to life, liberty and the pursuit of happiness for all people.

Ethical Relativism
Holds that people set their own moral standards for judging their actions, based on self-interest.

Justice
Four major tenets: (1) All individuals should be treated equally; (2) Justice is served when all persons have equal opportunities and advantages; (3) Fair decision practices, procedures, and agreements among parties should be practiced; (4) Punishment is served to someone who inflicts harm.

Rights

Legal rights are entitlements that are limited to a particular legal system and jurisdiction, while moral rights are universal and based on norms in every society.

United States Constitution

A written document that established the government and guarantees basic rights for all American citizens.

Universalism

A principle that considers the welfare and risks of all parties, along with the needs of the decision makers, when considering policy decisions and outcomes.

Virtue Ethics

Grounded in one's character, focusing on what type of person one ought to be.

Leadership: Ethics at the Organizational Level

by Sophia

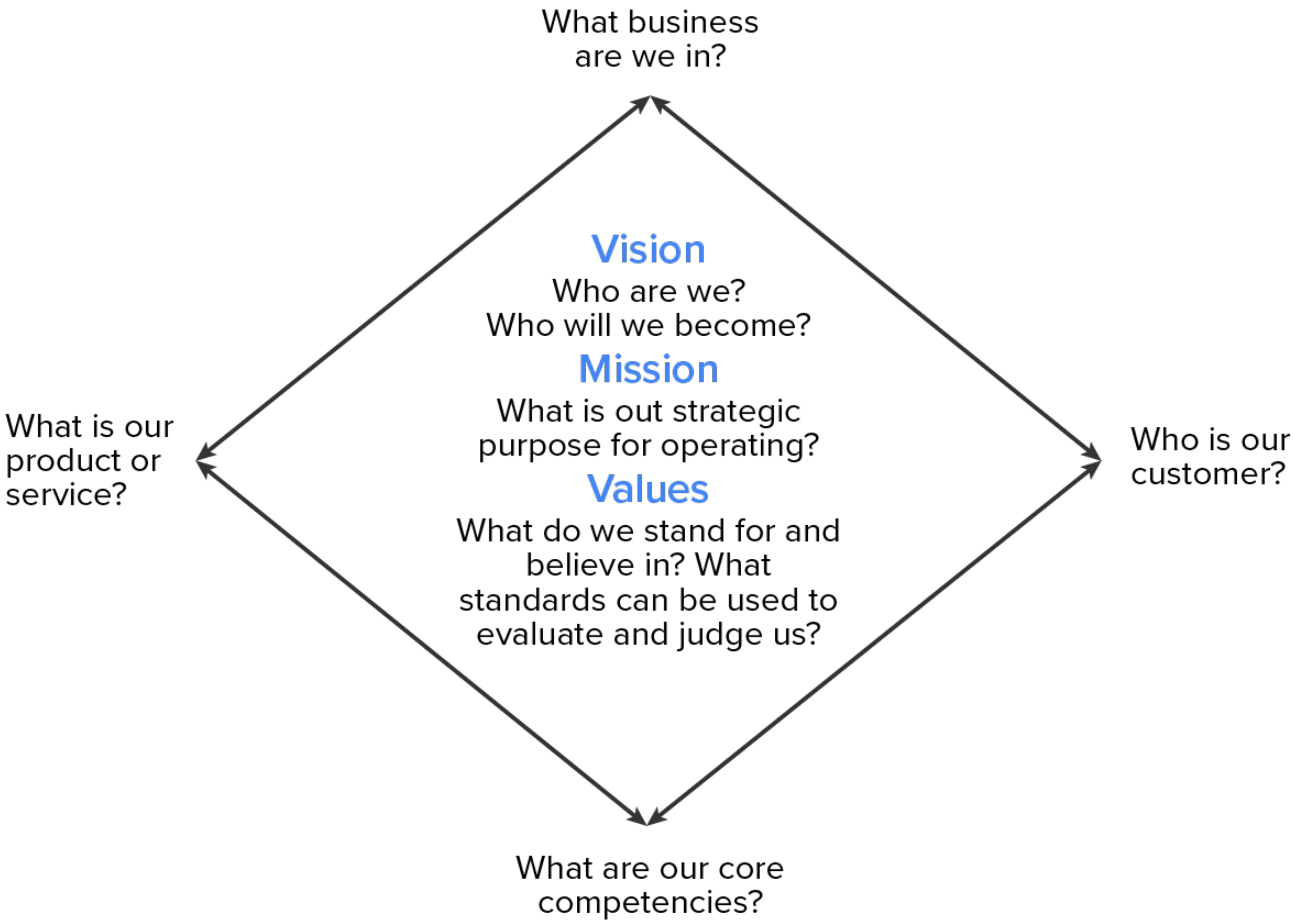
WHAT'S COVERED

In this lesson, you will learn why ethical leadership is important in organizations. Specifically, this lesson will cover:

1. Vision, Mission, and Values
2. Ethical Leadership
3. Virtue-Related Values
   a. Show Respect for Others
   b. Treat All Stakeholders Fairly
   c. Work Toward a Common Good
   d. Build Community
   e. Be Honest
4. Stewardship and Servant Leadership Styles
5. Dark Side of Organizational Leadership

1. Vision, Mission, and Values

Organizational leadership is an important first step toward identifying and enacting purpose and ethical values that are central to internal alignment, external market effectiveness, and responsibility toward stakeholders (Collins, 2001). The scholar Chester Barnard defined a values-based leadership approach in 1939 as one that inspires “cooperative personal decisions by creating faith in common understanding, faith in the probability of success, faith in the ultimate satisfaction of personal motives, and faith in the integrity of common purpose” (Barnard, 1939). The diagram below illustrates how vision, mission, and values are foundational in guiding the identification and implementation of the strategic and operational questions and alignment of an organization —which is a major part of leadership.



Source: Joseph W. Weiss. © 2014.

Leadership is defined as the ability to influence followers to achieve common goals through shared purposes (Rost & Barker, 2000). Organizational leaders are responsible to a wide range of stakeholders and stockholders as well as employees toward meeting the goals for the organization. How responsibly and ethically they choose to do so depends on a number of factors. From an ethical and related effectiveness perspective, the leader's values count since these generally become the values of an organization. A leader's influence is referred to as "the tone at the top."

BIG IDEA

While a leader's values should align to those of the organization, its vision, and mission, this is not always the case, as we know from the crises discussed earlier when referring to the classical failures at Enron, Tyco, WorldCom, Wells Fargo, and other notable companies.

