Chapter -8

Organization Structure: Departmentation

CHAPTER OBJECTIVES

After studying this chapter, you should be able to:

1. Identify the basic patterns of traditional departmentation and their advantages and disadvantages.
2. Analyze matrix organizations.
3. Explain strategic business units.
4. Examine organization structures for global enterprises.
5. Understand the virtual and boundaryless organizations.
6. Recognize that there is no single best pattern of departmentation.

The limitation on the number of subordinates that can be directly managed would restrict the size of enterprises if it were not for the device of departmentation. Grouping activities and people into departments makes it possible to expand organizations—at least in theory—to an indefinite degree. Departments, however, differ with respect to the basic patterns used to group activities. The nature of these patterns, developed out of logic and practice, and their relative merits will be dealt with in the following sections.

At the outset, it must be emphasized that there is no single best form of departmentation that is applicable to all organizations or to all situations. The pattern used will depend on the given situations and on what managers believe will yield the best results for them in the situation they face. The pattern may also be based on the concepts of reengineering, discussed in the previous chapter.

Departmentation by Enterprise Function

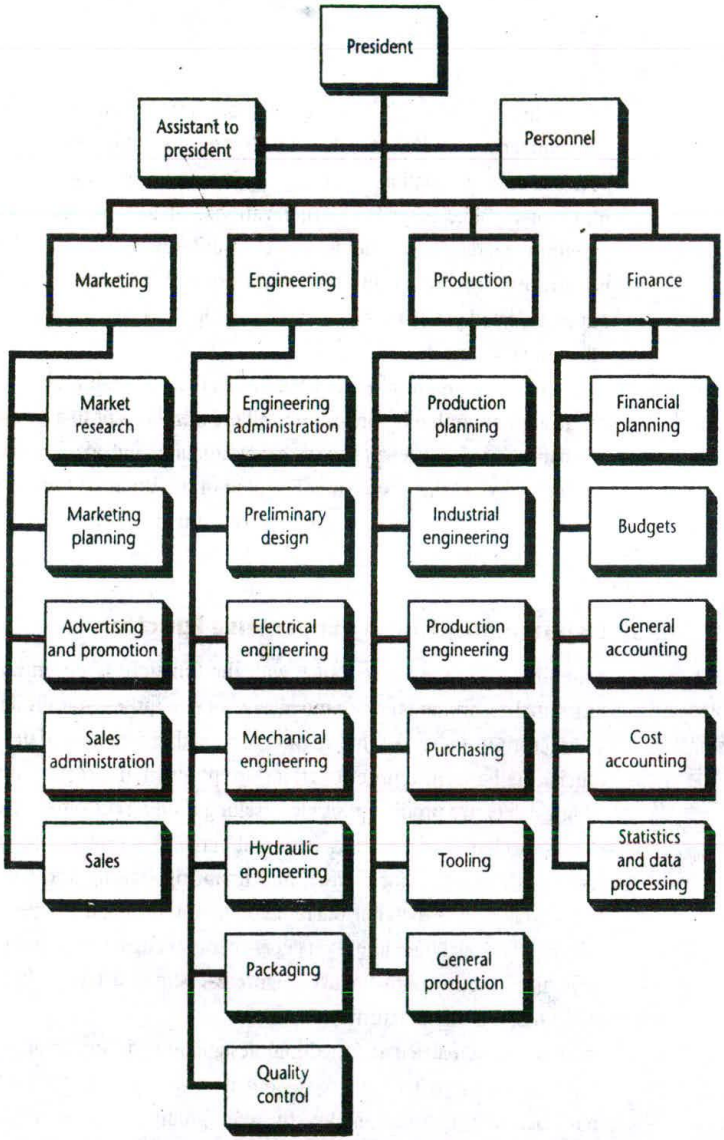
Departmentation by enterprise function Grouping of activities according to the functions of an enterprise, such as production, selling, and financing.

Grouping activities in accordance with the functions of an enterprise—functional departmentation—embodies what enterprises typically do. Since all enterprises undertake the creation of something useful and desired by others, the basic enterprise functions are production (creating utility or adding utility to a product or service), selling (finding customers, patients, clients, students, or members who will agree to accept the product or service at a price or for a cost), and financing (raising and collecting, safeguarding, and expending the funds of the enterprise). It has been logical to group these activities into such departments as engineering, production, sales or marketing, and finance. Figure 8-1 shows a typical functional grouping for a manufacturing company.

Often these particular functional designations do not appear in the organization chart. First, there is no generally accepted terminology: a manufacturing enterprise employs the terms production, sales, and finance; a wholesaler is concerned with such activities as buying, selling, and finance; and a railroad is involved with operations, traffic, and finance.

A second reason for the variance of terms is that basic activities often differ in importance: hospitals have no selling departments; churches, no

FIGURE 8.1 A functional organization grouping (in a manufacturing company)



Advantages:
- Logical reflection of functions
- Maintains power and prestige of major functions
- Follows principle of occupational specialization
- Simplifies training
- Furnishes means of tight control at the top

Disadvantages:
- De-emphasizes overall company objectives
- Overspecializes and narrows viewpoints of key personnel
- Reduces coordination between functions
- Responsibility for profits is at the top only
- Slow adaptation to changes in the environment
- Limits development of general managers

production departments. This does not mean that these activities are not undertaken; rather, they are unspecialized or of such minor importance that they are combined with other activities.

A third reason for the absence of sales, production, or finance departments on many organization charts is that other methods of departmentation may have been deliberately selected. Those responsible for the enterprise may decide to organize on the basis of product, customer, territory, or marketing channel (the way goods or services reach the user).

Functional departmentation is the most widely used basis for organizing activities and is present in almost every enterprise at some level in the organization structure. The characteristics of the selling, production, and finance functions of enterprises are so widely recognized and thoroughly understood that they are the basis not only of departmental organization but also, most often, of departmentation at the top level.

Coordination of activities among departments may be achieved through rules and procedures, various aspects of planning (e.g., goals and budgets), the organizational hierarchy, personal contacts, and sometimes liaison departments. Such a department may be used to handle design or change problems between engineering and manufacturing. The advantages and disadvantages of departmentation by enterprise function are listed in Figure 8-1.