2. Ethical Leadership

Since leadership is a most important element in forming and directing an organization's strategy, culture, and governance system, it is often a shared responsibility among other officers and followers that cascades throughout the organization.

The widely acknowledged Ethisphere, a private firm that evaluates firms' ethical behavior and responsibilities, uses five criteria that produce a single Ethics Quotient (EQ) score. The first is a company's ethics and compliance program, which accounts for 35% of the EQ. The second criterion is whether or not and the extent to which ethics is embedded into a company's culture. The third element is corporate citizenship and responsibility, elements that measure companies' environmental impact. The fourth component is corporate governance—whether a firm's CEO and board chair are held by one or separate people. An increased focus recently emphasized diversity in board and leadership positions. The fifth criterion is leadership, innovation, and reputation (Kauflin, 2017).

3. Virtue-Related Values

For ethical leaders, authenticity and integrity, in addition to their values, are also important components of character and behavior that must also be translated into attitude and action toward followers, external stakeholders, and broader communities. Leaders have a responsibility to show respect toward others, treat all stakeholders fairly, work toward a common good, build community, and be honest. These virtue-related values, also referred to as character-related, as discussed earlier, help create an ethical corporation and environment:

3a. Show Respect for Others

Respecting others requires leaders to recognize the intrinsic worth of others and forces them to treat people as ends in themselves—never as means to an end. In other words, people should be seen as valuable because of who they are (a universal principle), not only because of what they can do for others or how they can help others advance. Showing respect for others includes tolerating individual differences and affording followers the freedom to think independently, act as individuals, and pursue their own goals.

BIG IDEA

When a leader shows respect for followers by providing them autonomy, subordinates can feel more useful, valued, and confident. Such a situation often leads to greater loyalty and productivity among subordinates.

3b. Treat All Stakeholders Fairly

Ethical leaders strive to treat everyone their decisions may affect in a fair and just manner. Equality is also a top priority for ethical leaders and needs to factor prominently into their decision-making. Ethical leaders must refrain from offering special treatment to others; failure to do so creates winners and losers—in-groups and out-groups—and can breed resentment between those who receive special treatment and those who do not. The only exception occurs when an individual's specific situation warrants special treatment in order for a just outcome to be realized.

Preventing winners and losers from emerging is not always easy. Some situations require the distribution of benefits and burdens, and such situations can test a leader's ability to ensure that justice is achieved. Beauchamp and Bowie defined the common principles that guide leaders facing such dilemmas; their findings can help leaders allocate responsibilities fairly and justly (Beauchamp & Bowie, 1988).

BIG IDEA

These principles stipulate that every person must receive an equal share of opportunity according to his needs, rights, effort, societal contributions, and performance.

3c. Work Toward a Common Good

Ethical leaders strive to further social or institutional goals that are greater than the goals of the individual. This responsibility requires the ethical leader to serve a greater good by attending to the needs of others. This type of behavior is an example of **altruism**: a steadfast devotion to improving the welfare of others.

Mahatma Gandhi offers an example of what striving toward a common good entails.

DID YOU KNOW

Known for his commitment to nonviolent protests and mass civil disobedience, the Indian activist and ideological leader spent 20 years in South Africa opposing legislation that discriminated against Indians. He spent the remainder of his life in India fighting for independence from foreign rule and working to reduce poverty and taxation, liberate women, and end multiple forms of discrimination (Lelyveld, 2011).

Gandhi championed such causes not because he would personally benefit, but because a larger, more substantial population would. He devoted his life to furthering social causes he believed in and developed a personal sense of purpose and meaning that later translated into a societal and then global ethic.

BIG IDEA

Altruistic behavior may manifest in a corporate setting through actions such as mentoring, empowerment behaviors (encouraging and enabling others), team building, and citizenship behaviors (such as showing concern for others' welfare), to name a few.

TERM TO KNOW

Altruism

A steadfast devotion to improving the welfare of others.

3d. Build Community

When an ethical leader focuses on the needs of others rather than the self, other people will often follow suit. This can lead to a strong contingent of followers working with the leader to achieve a common goal that is compatible with the desires of all stakeholders. Furthering a common goal means that no one can place his or her needs ahead of the group's goals and an ethical leader cannot impose his or her will on others. A successful CEO who works with many charities or other individuals to feed the homeless exemplifies a leader building community.

DID YOU KNOW

Whole Foods Market, recently purchased by Amazon, is well known for its community outreach programs on both local and global scales. Every Whole Foods store donates to community food banks and shelters and throughout the year holds "5% days," when 5% of the day's net sales are donated to local nonprofit or educational organizations. Globally, the company established the Whole Planet Foundation to combat world hunger and supports programs addressing issues such as animal welfare, nutrition, and environmentally friendly production methods.

The effort of Whole Foods to strengthen its stores' local and global neighborhoods is a perfect example of leaders building community.

3e. Be Honest

Honesty is considered desirable by practically everyone, but it is sometimes unclear what honesty actually demands of us. Being honest is not simply telling the truth and avoiding deceitful behaviors; it requires leaders to be as open as possible and to describe reality fully, accurately, and in sufficient detail. Telling the complete truth is not always the most desirable action, however. Leaders must be sensitive to the feelings and beliefs of others and must recognize that the appropriate level of openness and candor varies depending on the situation.

According to a recent survey, 58% of people internationally trust companies, but 42% are less sure. Being more transparent with customers, stakeholders, and stockholders should become a priority for leaders and boards of companies (The Guardian, 2014). Dishonesty can be a disastrous practice for a leader. Dishonest leaders distort reality, which can lead to unfavorable outcomes for all stakeholders. Researchers Cialdini, Petia, Petrova, and Goldstein found that dishonest organizations suffer from tarnished reputations, decreased worker productivity, and various damages related to increased surveillance. They concluded that the costs of organizational dishonesty greatly outweigh any short-term gains from such behavior (Cialdini et al., 2004).

4. Stewardship and Servant Leadership Styles

Stewardship is concerned with empowering followers to make decisions and gain control over their work. **Servant leadership** involves selflessly working with followers to achieve shared goals that improve collective, rather than individual, welfare. There is a wealth of information on both of these styles. We will briefly address both here, as both involve treating followers with respect—a key component of ethical leadership—and endowing followers with the ability to grow both personally and professionally.

The stewardship approach instructs leaders to lead without dominating followers. Leaders who practice stewardship sincerely care about their followers and help them develop and accomplish individual as well as organizational goals. Effective stewardship breeds a team-oriented environment in which everyone works together. Organizations led by steward leaders are marked by decentralized decision-making—that is, leadership is not centered in one person, group, department, or administrative unity; power is distributed among all stakeholders (Lussier & Achua, 2006).