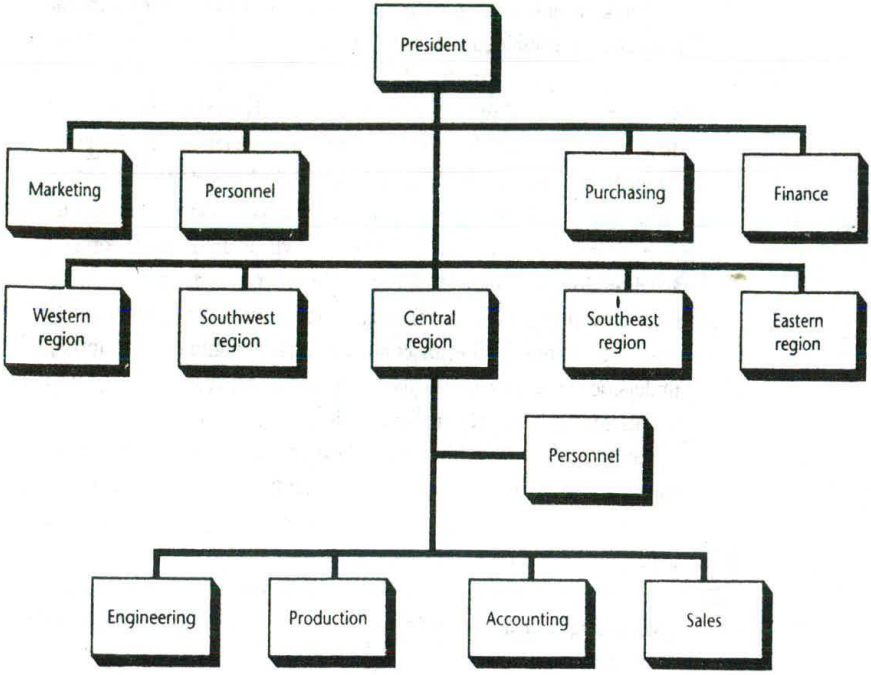
Departmentation by Territory or Geography

Departmentation by territory or geography Grouping of activities by area or territory is common in enterprises operating over wide geographic areas.

Departmentation based on territory is rather common in enterprises that operate over wide geographic areas. In this case, it may be important that activities in a given area or territory be grouped and assigned to a manager, for example, as shown in Figure 8-2.

Although territorial departmentation is especially attractive to large-scale firms or other enterprises whose activities are physically or geographically dispersed, a plant that is local in its activities may assign the personnel in its security department on a territorial basis, placing two guards at each of the south and west gates, for example. Department stores assign floorwalkers on this basis, and it is a common way to assign janitors, window washers, and the like. Business firms resort to this method when similar operations are undertaken in different geographic areas, as in automobile assembling, chain retailing and wholesaling, and oil refining. Many government agencies—the tax department, the central bank, the courts, and the postal service, among others—adopt this basis of organization in their efforts to provide like services simultaneously across

FIGURE 8-2 A territorial, or geographic, organization grouping (in a manufacturing company)



Advantages:
- Places responsibility at a lower level
- Places emphasis on local markets and problems
- Improves coordination in a region
- Takes advantage of economies of local operations
- Better face-to-face communication with local interests
- Furnishes measurable training ground for general managers

Disadvantages:
- Requires more persons with general manager abilities
- Tends to make maintenance of economical central services difficult and may require services such as personnel or purchasing at the regional level
- Makes control more difficult for top management

the nation. Territorial departmentation is most often used in sales and in production; it is not used in finance, which is usually concentrated at the headquarters.

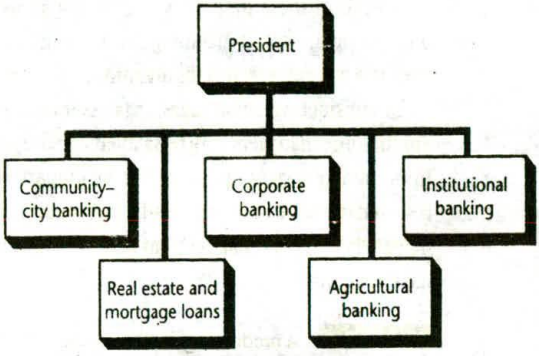
The advantages and disadvantages of departmentation by territory or geography are shown in Figure 8-2.

Departmentation by Customer Group

Departmentation by customer group Grouping of activities that reflects a primary interest in customers.

Grouping activities so that they reflect a primary interest in customers is common in a variety of enterprises. Customers are the key to the way activities are grouped when each customer group is managed by one department head. The industrial sales department of a wholesaler that

FIGURE 8-3 Customer departmentation (in a large bank)



Advantages:
- Encourages focus on customer needs
- Gives customers the feeling that they have an understanding supplier (banker)
- Develops expertness in customer area

Disadvantages:
- May be difficult to coordinate operations between competing customer demands
- Requires managers and staff expert in customers' problems
- Customer groups may not always be clearly defined (e.g., large corporate firms vs. other corporate businesses)

also sells to retailers is a case in point. Business owners and managers frequently arrange activities on this basis to cater to the requirements of clearly defined customer groups, and educational institutions offer regular and extension courses to serve different groups of students.

For the structure and the advantages and disadvantages of customer departmentation, see Figure 8-3.

Departmentation by Product

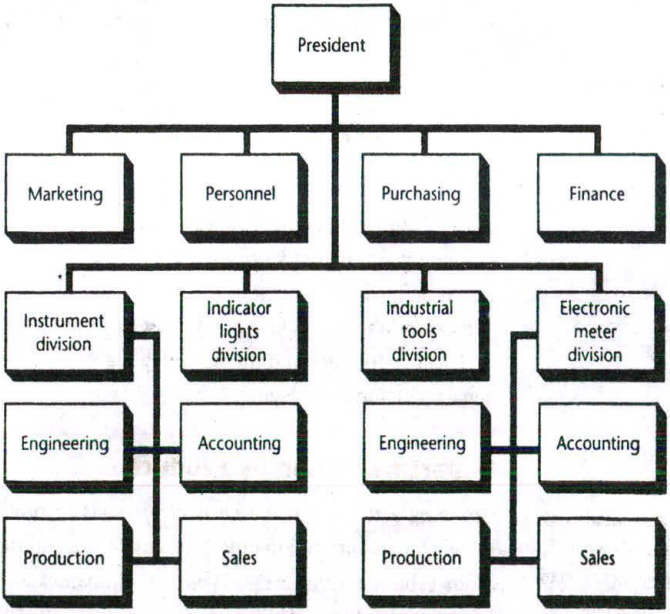
Departmentation by product Grouping of activities according to products or product lines, especially in multiline, large enterprises.

Grouping activities on the basis of products or product lines has been growing in importance in multiline, large-scale enterprises. It can be seen as an evolutionary process. Typically, companies and other enterprises adopting this form of departmentation were organized by enterprise function. With the growth of the firm, production managers, sales and service managers, and engineering executives encountered problems of size. The managerial job became complex, and the span of management limited the managers' ability to increase the number of immediate subordinate managers. At this point, reorganization on the basis of product division became necessary. This structure permits top management to delegate to a division executive extensive authority over the manufacturing, sales, service and engineering functions that relate to a given product or

product line and to exact a considerable degree of profit responsibility from each of these managers. Figure 8-4 shows an example of a typical product organization grouping for a manufacturing company,* together with the advantages and disadvantages of such departmentation.

In considering advantages, it is essential to avoid oversimplification. Product-line managers may be saddled with heavy overhead costs, allocated from the expense of operating the headquarters office, perhaps a central research division, and, frequently, many central service divisions. Product managers understandably resent being charged with costs over which they have no control.

FIGURE 8-4 A product organization grouping (in a manufacturing company)



Advantages:

- Places attention and effort on product line
- Facilitates use of specialized capital, facilities, skills, and knowledge
- Permits growth and diversity of products and services
- Improves coordination of functional activities
- Places responsibility for profits at the division level
- Furnishes measurable training ground for general managers

Disadvantages:

- Requires more persons with general manager abilities
- Tends to make maintenance of economical central services difficult
- Presents increased problem of top management control

* Product departmentation is also used in nonmanufacturing companies.

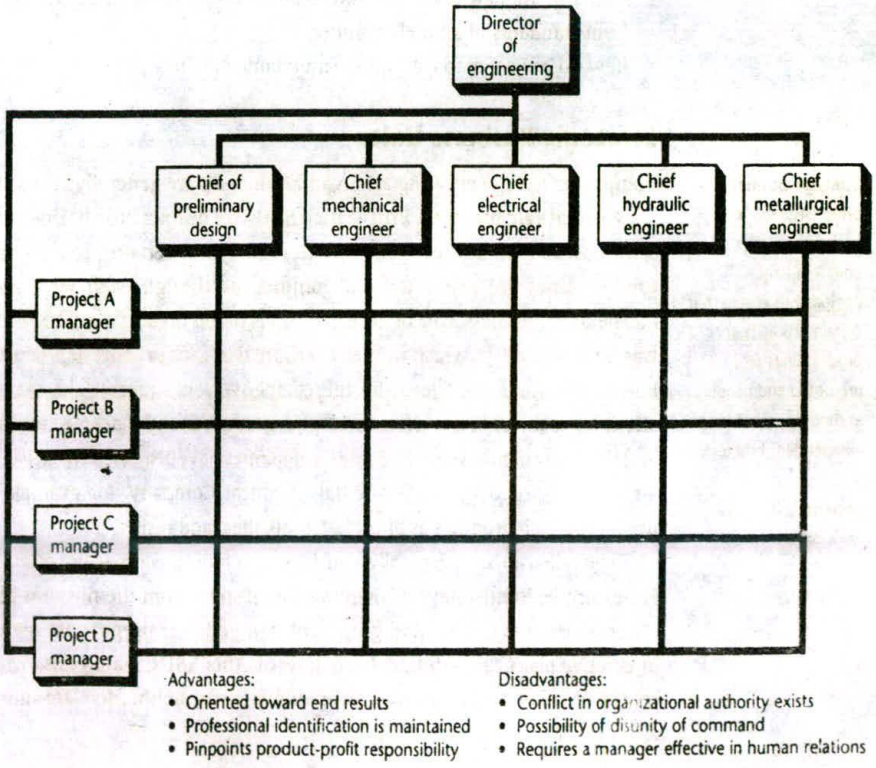
Matrix Organization

Matrix organization The combining of functional and project or product patterns of departmentation in the same organization structure.

Another kind of departmentation is matrix or grid organization or project or product management. However, pure project management need not imply a grid or matrix. The essence of **matrix organization** normally is the combining of functional and project or product patterns of departmentation in the same organization structure. As shown in Figure 8-5, which depicts matrix organization in an engineering department, there are functional managers in charge of engineering functions and an overlay of project managers responsible for the end product. While this form is common in engineering and in research and development, it has also been widely used, although seldom drawn as a matrix, in product marketing organization.

This kind of organization occurs frequently in construction (e.g., building a bridge), in aerospace (e.g., designing and launching a weather satellite), in marketing (e.g., an advertising campaign for a major new

FIGURE 8-5 Matrix organization (in engineering)



product), in the installation of an electronic data processing system, or in management consulting firms where management experts work together on a project.

Guidelines for Making Matrix Management Effective

Matrix management can be made more effective by following these guidelines:

- Define the objectives of the project or task.
- Clarify the roles, authority, and responsibilities of managers and team members.
- Ensure that influence is based on knowledge and information, rather than on rank.
- Balance the power of functional and project managers.
- Select an experienced manager for the project who can provide leadership.
- Undertake organization and team development.
- Install appropriate cost, time, and quality controls that report deviations from standards in a timely manner.
- Reward project managers and team members fairly.

Strategic Business Units

Strategic business units Distinct little businesses set up as units in a larger company to ensure that certain products or product lines are promoted and handled as though each were an independent business.

www.ge.com
www.oxychem.com

Companies have been using an organizational device generally referred to as a **strategic business unit** (SBU). SBUs are distinct little businesses set up as units in a larger company to ensure that certain products or product lines are promoted and handled as though each were an independent business. One of the earlier users of this organizational device was General Electric, which wanted to ensure that each product or product line of the hundreds offered by the company would receive the same attention as it would if it were developed, produced, and marketed by an independent company. In some cases, companies have also used the device for a major product line. Occidental Chemical Company, for example, used it for such products as phosphates, alkalies, and resins.