The servant leadership approach was formulated by Robert K. Greenleaf, who believed that leadership is a natural corollary of service. Servant leadership goes beyond stewardship by requiring leaders to eschew personal accolades and devote themselves entirely to a greater cause. The following aspects are central to servant leadership:

1. Placing service before self-interest. The servant leader's primary concern is helping others, not receiving recognition or financial reward.
2. Listening to others. Servant leaders recognize the importance of listening to the ideas and concerns of stakeholders; they never attempt to impose their will on others. This aspect allows servant leaders to strengthen relationships, understand group needs and dynamics, and effectively allocate resources to improve the group's welfare.
3. Inspiring through trust. As we discussed earlier, ethical leaders must be trustworthy. It does not take much effort for servant leaders to be truthful because they usually have strong moral convictions.
4. Working toward feasible goals. Servant leaders realize that many problems cannot be solved by one person. They also tackle the most pressing issues facing their groups.
5. Helping others whenever possible. Servant leaders lend a helping hand when the opportunity arises. An example is the district manager of a fast-food chain who helps part-time employees flip burgers during a lunchtime rush hour. Another is the director of a business unit who observes that a team is short a member and needs help in meeting a deadline; the director joins the team for the afternoon to help meet the deadline (Greenleaf, 1977).

TERMS TO KNOW

Stewardship

Concerned with empowering followers to make decisions and gain control over their work.

Servant Leadership

Involves selflessly working with followers to achieve shared goals that improve collective, rather than individual, welfare.

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5. Dark Side of Organizational Leadership

Not all leaders lead or model high standards or values. Seven symptoms of the failure of ethical leadership provide a practical lens to examine a leader's shortsightedness (Driscoll & Hoffman, 2000):

1. Ethical blindness: They do not perceive ethical issues due to inattention or inability.
2. Ethical muteness: They do not have or use ethical language or principles. They "talk the talk" but do not "walk the talk" on values.
3. Ethical incoherence: They are not able to see inconsistencies among values they say they follow; for example, they say they value responsibility but reward performance based only on numbers.
4. Ethical paralysis: They are unable to act on their values from lack of knowledge or fear of the consequences of their actions.
5. Ethical hypocrisy: They are not committed to their espoused values. They delegate things they are unwilling or unable to do themselves.
6. Ethical schizophrenia: They do not have a set of coherent values; they act one way at work and another way at home.
7. Ethical complacency: They believe they can do no wrong because of who they are. They believe they are immune.

BIG IDEA

A major takeaway is that organizational culture counts and that without an ethical culture both poor and exemplary moral leadership decisions flourish (Fortune, 2016).

REFLECT

1. What role does leadership play in how ethically organizations and its members act and perform?
2. Explain what stewardship is and the role of servant leadership.

SUMMARY

In this lesson, you learned how **vision, mission, and values** are foundational in guiding the identification and implementation of the strategic and operational questions and alignment of an organization; ideally, a leader's values should align to those of the organization, its vision, and mission. You learned that **ethical leadership** is a critical element in forming and directing an organization's strategy, culture, and governance system. You examined the **virtue-related values** embodied by ethical leaders that help create an ethical corporation and environment: **show respect for others**, **treat all stakeholders fairly**, **work toward a common good**, **build community**, and **be honest.** You learned that a key component of ethical leadership involves treating followers with respect and endowing followers with the ability to grow both personally and professionally, demonstrated by the **stewardship**

and servant leadership styles. Lastly, you learned about the **dark side of organizational leadership**, examining seven symptoms of the failure of ethical leadership: ethical blindness, ethical muteness, ethical incoherence, ethical paralysis, ethical hypocrisy, ethical schizophrenia, and ethical complacency.

Best of luck in your learning!

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TERMS TO KNOW

Altruism
A steadfast devotion to improving the welfare of others.

Servant Leadership

Involves selflessly working with followers to achieve shared goals that improve collective, rather than individual, welfare.

Stewardship

Concerned with empowering followers to make decisions and gain control over their work.

Ethics, Corporate Culture, and Compliance

by Sophia

WHAT'S COVERED

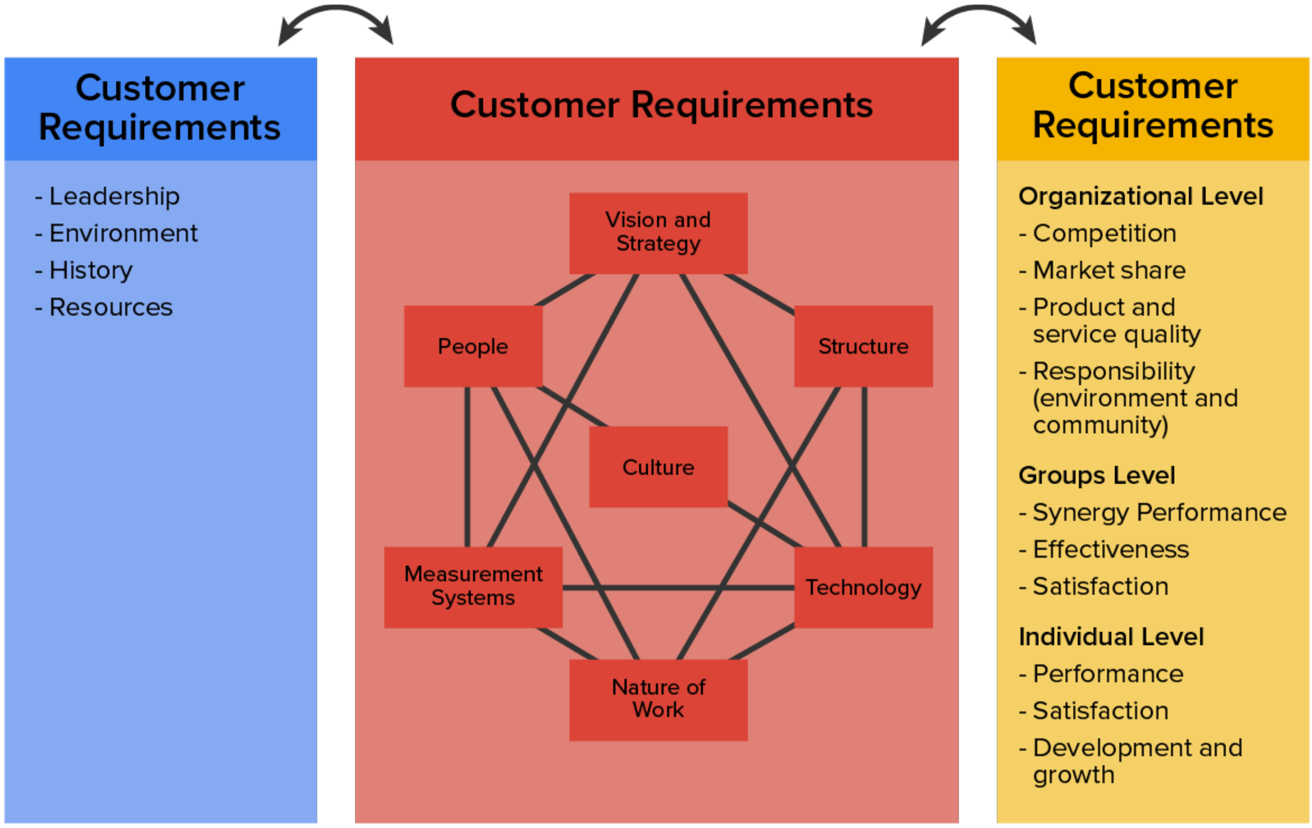
In this lesson, you will learn about the differences between values-based ethics and compliance in organizations. Specifically, this lesson will cover:

1. Corporate Culture
2. Compliance and Ethics

1. Corporate Culture

An organization’s culture is defined by the shared values and meanings its members hold in common and that are articulated and practiced by an organization’s leaders. Purpose, embodied in **corporate culture**, is embedded in and helps define organizations. Ed Schein, one of the most influential experts on culture, also defined organizational corporate culture as “a pattern of shared tacit assumptions learned or developed by a group as it solves its problems of external adaptation and internal integration that have worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems” (Schein, 2017).

As the diagram below illustrates, culture plays an important integrating role in organizations both externally and internally. Strategy, structure, people, and systems all are affected by an organization’s culture, which has been referred to as the “glue” that holds an organization together (Cameron & Quinn, 2011).



Leadership, in particular, as stated earlier, exerts a powerful influence, along with other factors, on culture. Schein noted that "culture and leadership are two sides of the same coin and one cannot understand one without the other" (Schein, 2017). Culture is transmitted through and by (1) the values and styles that leaders espouse and practice, (2) the heroes and heroines that the company rewards and holds up as models, (3) the rites and symbols that organizations value, and (4) the way that organizational executives and members communicate among themselves and with their stakeholders. Heskett argues that culture "can account for 20–30% of the differential in corporate performance when compared with 'culturally unremarkable' competitors" (Coleman, 2013).

While subcultures develop in organizations, the larger organization's culture influences these, especially with strong leaders and leadership teams who set the tone at the top and communicate expectations and performance standards throughout. Other factors that indicate and help create a strong ethical culture include the following, which are based on the reputable assessment firm Ethisphere's experience (Byrnes, 2017).

An organization models and communicates compliance standards through its values; employees are informed of and familiar with the assets and efforts of the compliance and ethics function.

- The culture sets "enduring and underlying assumptions and norms that determine how things are actually done in the organization" (Killingsworth, 2012).
- "Organizations can effectively identify specific locations, business units, job levels and job functions that may lack a full understanding of available resources, feel unwanted pressure, or perhaps hold negative perceptions."
- Companies and investors believe a company behaves and acts ethically.
- Employees are aware of the conduct, values, and communications of senior leaders.
- Employees are engaged and committed, and organizations regularly survey employees to get a sense of their engagement.
- Employees feel "less pressure to compromise company standards to achieve company goals. And if they do observe misconduct, they are more likely to feel comfortable reporting it."

- “Employees perceive the ethical priorities of their coworkers, the values of their organization and willingness to share opinions” (Byrnes, 2017).

TERM TO KNOW

Corporate Culture

The beliefs and behaviors that determine how a company’s employees and management interact inside an organization and also handle outside business transactions. Corporate culture develops organically over time from the cumulative traits of the leaders and the people that the company hires.

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2. Compliance and Ethics

As the section above indicates, both a values-based and compliance approach are necessary elements of maintaining an ethical corporate culture. Ethics has been characterized as “doing the right thing” and serving as a motivational force that influences professionals’ values—resembling a “carrot” approach to professionals’ behaviors. Compliance is related to influencing behaviors to act in accordance to the law or face consequences—referred to as a “stick” approach. Studies show that ethical and compliance approaches are interrelated and work best to motivate and sustain lawful and ethical behavior in organizations (Weller, 2017).

Because of the widespread corporate scandals discussed at the beginning of the chapter, the U.S. Congress implemented legal and compliance standards to curb and discourage illegal activities in corporations. While self-regulation will always play a major role in corporations’ “doing the right thing,” compliance has proven to be a necessary but not always sufficient element of corporate governance.

DID YOU KNOW

One law in particular set a new baseline of accountability for CEOs and CFOs (chief financial officers): the federal Sarbanes-Oxley Act of 2002, 2010. This law was the first following the Enron scandal and other corporate scandals that placed constraints and issued punitive measures on CEOs and CFOs who could be punished if they knowingly and willingly committed fraud and other crimes.

Several new sections of that law also signaled a change in corporate leaders’ responsibilities and liabilities; for example, the law “[e]stablishes an independent public company accounting board to oversee audits of public companies; requires one member of the audit committee to be an expert in finance; requires full disclosure to stockholders of complex financial transactions; requires CEOs and CFOs to certify in writing the validity of their companies’ financial statements. If they knowingly certify false statements, they can go to prison for 20 years and be fined $5 million. It also prohibits accounting firms from offering other services, like consulting, while performing audits” (Federal Sentencing Guidelines, 2004). There are other parts of this law that further establish compliance regulations (PWC, 2003).

BIG IDEA

Ethics continues to complement compliance, especially since the law cannot, does not, and will not cover every aspect of potentially harmful behaviors. Ethical dimensions and practices such as transparency, privacy, honesty, objectivity, integrity, carefulness, openness, respect for intellectual property, civility, confidentiality, accountability, responsible mentoring, and respect for colleagues are all necessary to motivate organizational behavior. Ethical values become “actionable” in corporations by corporations first becoming aware of and then assuming responsibility for the corporation’s duties toward its stakeholders and stockholders.

REFLECT

1. In what ways do law and compliance complement ethics in organizations?
2. How does stakeholder management differ from stockholder management?