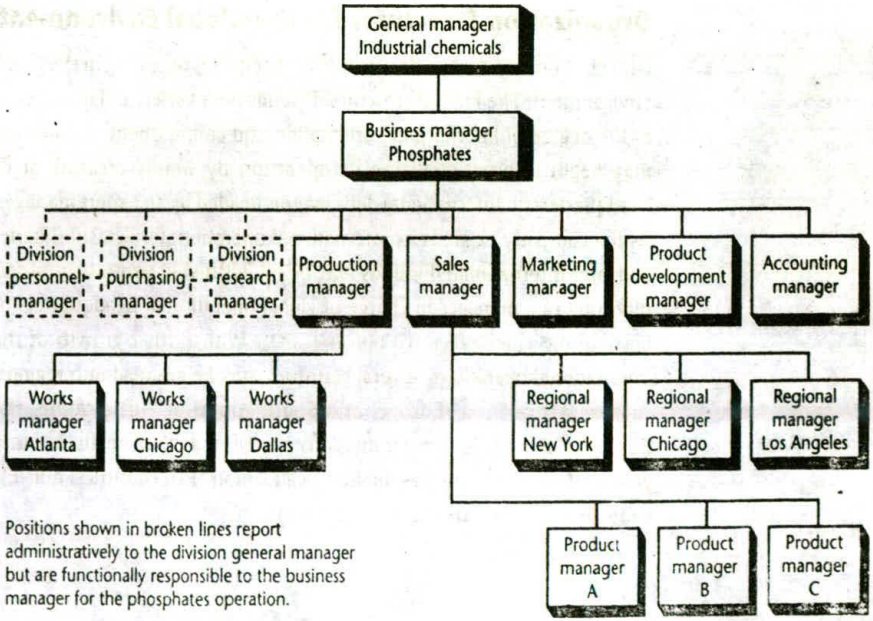
To be called an SBU, generally a business unit must meet specific criteria. For example, it must have its own mission, distinct from the missions of other SBUs; have definable groups of competitors; prepare its own integrative plans, fairly distinct from those of other SBUs; manage its own resources in key areas; and be of an appropriate size, neither too large nor

too small. Obviously, in practice, it might be difficult to establish SBUs that meet all of these criteria.

For each SBU, a manager (usually a business manager) is appointed with responsibility for guiding and promoting the product from the research laboratory through product engineering, market research, production, packaging, and marketing and with bottom-line responsibility for its profitability. Thus, an SBU is given its own mission and goals as well as a manager who, with the assistance of full-time or part-time staff (people from other departments assigned to the SBU on a part-time basis), will develop and implement strategic and operating plans for the product. The organization of a typical SBU, that for phosphates in Occidental Chemical, is shown in Figure 8-6. Note that reporting to the business manager for phosphates are all the functions that would be found necessary in a separate company.

Obviously, the major benefit of utilizing an SBU organization is to provide assurance that a product will not get "lost" among other products (usually those with larger sales and profits) in a large company. It preserves the attention and energies of a manager and staff whose job it is to guide and promote a product or product line. It is thus an organizational

FIGURE 8-6 Typical strategic business unit organization (in a large industrial chemical company)



technique for preserving the entrepreneurial attention and drive so characteristic of the small company. In fact, it is an excellent means of promoting entrepreneurship, which is likely to be lacking in the large company.

Potential Problems with Strategic Business Units[1]

Core competency Collective learning, coordination, and integration of skills to obtain "streams of technology."

C. K. Prahalad and Gary Hamel, two professors in strategic management, suggest that companies should invest in their core competencies and watch out for the tyranny of SBUs. The **core competency** is the organization's collective learning, especially the capability to coordinate the different production skills and the integration of these skills into what they call "streams of technology." For example, for car maker Honda, engines are the core products to which design and development skills are directed that result in end products such as cars and motorcycles. If the motorcycle division had received resources for development, it may not share this technology with a car division. The allocation of resources to individual SBUs can result in the underinvestment in core competencies (such as in engines) that benefit the total organization. Also, SBU managers may not be willing to share talented people and may hide them rather than lend them to another SBU.

Organization Structures for the Global Environment

Organization structures differ greatly for enterprises operating in the global environment. The kind of structure depends on a variety of factors, such as the degree of international orientation and commitment. A company may begin internationalizing its operation by simply creating at its headquarters an international department, headed by an export manager. As the company expands its international operation, foreign subsidiaries and later international divisions may be established in various countries, reporting to a manager in charge of global operation at headquarters or possibly the chief executive officer (CEO). With further growth of the international operations, several countries may be grouped into regions, such as Africa, Asia, Europe, and South America. Furthermore, the European division (and other divisions as well) may then be divided into groups of countries, such as the European Union (EU) countries, non-EU countries, and Eastern European countries.

International Perspective

Organizational Challenges for VIAG Interkom[2]

www.viaginterkom.de
www.telenor.com

VIAG Interkom, a German company until spring 2001, was one of three full-service companies in Germany. Three partners supported the company. One was e.on, a leading holding company with more than 213,000 employees that came into being as a result of the merger of VEBA and VIAG. It held a 45 percent share. Another company, Telenor, a Norwegian company with more than 23,000 employees, held 10 percent; and BT (British Telecom), with almost 137,000 employees, had a 45 percent interest.

It was a short corporate life for VIAG, which was founded in 1995 and became a part of the British giant BT in March 2001. This required organizational changes and adjustments. In addition, the company has to cope with market trends, such as consumer demands for conveniences and individualization of services as well as the globalization and hypergrowth of the industry. There are also the industry trends, such as consolidation of companies and a general price decline. Moreover, the organization needs to respond to technological trends, such as the high innovation rate and the developments in broadband access technologies. Only companies with flexible organization structures can respond to those challenges and integrate different organizations from various countries with different national and organizational cultures, enabling them to survive in this very competitive environment.

Companies may also choose other forms of departmentation in addition to the geographic pattern. For example, an oil company may subdivide the functional group for exploration according to regions, such as exploration in Alaska or in the Persian Gulf. Similarly, the functional groups of refining and marketing may be subdivided into the various regions. Clearly, petroleum products may be marketed in areas other than those where exploration or production takes place.

The Virtual Organization[3]

Virtual organization A rather loose concept of a group of independent firms or people that are connected through, usually, information technology.

The **virtual organization** is a rather loose concept of a group of independent firms or people that are connected through, usually, information technology. These firms may be suppliers, customers, and even competing companies. The aim of the virtual organization is to gain access to another firm's competence, to gain flexibility, to reduce risks, or to respond rapidly to market needs. Virtual organizations coordinate their activities through the market where each party sells its goods and services.

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The virtual organization has advantages and disadvantages. When IBM developed the personal computer in 1981, all major components were acquired from other companies. This enabled IBM to market the product in 15 months. The microprocessor was bought from Intel and the software was developed by Microsoft. The "open" architecture was based on well-known standards, and components could be purchased from many vendors. By using outside parties, IBM had to invest little for its decentralized strategy. Later, however, the open architecture strategy revealed its downside. Other firms could purchase microprocessors directly from Intel and the software operating system from Microsoft.

www.open.ac.uk

Virtual organizations may have neither an organization chart nor a centralized office building. The modern library may not be a building with lots of bookshelves. One may never have to visit a library—a database, a computer, a modem, and a password may be all that is necessary to access the library. The Open University in the United Kingdom may be one example of a university without a place. It has a home base with an administrative body but no students. The students are spread all over the world, and so are the professors. They may never meet each other. The technological possibilities are exciting, but how do we manage people we never see? Clearly, many unanswered questions surround the virtual organization.

The Boundaryless Organization

Jack Welch, former CEO of General Electric, stated his vision for the company as a "boundaryless company." By this he meant an "open, anti-parochial environment, friendly toward the seeking and sharing of new ideas, regardless of their origin."[4] The purpose of this initiative was to remove barriers between the various departments as well as between domestic and international operations. To reward people for adopting the "integration model," bonuses were awarded to those who not only generated new ideas but also shared them with others.

Choosing the Pattern of Departmentation[5]

There is no one best pattern of departmentation that is applicable to all organizations and all situations. Managers must determine what is best by looking at the situation they face: the jobs to be done and the way they should be done, the people involved and their personalities, the technology employed in the department, the users being served, and other internal and external environmental factors in the situation. However, if they know

the various departmentation patterns, and the advantages, disadvantages, and dangers of each, practicing managers should be able to design the organization structure most suitable for their particular operations.

The Aim: Achieving Objectives

Departmentation is not an end in itself but is simply a method of arranging activities to facilitate the accomplishment of objectives. Each method has its advantages and disadvantages. Consequently, the process of selection involves a consideration of the relative advantages of each pattern at each level in the organization structure. In all cases, the central question concerns the type of organizational environment that the manager wishes to design and the situation being faced. The preceding discussion of the alternative methods of departmentation shows that each method yields certain gains and involves certain costs.

Mixing Types of Departmentation

Another point to be highlighted concerns the mixing of types of departmentation within a functional area. For example, a wholesale drug firm has grouped the buying and selling activities relating to beverages in one product department, but it has grouped, on the same level, all other selling activities on a territorial basis. A manufacturer of plastic goods has territorialized both the production and the sale of all its products except dinnerware, which is itself a product department. A functional department manager may, in other words, employ two or more bases for grouping activities on the same organizational level. Such practices may be justified on logical grounds. The objective of departmentation is not to build a rigid structure, balanced in terms of levels and characterized by consistency and identical bases, but to group activities in the manner that will best contribute to achieving enterprise objectives. If a variety of bases does this, there is no reason why managers should not take advantage of the alternatives before them.

Summary

The grouping of activities and people into departments makes organizational expansion possible. Departmentation can be done by enterprise function, by territory or geography, and by the kinds of customers served. Other kinds of departmentation are the product organization grouping, matrix or grid organization, project organization, and the strategic business unit.

The organization structure for the global environment may vary greatly, ranging from having an export department at the headquarters to regional groupings, with many variations in between. In addition, companies may have also one or more functionally organized groupings within a region. The virtual organization is a loose concept of a group of independent companies or people that are connected often through computer technology.

There is no single best way to organize; the most appropriate pattern depends on various factors in a given situation. These factors include the kind of job to be done, the way the task must be done, the kinds of people involved, the technology, the people served, and other internal and external considerations. At any rate, the selection of a specific departmentation pattern should be done so that organizational and individual objectives can be achieved effectively and efficiently. Accomplishing this goal often requires mixing forms of departmentation.

KEY IDEAS AND CONCEPTS FOR REVIEW

Departmentation by enterprise function
Departmentation by territory or geography
Departmentation by customer group
Departmentation by product
Strategic business unit
Matrix organization (or grid, or project, or product)
Organization structures for global enterprises
Virtual organization
Boundaryless organization

FOR DISCUSSION

1. Some sociologists tell us that organization structuring is a social invention. What do you think they mean? Do they imply that there is a "right" or "wrong" way to organize? What would you suggest as a test of whether an organization structure is "right"?
2. If you were the president of a company that was organized along functional lines and a consultant suggested that you organize along territorial or product lines, what might concern you in following this recommendation?
3. Why do most large department store and supermarket chains organize their stores on a territorial basis and the internal store units by products? Give examples from your own experience.
4. Why do most small companies use functionally organized departments?
5. Why are so many national government agencies organized primarily on a territorial basis?
6. Do you see any reasons why managing by objectives may result in increased use of matrix organization structures?
7. How does this chapter illustrate a situational approach to management?

EXERCISES/ACTION STEPS

1. Divide the class into groups of four or five students (depending on class size). Assign one pattern of departmentation to each group (assign two to each if the class is small). The groups should discuss (a) the nature of the assigned departmentation, (b) companies that use this departmental arrangement, and (c) the advantages and disadvantages of this form of departmentation.
2. Select a company and identify the departmentation pattern (or patterns) it uses. Draw an organization chart for the firm. Why do you think the company selected the type of departmentation it did? Would you recommend it?