SUMMARY

In this lesson, you learned about the differences between values-based ethics and compliance in organizations. You learned that **corporate culture**—also referred to as the "glue" that holds an organization together—is defined by the shared values and meanings its members hold in common and that are articulated and practiced by an organization's leaders. Strong leaders and leadership teams set the tone at the top and communicate expectations and performance standards throughout to create a strong ethical culture. You also learned about the interrelation of **compliance and ethics**, with ethics characterized as "doing the right thing" and serving as a motivational force that influences professionals' values (a "carrot" approach) and compliance related to influencing behaviors to act in accordance to the law or face consequences (a "stick" approach)—such as those dictated by the guidelines of the federal Sarbanes-Oxley Act.

Best of luck in your learning!

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TERMS TO KNOW

Corporate Culture

The beliefs and behaviors that determine how a company's employees and management interact inside an organization and also handle outside business transactions. Corporate culture develops organically over time from the cumulative traits of the leaders and the people that the company hires.

Corporate Social Responsibility (CSR)

by Sophia

WHAT'S COVERED

In this lesson, you will learn about the purpose of corporate social responsibility in organizations and society. Specifically, this lesson will cover:

1. Corporate Social Responsibility (CSR)
2. Stakeholder Management
3. Identifying and Influencing Major Stakeholders

1. Corporate Social Responsibility (CSR)

CSR contributes to another form of self-regulation that goes further and involves firms taking action to help people and the environment. CSR is described as “a belief that corporations have a social responsibility beyond pure profit.” In other words, “Firms are social entities, and so they should play a role in the social issues of the day. They should take seriously their ‘obligations to society’ and actively try to fulfill them” (Freeman & Gilbert, 1988). As such, corporations should employ a decision-making process to achieve more than financial success on the assumption that CSR is integral to an optimum long-term strategy.

In the 21st century, sustainability and corporate social responsibility (CSR) have become strategic imperatives for organizations as fundamental market forces for financial viability and success, where consumers are important stakeholders. Businesses worldwide develop CSR initiatives to become better corporate citizens but also to communicate their activity to both internal and external stakeholders, which may involve a number of groups.

A study by Horizon Media’s Finger on the Pulse found that “81 percent of Millennials expect companies to make a public commitment to good corporate citizenship” (Rudominer, 2017). The 2015 Cone Communications Millennial CSR Study found that “[m]ore than nine-in-10 Millennials would switch brands to one associated with a cause (91% vs. 85% U.S. average), and two-thirds use social media to engage around CSR (66% vs. 53% U.S. average)” (Rudominer, 2017).

The 3 P’s (profit, the people, and the planet), or “the triple bottom line” (TBL), is another concept closely related to and reflective of the mission of CSR and firm activities (Elkington, 1999). TBL—also known as 3BL—incorporates and assists businesses in measuring accountability in their funding of and support for social, environmental (ecological), and financial benefits to allow for a greater good. Many corporations have started to add triple bottom line metrics to their business plans in order to evaluate their overall performance and reflect on how companies are contributing to society. A small sample of contemporary CSR initiatives make a difference. For example:

- The GE Foundation gave $88 million to community and educational programs in 2016.
- The 3MGives corporation funded $67 million in 2016 to focus on community and the environment, along with educational initiatives boosting student interest in science and technology.

- Apple was named by the environmental organization Greenpeace as the “greenest tech company in the world” for over three years because that firm’s packaging is manufactured with 99 percent recycled paper products.
- Walt Disney Company’s social mission is to strengthen communities “by providing hope, happiness, and comfort to kids and families who need it most”. The Walt Disney Company donated more than $400 million to nonprofit organizations in 2016.
- Virgin Atlantic’s “Change is in the Air” sustainability initiative states its mission as: “Environment, sustainable design and buying, and community investment.” This firm has since 2007 “reduced total aircraft carbon emissions by 22% and [has] partnered with LanzaTech to develop low carbon fuels for the future. Virgin Holidays donates £200,000 annually to the Brandon Center for Entrepreneurship Caribbean to support young entrepreneurs in Jamaica” (Villas, 2017).

While CSR is not a cure-all that can or will significantly make a difference in ushering in more sustainable environmental practices, help alleviate poverty, and use profits to help lower-income communities, it contributes to both internal and external stakeholder awareness to “do the right thing.” For example, Teng and Yazdanifard argue and present evidence that some consumers do take CSR into account while making purchase decisions. Also, CSR initiatives and actions have been shown to positively influence both internal and external stakeholders (Teng & Yazdanifard, 2014). A study conducted in New Zealand explored the perceptions of internal stakeholders of New Zealand companies to discover the way in which CSR, sustainability cultures, and identity are communicated internally. It was found that employee behaviors matter, as organizations that are well regarded in the community attract greater external loyalty, have more stable revenues, and face fewer crisis risks. A positive relationship with staff in organizations through CSR policies will not only attract better employees, it will also influence the morale, motivation, and loyalty of existing staff. The effective delivery of CSR initiatives also depends on how responsive employees are. If companies wish to achieve legitimacy by operating within a society’s ethical expectations, they must also communicate internally to ensure that CSR activities are integrated into the organizational culture—they cannot “talk the talk” without “walking the walk” (Menichini & Rosati, 2014).
So, does CSR benefit the companies that practice such measures? A meta-analysis of 52 studies with a sample size of 33,878 observations suggested that “corporate virtue in the form of social responsibility and, to a lesser extent, environmental responsibility, is likely to pay off. . . . CSP [corporate social performance] appears to be more highly correlated with accounting-based measures of CFP [corporate financial performance] than with market-based indicators, and CSP reputation indices are more highly correlated with CFP than are other indicators of CSP.” Many business scholars do believe that some of these relationships are positive (Orlitzky et al., 2003). Robbins concludes that “[o]n balance, surveys and the research literature suggest that what most executives believe intuitively, that CSR can improve profits, is possible. And almost no large public company today would want to be seen unengaged in CSR. That is clear admission of how important CSR might be to their bottom line, no matter how difficult it may be to define CSR and link it to profits” (Robbins, 2015).

Without exception, the managers articulated the importance of communicating CSR initiatives and policy to their employees, as well as recognizing the need to improve their CSR internal communication strategies. According to the managers, CSR initiatives are promoted to create better corporations and a more ethical business environment. These included recycling, carpooling, staff development, and social activities. External initiatives included volunteering, fundraising, and charitable donations.

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2. Stakeholder Management

CSR and **stakeholder management** are complementary approaches. Stakeholder theory argues that corporations should treat all their constituencies fairly and that doing so can strengthen companies' reputations, customer relations, and performance in the marketplace (Berman et al., 1999). "If organizations want to be effective, they will pay attention to all and only those relationships that can affect or be affected by the achievement of the organization's purposes" (Freeman, 1999).

The ethical dimension of stakeholder theory is based on the view that profit maximization is constrained by justice, that regard for individual rights should be extended to all constituencies who have a stake in a business, and that organizations are not only "economic" in nature but can also act in socially responsible ways. To this end, companies should act in socially responsible ways, not only because it's the "right thing to do," but also to ensure their legitimacy (Weiss, 2014).

A stakeholder management approach first involves identifying the stakeholders of a company. A**stakeholder** is any group or individual who can affect or is affected by an organization's strategies, major transactions, and activities. Stakeholders include employees, suppliers, customers, shareholders, the government, media, and others. An illustration of stakeholder relationships is provided in the diagram below. The term *stakeholder* has become commonplace in organizations. Companies and organizations that base their strategic decisions on the principle of duty to earn stakeholder trust "are likely to yield a number of strategic benefits, too, and can help manage political, social, and reputational risk" (Freeman & Gilbert, 1988).

Source: Freeman, R. Edward. (1984). *Strategic management: A Stakeholder approach*, 25. Boston: Pitman. Reproduced with permission of the author.

TERMS TO KNOW

Stakeholder Management

The systematic identification, analysis, planning, and implementation of actions designed to engage with stakeholders.

Stakeholder

Any group or individual who can affect or is affected by the achievement of an organization's objectives. The use of the term stakeholder has become commonplace in organizations.

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3. Identifying and Influencing Major Stakeholders

There are several methods for analyzing stakeholder transactions and relationships with an organization that go beyond the purpose of this Challenge (Donaldson & Preston, 1955). Using an ethical perspective, a goal of this approach is for organizations to employ values of transparency, fairness, and consideration of stakeholder interests in strategic decisions and transactions. Toward that end, the following questions can be used from the diagram above.

1. Who are the stakeholders (that is, people who have an interest in supporting or resisting a proposed course of action, resolving an issue, and addressing a change)?
2. What are their stakes in either supporting or resisting the change?
3. What do the supporters stand to gain and lose from the change?
4. What do the resisters stand to gain and lose from the change?
5. What type(s) of power do the supporters have with regard to the change?
6. What type(s) of power do the resisters have with regard to the change?
7. What strategies can we use to keep the support of the supporters?
8. What strategies can we use to neutralize or win over the resisters?

Based on this approach, an organization's leaders and officers inform, involve, obtain feedback from, and influence each of their stakeholders with regard to strategy, issues, or opportunities the organization pursues.

DID YOU KNOW

Had BP followed this approach in 2010, the now largest oil spill and rig explosion crisis in the history of such operations that occurred in the Gulf of Mexico, killing 11 workers and damaging over 600 square miles of land and sea, might have been prevented. It appeared that the leadership and culture at BP had been lax and out of touch with its stakeholders—and stockholders. As a consequence, the machinery and equipment were dated and not optimally functioning. However, if BP had implemented an effective stakeholder management approach, then employees, workers, communities, and the public may not have suffered that crisis and the continuing aftereffects.

CSR and stakeholder management have demonstrated benefits to firms' reputations and profitability (Falck & Heblich, 2007). The relationship of an organization's ethics and social responsibility to its performance concerns both managers and organization scholars. Studies have shown a positive relationship between ethical and socially responsible behavior and financial results. For example, one study of the financial performance of large U.S. corporations that are considered "best corporate citizens" found that they have both superior reputations and superior financial performance (Verschoor & Murphy, 2002). Similarly, Governance Metrics International, an independent corporate governance ratings agency, found that the stocks of companies run on more selfless principles perform better than those run in a self-serving manner. Top-ranked companies such as Pfizer, Johnson Controls, and Sunoco also outperformed lower-ranking firms on measures such as return on assets, return on investment, and return on capital (Dvorak, 2007).

REFLECT

1. How do sustainable business practices benefit consumers?
2. Differentiate the roles compliance and CSR programs serve in organizations. Are these the same, or are there differences? Explain.

SUMMARY

In this lesson, you learned that **corporate social responsibility (CSR)**, described as "a belief that corporations have a social responsibility beyond pure profit," has become a strategic imperative for organizations as a fundamental market force for financial viability and success, where consumers are important stakeholders. CSR contributes to both internal and external stakeholder awareness to "do the right thing," which not only helps companies become better corporate citizens (increasingly important to consumers) but also positively influences the morale, motivation, and loyalty of existing staff. You learned that CSR and **stakeholder management** are complementary approaches; in other words, profit maximization is constrained by justice, regard for individual rights should be extended to all constituencies who have a stake in a business (stakeholders), and organizations are not only "economic" in nature but can also act in socially responsible ways. CSR and stakeholder management have demonstrated benefits to firms' reputations and profitability. You also learned that a stakeholder management approach involves **identifying and influencing major stakeholders** of a company, utilizing a framework of questions to inform, involve, obtain feedback from, and influence each of their stakeholders with regard to strategy, issues, or opportunities the organization pursues.

Best of luck in your learning!

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TERMS TO KNOW

Stakeholder

Any group or individual who can affect or is affected by the achievement of an organization's objectives. The use of the term stakeholder has become commonplace in organizations.

Stakeholder Management

The systematic identification, analysis, planning, and implementation of actions designed to engage with stakeholders.

Ethics Around the Globe

by Sophia

WHAT'S COVERED

In this lesson, you will learn about the ethical issues organizations and individuals encounter in a global environment. Specifically, this lesson will cover:

1. Global Ethical Value Systems
2. Globalization
3. MNEs Corporate Cultures

1. Global Ethical Value Systems

Organizations operating on a global basis often face particularly tough ethical challenges because of various cultural, political, economic, technological, and market factors. The greater the complexity of the environment, the greater the potential for ethical problems and misunderstandings for global organizations (Daft, 2016). Recent and reoccurring global ethical problems and risks that organizations face include cybersecurity and political threats, international conflict and warfare, income inequality, planetary climate and environmental pollution and instability, corruption, and human and diversity rights violations.

The diagram below illustrates the wide range of stakeholders and issues related to several of the risks in this figure that MNEs (multinational enterprises) must either prevent from occurring or manage when doing business across and within different country borders.

Source: Copyright © Joseph W. Weiss, Bentley University, Waltham, MA. 2014.