INTERNET RESEARCH

1. Search the Internet for the term "matrix organization" to find examples of the grid. Also note the difficulties those companies may have encountered.
2. Search the Internet for the term "strategic business units." Look for the ways that various organizations are utilizing such units to enhance their management.

International Case

The Restructuring of Daimler-Benz[6]

In a 1996 address to stockholders and friends of Daimler-Benz, CEO Jürgen Schrempp reviewed the position of the diversified company. He started by saying "1995 was a dramatic year in the history of Daimler-Benz." It was also a year that the board of management made a major break with the past.

Daimler-Benz, with more than 300,000 employees worldwide, consisted of four major groups: The first, by far the biggest and most successful group, was Mercedes-Benz with about 200,000 employees. It is best known for its passenger cars and commercial vehicles. The second was the AEG Daimler-Benz Industries in the business of rail systems, microelectronics, heavy diesel engines, energy systems technology, and automation. The third was the Aerospace Group in the business of aircraft (the company has a more than one-third interest in the Airbus consortium), space systems, defense and civil systems, and propulsion systems. Finally, there was the InterServices Group consisting of *systemshaus*, financial services, insurance brokerage, trading, marketing services, mobile communications services, and real estate management.

Daimler-Benz went through various development phases. From 1985 to 1990, it diversified into aerospace and electrical engineering. The aim was to become an integrated high-tech group. This diversification was further consolidated in the next phase that extended from 1990 to 1995. Under the leadership of Schrempp, the core business was redefined and the strategy refocused.

A 1995–96 portfolio review showed the need for refocusing on what the company could do best. Top management reevaluated its strategies and its core businesses based on economic criteria

and the strategic fit of the various activities. It became clear that the company's strengths were in car manufacturing, the truck business, and the railroad sector. Mercedes-Benz, for example, had a strong competitive position with its cars and trucks in Europe, North America, and Latin America. Vans were also relatively strong in Europe, and buses had a good competitive position in Latin America. Based on this analysis, the strategies for potential growth were through globalization and the development of new product segments.

In 1996, top management reassessed the company's position and its 1995 unsatisfactory results from its operations. It was discovered that the company was exposed to currency fluctuations that affected profitability. The company's image was also blurred because of the ventures into many different kinds of industries. The management board decided to cut its losses and chart a new direction for the company, with greater emphasis on profitability. The organization structure was tightened and certain businesses were divested. In fact, policy decisions from an earlier period were reversed. The unprofitable AEG Group and the Dutch aircraft manufacturer Fokker did not receive financial support. Since both the Dutch government and Daimler-Benz withdrew support, Fokker filed for bankruptcy. Although these and other drastic decisions helped reduce the 1995 financial losses, the company's goal was not to emphasize maximizing short-term profitability but to work toward medium- and long-term profitability.

A number of other managerial decisions were made to achieve the ambitious goals of reducing costs and improving profitability. Employees close to the operations were empowered to make decisions necessary to carry out their tasks. The organization structure was simplified and decentralized so that organizational units could respond faster to environmental changes. Moreover, the new organization structure was designed to promote an entrepreneurial spirit. Control was exercised through a goal-driven, performance-based reward system. At the same time, the new structure was designed to promote cooperation. In 1997, the board of management restructured and integrated the Mercedes-Benz Group into Daimler-Benz. Consequently, Mercedes-Benz's chief, Helmut Werner, who had been given credit for a successful model policy, resigned from the company.

Questions

1. What is your assessment of Daimler-Benz's operations in many different fields?
2. Should the various groups operate autonomously? What kinds of activities should be centralized?
3. Daimler-Benz is best known for its Mercedes-Benz cars. Why do you think Daimler bought AEG in the first place and why did it venture into the Aerospace and InterServices businesses?
4. Given the apparent mistakes in acquiring nonautomotive businesses, what should Jürgen Schrempp do now?

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4. "GE's Two-Decade Transformation: Jack Welch's Leadership," Harvard Business School Case 9-399-150, rev. May 2, 2001.
5. See also Gregory G. Dess, Abdul M. A. Rasheed, Kevin J. McLaughlin, and Richard L. Priem, "The New Corporate Architecture," *Academy of Management Executive*, August 1995, pp. 7–18; Henry Lucas, *The T-Form Organization* (San Francisco: Jossey-Bass, 1996). See also Lucas's book reviewed in *The Executive*, May 1996.
6. This case is based on a variety of sources, including a visit to Daimler-Benz's headquarters in Germany with students in the Executive MBA program of the University of San Francisco in 2000. Other sources include *Daimler-Benz Annual Report, 1995* and the report of the Annual General Meeting held on May 22, 1996, in Stuttgart, Germany; *Daimler-Benz: A Survey of the Group, 1995*; David Woodruff, "Dustup at Daimler," *Business Week*, February 3, 1997, pp. 52–53.

Chapter -9

Line/Staff Authority, Empowerment, and Decentralization

CHAPTER OBJECTIVES

After studying this chapter, you should be able to:

1. Understand the nature of authority, power, and empowerment.
2. Distinguish between line, staff, and functional authority.
3. Discuss the nature of decentralization, centralization, and delegation of authority.
4. Recognize the importance of obtaining balance in the centralization and decentralization of authority.

Now that the patterns of departmentation have been discussed, it is time to consider another essential question: What kind of authority is found in an organization structure? The question has to do with the nature of authority relationships—the problem of line and staff. This chapter will also deal with the question of how much authority should be delegated. The answer concerns the decentralization of authority. Without authority—the power to exercise discretion in making decisions—properly placed in managers, departments cannot become smoothly working units harmonized for the accomplishment of enterprise objectives. Authority relationships, whether vertical or horizontal, are the factors that make organization possible, facilitate departmental activities, and bring coordination to an enterprise.

Authority and Power

Power The ability of individuals or groups to induce or influence the beliefs or actions of other persons or groups.

Authority The right in a position to exercise discretion in making decisions affecting others.