Following laws related to doing business abroad is an added challenge for global firms. For example, the FCPA (Foreign Corrupt Practices Act) prohibits American firms from accepting or offering bribes to foreign government officials. U.S. individuals who cannot defend their actions with regard to the FCPA's anti-bribery provisions can face harsh penalties. "U.S. companies can be fined up to $2 million while U.S. individuals (including officers and directors of companies that have willfully violated the FCPA) can be fined up to $100,000 and imprisoned for up to five years, or both. In addition, civil penalties may be imposed" (Weiss, 2014).

DID YOU KNOW

Recently, the U.S. Department of Justice (DOJ) and the Securities and Exchange Commission (SEC) have been more aggressive in enforcing and prosecuting the bribery section of the FCPA. Halliburton Company in 2017 paid the SEC $29.2 million for bribing a friend of an official in Angola to negotiate seven oil field services contracts. The result was a disgorgement fine (i.e., a repayment of illegal gains with penalties imposed on wrongdoers by the courts) for violating the FCPA's records and internal accounting controls provisions (Cassin, 2017).

U.S.-based firms are also expected to not engage in unethical or illegal activities such as discriminating against local populations, violating local laws and norms, and disrespecting property and the environment. MNEs can also assist and add value to local countries. For example, the following practices are encouraged:

- Hiring local labor
- Creating new jobs
- Co-venturing with local entrepreneurs and companies

- Attracting local capital to projects
- Providing for and enhancing technology transfer
- Developing particular industry sectors
- Providing business learning and skills
- Increasing industrial output and productivity
- Helping decrease the country's debt and improve its balance of payments and standard of living

(Weiss, 2014)

2. Globalization

The increasing phenomenon of globalization (an integrated global economy consisting of free trade, capital flows, and cheaper foreign labor markets) also pressures global firms facing international risks to rely on governments, NGOs (nongovernmental organizations), the UN (United Nations), and other business and stakeholder alliances and relationships to help meet non-market threats (Dutton, 1999). For example, the ten principles of the UN Global Compact serve as guidelines for international firms doing business in LDCs (least developed countries), and abroad, businesses should:

1. support and respect the protection of internationally proclaimed human rights,
2. ensure that they are not complicit in human rights abuses,
3. uphold the freedom of association and the effective recognition of the right to collective bargaining,
4. eliminate of all forms of forced and compulsory labor and abolish child labor,
5. eliminate the discrimination of employment and occupation,
6. support a precautionary approach to environmental challenges,
7. promote greater environmental responsibility through initiatives,
8. encourage the development and diffusion of environmentally friendly technologies, and
9. work against corruption, including extortion and bribery.

(United Nations Global Compact, n.d.)
While these principles may seem so universal as to be unattainable, they do stand as ethical milestones that protect human life, dignity, and personal welfare and values. However, when companies operate in LDCs and other cultures, it often is necessary to negotiate a balance between fairness, equality, and different local values and standards. U.S. and Western values may differ with local cultural norms, such as child labor and employee rights, in many countries. Donaldson and Dunfee offer methods for such negotiations (Donaldson & Dunfee, 2000).

DID YOU KNOW

A classic example was Levi Strauss doing business in Bangladesh several years ago. Children in that country under the age of 14 were working in two of Levi's local suppliers. This employment practice violated Levi's norms but not the local cultural norms. Firing the children would have prevented the children from being able to get an education and would have placed hardships on their families, who depended on the children's wages. A negotiated agreement (between Levi's universal values and local country norms) involved the suppliers agreeing to pay the children regular wages while they went to school and then hiring them when they turned 15 years old. Levi's agrees to provide for the children's tuition, books, and uniforms.

3. MNEs Corporate Cultures

MNEs must also create inclusive, ethical corporate cultures while managing both external and internal complexities such as hiring and training a diverse workforce, adapting to local culture norms while balancing home country ethics and values, and ensuring a multicultural approach to doing business across countries. Hanna identified five strategic questions that relate to organizational cultural sensitivities when doing business abroad as well as in a home country (Hanna, 2016):

1. "What do customers and stakeholders in our market expect from our organization? (Will their standard of living be raised? Will their cultural expectations be violated?)
2. What is our strategy to be successful in this competitive marketplace? (What can we realistically hope to achieve? What results are we willing to commit to?)
3. What are our governing values that define how we will work with stakeholders and with each other?
4. What organizational capabilities do we need in order to achieve these results?
5. What do our work processes, roles, and systems need to do so that we are consistent with all of the above?"

The author maintains that these questions will help bring an awareness to cultural differences and help organizational leaders and staff reach agreement on customizing decisions to fit a particular market while balancing company principles with local values.

REFLECT

1. What ways can and do some MNEs demonstrate social responsibility in foreign countries?
2. What are some specific ethical business practices other countries (besides the United States) and regional governing bodies (such as the European Union) practice and demonstrate with regard to the environment and competition?

SUMMARY

In this lesson, you learned about the ethical issues organizations and individuals encounter in a global environment. You learned that organizations operating on a global basis often face ethical challenges due to differences in **global ethical value systems**, involving various cultural, political, economic, technological, and market factors. You also learned that the increasing phenomenon of **globalization** forces global firms facing international risks to rely on governments, NGOs, the United Nations, and other business and stakeholder alliances and relationships to provide guidelines for international firms doing business abroad. Lastly, you learned that it is important for **MNEs** (multinational enterprises) to create ethical **corporate cultures** while managing both external and internal complexities such as hiring and training a diverse workforce, adapting to local culture norms while balancing home country ethics and values, and ensuring a multicultural approach to doing business across countries.

Best of luck in your learning!

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Terms to Know

360 Assessment

An evaluation tool that collects feedback from managers, peers, direct reports, and customers.

9-box Template

A matrix tool used to evaluate an organization's talent pool based on performance and potential factors.

Administrative Plans

Plans that work to integrate institutional-level plans with the operating plans and tie together all of the plans created for the organization's technical core.

Altruism

A steadfast devotion to improving the welfare of others.

Bill of Rights

The first 10 Amendments to the Constitution of the United States.

Business Ethics

The area of applied ethics that focuses on real-world situations and the context and environment in which transactions occur.

Civil Liberties

Essential individual rights that are protected by law and cannot be limited by government. Civil liberty protections are found in the Bill of Rights and include religious freedom, freedom of speech, freedom of the press, freedom to assemble, and freedom to petition the government.

Competencies

A set of defined behaviors that an organization might utilize to define standards for success.

Contingency Plans

Plans that deal with alternative courses of action.

Controlling

Monitoring the behavior of organizational members and the effectiveness of the organization itself to determine whether organizational goals are being achieved and taking corrective action if necessary.

Corporate Culture

The beliefs and behaviors that determine how a company’s employees and management interact inside an organization and also handle outside business transactions. Corporate culture develops organically over time from the cumulative traits of the leaders and the people that the company hires.

Corporate Social Responsibility (CSR)

Scientific and ethical practices that ethicists, business leaders, and consumers can implement to support moral self-regulation of technologies.

Declaration of Independence

A document that declared early America's independence from British rule, written to guarantee the right to life, liberty and the pursuit of happiness for all people.

Deming (Shewhart) Cycle

A planning model directed toward attaining continuous improvement by integrating organizational learning into the planning process (plan, do, check, act).

Domain/Directional Planning

The development of a course of action that moves an organization toward one domain or direction (and, therefore, away from other domains or directions).

Employee Life Cycle

The various stages of engagement of an employee—attraction, recruitment, onboarding, development, retention, separation.

Employer-Employee Relationship

The employment relationship; the legal link between employers and employees that exists when a person performs work or services under specific conditions in return for payment.

Ethical Dilemma

A situation in which a difficult choice has to be made between two courses of action with ethical consequences.

Ethical Relativism

Holds that people set their own moral standards for judging their actions, based on self-interest.

Ethics

The code of moral principles and values that governs the behaviors of a person or group with respect to what is right or wrong.

Formal and Informal Contracts

Used to allow firms to share technology between each other.

Franchise Agreements

Long-term agreements that involve long payoffs for the sharing of known technology.

Goal Hierarchy

The interrelationship among an organization's job-, department-, divisional-, and organizational-level goals.

Goal Planning

Development of action statements to move toward the attainment of a specific goal.

Goal Theory

The most completely supported theory of motivation that specifies a link between certain types of goals and motivation, improving employee performance.

Human Capital

The skills, knowledge, and experience of an individual or group, and the associated value to an organization.

Human Resource Compliance

The HR role to ensure adherence to laws and regulations that govern the employment relationship.

Human Resource Management

The management of people within organizations, focusing on the touchpoints of the employee life cycle.

Hybrid Planning

The coupling of domain and goal planning.

Individual Assessments

Personality and work style inventories of employees.

Individual Development Plans

Documents that highlight an individual employee's opportunities for growth and path of action.

Innovation

Invention, new product development, and process improvement methods are all examples of innovation.

Instrumental Values

The preferred means of behavior used to obtain desired goals.

Joint Ventures

Long-term alliances that involve the creation of a new entity to specifically carry out a product/process innovation.

Justice

Four major tenets: (1) All individuals should be treated equally; (2) Justice is served when all persons have equal opportunities and advantages; (3) Fair decision practices, procedures, and agreements among parties should be practiced; (4) Punishment is served to someone who inflicts harm.

Licensing Agreements

Involve technology acquisition without R&D.

Management By Objectives (MBO)

A philosophy of management, a planning and controlling technique, and an employee involvement program that specifies employees are capable of self-direction and self-control.

Management of Innovation

Includes both change management and managing organizational processes that encourage innovation.

Management of Technology

The planning, implementation, evaluation, and control of the organization’s resources and capabilities in order to create value and competitive advantage.

Mergers and Acquisitions

For an acquisition, one firm buys another; for a merger, the two firms come together and form a new firm.

Merit Matrix

A calculation table that provides a framework for merit increases based on performance levels.

Normative Ethics

The field of ethics concerned with asking how we should live and act.

Official Goals

The aims of an organization that are expressed in highly abstract and general terms, generally employed for the organization's external constituents.

Operating Plans

Direction and action statements for activities in the organization's technical core.

Operational Goals

The aims of an organization that reflect management's specific intentions.

Pay-For-Performance Model

The process and structure for tying individual performance levels to rewards levels.

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Performance Management

The process by which an organization ensures that its overall goals are being met by evaluating the performance of individuals within that organization.

Research and Development (R&D)

Involves the seeking and developing of new technologies, products, and/or processes through creative efforts within the firm.

Rewards Systems

The framework that an organization creates and manages to ensure that employee performance is reciprocated with some sort of reward that will drive and motivate the employee to continue to perform for the organization. Rewards programs consist primarily of compensation programs and policies, but can also include employee benefits and other extrinsic rewards that fulfill employee needs.

Rights

Legal rights are entitlements that are limited to a particular legal system and jurisdiction, while moral rights are universal and based on norms in every society.

Servant Leadership

Involves selflessly working with followers to achieve shared goals that improve collective, rather than individual, welfare.

Single-use Plans

Plans developed for unique situations or problems and one-time use.

Society of Human Resource Management (SHRM)

The world's largest HR professional society, with more than 285,000 members in more than 165 countries. It is a leading provider of resources serving the needs of HR professionals.

Stakeholder

Any group or individual who can affect or is affected by the achievement of an organization's objectives. The use of the term stakeholder has become commonplace in organizations.

Stakeholder Management

The systematic identification, analysis, planning, and implementation of actions designed to engage with stakeholders.

Standing Plans

Rules, policies, and procedures about how to deal with issues that managers face repeatedly.

Stewardship

Concerned with empowering followers to make decisions and gain control over their work.

Strategic Drift

Occurs when a joint venture loses strategic focus on the reasons for the joint venture.

Strategic Plans

Hierarchical plans that address an organization's institutional-level needs and attempt to position it advantageously within its task environment.

Stretch Assignments

Challenge roles for high-potential employees.

Succession Planning

The process of identifying and developing new leaders and high-potential employees to replace current employees at a future time.

Talent Acquisition

The process of finding and acquiring skilled candidates for employment within a company; it generally refers to a long-term view of building talent pipelines, rather than short-term recruitment.

Talent Development

Integrated HR processes that are created to attract, develop, motivate, and retain employees.

Technology

The branch of knowledge that deals with the creation and use of technical means and the application of this knowledge for practical ends.

Terminal Values

Desired goals, objectives, or end states that individuals wish to pursue.

Time Frame Plans

Duration is captured in short-, medium-, and long-range plans (long-range plans are usually less formal, less detailed, and more flexible in order to accommodate uncertainty).

Total Rewards Strategy

As coined by World at Work, includes compensation, benefits, work-life effectiveness, recognition, performance management, and talent development.

Training

A forum for learning in person or online.

United States Constitution

A written document that established the government and guarantees basic rights for all American citizens.

Universalism

A principle that considers the welfare and risks of all parties, along with the needs of the decision makers, when considering policy decisions and outcomes.

Virtue Ethics

Grounded in one's character, focusing on what type of person one ought to be.

War for Talent

Coined by McKinsey & Company in 1997, it refers to the increasing competition for recruiting and retaining talented employees.