Before concentrating on the authority in organization, it will be useful to distinguish between authority and power. **Power**, a much broader concept than authority, is the ability of individuals or groups to induce or influence the beliefs or actions of other persons or groups.[1] **Authority** in organization is the right in a position (and, through it, the right of the person occupying the position) to exercise discretion in making decisions affecting others. It is of course one type of power, but power in an organizational setting.

Although there are many different **bases of power**, the power of primary concern in this book is *legitimate power*.[2] It normally arises from position and derives from our cultural system of rights, obligations, and duties whereby a "position" is accepted by people as being "legitimate." In a privately owned business, authority of position arises primarily from the social institution (a "bundle of rights") of private property. In government, this authority arises basically from the institution of representative government. A traffic officer who gives you a traffic ticket has the power to do so because we have a system of representative government in which we have elected legislators to make laws and provide for their enforcement.

Power may also come from the *expertness* of a person or a group. This is the power of knowledge. Physicians, lawyers, and university professors

may have considerable influence on others because they are respected for their specialized knowledge. Power may further exist as *referent power*, that is, influence that people or groups may exercise because people believe in them and their ideas. Thus, Martin Luther King had very little legitimate power but, by the force of his personality, his ideas, and his ability to preach, was able to strongly influence the behavior of many people. Likewise, a movie star or a military hero might possess considerable referent power.

In addition, power arises from the ability of some people to grant rewards. Purchasing agents, with little position power, might be able to exercise considerable influence through their ability to expedite or delay a much-needed spare part. Likewise, university professors have considerable *reward power*: they can grant or withhold high grades. *Coercive power* is still another type. Closely related to reward power and normally arising from legitimate power, it is the power to punish, whether by firing a subordinate or by withholding a merit pay increase.

While organizational authority is the power to exercise discretion in decision making, it almost invariably arises from the power of position, or legitimate power. When people speak of authority in managerial settings, they are usually referring to the power of position. At the same time, other factors, such as personality and style of dealing with people, are also involved in leadership.

Empowerment

Empowerment
Employees at all levels in the organization are given the power to make decisions without asking their superiors for permission.

In recent years, it has become fashionable to advocate a variety of empowerment approaches. **Empowerment** means that employees, managers, or teams at all levels in the organization are given the power to make decisions without asking their superiors for permission. The notion underlying empowerment is that those closest to the task are best able to make the decision—provided that they have the required competencies. Actually, the notion of empowerment is historically based on suggestion schemes, job enrichment, and worker participation.[3] Moreover, concepts of delegation discussed later in this chapter are also closely related to empowerment.

Both delegation and empowerment are a matter of degree.[4] They also require that employees and teams accept responsibility for their actions and tasks. Conceptually, this can be illustrated as follows:

- Power should be equal to responsibility (P = R).
- If power is greater than responsibility (P > R), then this could result in autocratic behavior of the superior who is not held accountable for his or her actions.
- If responsibility is greater than power (R > P), then this could result in frustration because the person has not the necessary power to carry out the task for which he or she is responsible.

Some of the reasons for the interest in empowerment are the global competitiveness, the need to respond fast to the demands and expectations of customers, and the better-educated work force who demands greater autonomy. Empowerment of subordinates means that superiors have to share their authority and power with their subordinates. Thus, an autocratic leadership style, when used as the only way to manage, is often inappropriate for the 21st century organization. Most employees want to be involved and want to participate in decisions, which in turn creates a sense of belonging and achievement and raises self-esteem.

Effective management requires that empowerment be sincere, based on mutual trust, accompanied by relevant information for the employees to carry out their tasks, and given to competent people.[5] Moreover, employees should be rewarded for exercising their decision authority. One must also realize the impact of subordinate empowerment on their superiors. The needs of superiors must be recognized by, for example, giving them tasks that are more challenging.

International Perspective

www.ritzcarlton.com

Empowerment at the Ritz-Carlton Hotel[6]

Customers are important—and so are employees. At the Ritz-Carlton Hotel, not only customers but also employees are treated with dignity and respect, as illustrated by the company's slogan "Ladies and gentlemen serving ladies and gentlemen." The president, Horst Schulze, empowers employees by authorizing the front-desk staff to spend up to $2,000 to serve customers and to ensure the satisfaction of their guests. The sales managers' authority is even higher: $5,000. Employees are encouraged to propose recommendations for quality improvement. The aim is to obtain twice as many suggestions from employees as the number of complaints from customers. Treating both employees and customers with respect has helped earn Ritz-Carlton the prestigious Malcolm Baldrige National Quality Award.

Line/Staff Concepts and Functional Authority

Scalar principle The clearer the line of authority, the clearer will be the responsibility for decision making and the more effective will be organizational communication.

Line authority gives a superior a line of authority over a subordinate. It exists in all organizations as an uninterrupted scale or series of steps. Hence, the **scalar principle** in organization: the clearer the line of authority from the ultimate management position in an enterprise to every subordinate position, the clearer will be the responsibility for decision making and the more effective will be organizational communication. In many large enterprises, the steps are long and complicated; but even in the smallest, the very fact of organization introduces the scalar principle.

Line authority The relationship in which a superior exercises direct supervision over a subordinate.

It therefore becomes apparent from the scalar principle that **line authority** is that relationship in which a superior exercises direct supervision over a subordinate—an authority relationship in a direct line or steps.

Staff relationship is advisory.

The nature of **staff relationship** is advisory. The function of people in a pure staff capacity is to investigate, research, and give advice to line managers.

International Perspective

Line or Staff? What Is Your Career Goal?

The goal of many MBA graduates is to work in staff positions, using their analytical skills to advise line managers. It has been reported that in 1985 over a third of Harvard's MBA graduates chose such a career.[7] In earlier years, this percentage was even higher.

In the 1980s, partly owing to the slow economy and competitive pressure, the situation was changing as many large companies reduced their staff strength. For example, the task of strategy formulation was carried out more frequently by line managers, who also had to implement the strategy, rather than by strategic planners in headquarters. Consequently, people who used to plan, advise, and analyze business situations moved into line positions in which they were required to set priorities, make decisions, and motivate people to contribute to the aims of the enterprise.

While some staff personnel made an effective transition into line positions, others failed. One of the problems these "newcomers" encountered was the resentment of the "old-time" managers, who saw the positions they had aspired to taken by former staff. Clearly, line work is different from staff tasks. Having real authority for executing decisions can be exciting, but not everyone can make the transition. Thus, aspiring managers should carefully analyze their strengths, weaknesses, and motivations before choosing their career paths.

Functional authority The right delegated to an individual or a department to control specified processes, practices, policies, or other matters relating to activities undertaken by persons in other departments.

Functional authority is the right delegated to an individual or a department to control specified processes, practices, policies, or other matters relating to activities undertaken by persons in other departments. One can better understand functional authority by thinking of it as a small slice of the authority of a line superior. If the principle of unity of command were followed without exception, authority over these activities would be exercised only by the relevant line superiors. But numerous reasons—including a lack of specialized knowledge, a lack of ability to supervise specified processes, and the danger of diverse interpretations of policies—explain why these managers are occasionally not allowed to exercise this authority. In such cases, line managers are deprived of some authority, which is delegated by their common superior to a staff specialist or to a manager in another department. For example, a company controller is ordinarily given functional authority to prescribe the system of accounting throughout the company, but this specialized authority is really a delegation from the chief executive.

Decentralization of Authority

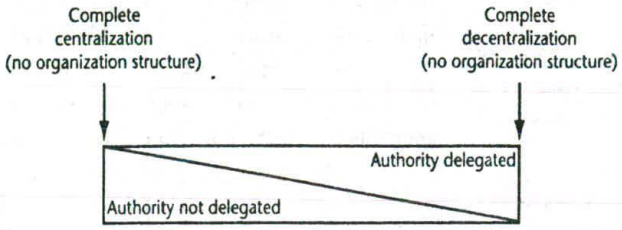
The previous section focused on the kinds of authority relationships, such as line, staff, and functional authority. This section emphasizes the dispersion of authority in the organization.

The Nature of Decentralization

Decentralization The tendency to disperse decision-making authority in an organized structure.

Organizational authority is merely the discretion conferred on people to use their judgment to make decisions and issue instructions. **Decentralization** is the tendency to disperse decision-making authority in an organized structure. It is a fundamental aspect of delegation, to the extent that authority that is delegated is decentralized. How much should authority be concentrated in or dispersed throughout the organization? There could be absolute centralization of authority in one person, but that implies no subordinate managers and therefore no structured organization. Some decentralization exists in all organizations. On the other hand, there cannot be absolute decentralization; for if managers delegated all their authority, their status as managers would cease, their position would be eliminated, and there would, again, be no organization. Centralization and decentralization are tendencies, as indicated in Figure 9-1.

FIGURE 9-1 Centralization and decentralization as tendencies



Different Kinds of Centralization

The term *centralization* has several meanings:

- *Centralization of performance* pertains to geographic concentration; it characterizes, for example, a company operating in a single location.
- *Departmental centralization* refers to concentration of specialized activities, generally in one department. For example, maintenance for a whole plant may be carried out by a single department.
- *Centralization of management* is the tendency to restrict delegation of decision making. A high degree of authority is held by managers at or near the top of the organizational hierarchy.

Decentralization as a Philosophy and Policy

Decentralization implies more than delegation: It reflects a philosophy of organization and management. It requires careful selection of which decisions to push down the organization structure and which to hold near the top, specific policy making to guide the decision making, proper selection and training of people, and adequate controls. A policy of decentralization affects all areas of management and can be looked upon as an essential element of a managerial system. In fact, without it, managers could not use their discretion to handle the ever-changing situations they face.

Delegation of Authority

Authority is delegated when a superior gives a subordinate discretion to make decisions. Clearly, superiors cannot delegate authority they do not have, whether they are board members, presidents, vice presidents, or supervisors.

The **process of delegation** involves (1) determining the results expected from a position, (2) assigning tasks to the position, (3) delegating

authority for accomplishing these tasks, and (4) holding the person in that position responsible for the accomplishment of the tasks. In practice, it is impossible to split this process, since expecting a person to accomplish goals without giving him or her the authority to achieve them is impractical, as is delegating authority without knowing the end results to which it will be applied. Moreover, since the superior's responsibility cannot be delegated, a boss must hold subordinates responsible for completing their assignments.

The Art of Delegation

Most failures in effective delegation occur not because managers do not understand the nature and principles of delegation but because they are unable or unwilling to apply them. Delegation is, in a way, an elementary act of managing. Yet studies almost invariably find that poor or inept delegation is one of the causes of managerial failures. Much of the reason lies in personal attitudes toward delegation.

Personal Attitudes toward Delegation

Although charting an organization and outlining managerial goals and duties will help in making delegation decisions, and knowledge of the principles of delegation will furnish a basis for it, certain personal attitudes underlie real delegation.

Receptiveness

An underlying attribute of managers who will delegate authority is a willingness to give other people's ideas a chance. Decision making always involves some discretion, and a subordinate's decision is not likely to be exactly the one a superior would have made. The manager who knows how to delegate must have a minimum of the "NIH (not invented here) factor" and must be able not only to welcome the ideas of others but also to help others come up with ideas and to compliment them on their ingenuity.

Willingness to let go[8]

A manager who will effectively delegate authority must be willing to release the right to make decisions to subordinates. A major fault of some managers who move up the executive ladder—or of the pioneer who has built a large business from the small beginning of, say, a garage machine shop—

is that they want to continue making decisions for the positions they have left. Corporate presidents and vice presidents who insist on confirming every purchase or approving the appointment of every laborer or secretary do not realize that doing so takes their time and attention away from far more important decisions.

If the size or complexity of the organization forces delegation of authority, managers should realize that there is a "law of comparative managerial advantage," somewhat like the law of comparative economic advantage that applies to nations. Well known to economists and logically sound, the law of comparative economic advantage states that a country's wealth will be enhanced if it exports what it produces most efficiently and imports what it produces least efficiently, even though it could produce the imported goods more cheaply than any other nation. Likewise, managers will enhance their contributions to the firm if they concentrate on tasks that contribute most to the firm's goals and assign to subordinates other tasks, even though they could accomplish them better themselves.

Willingness to allow mistakes by subordinates

Although no responsible manager would sit idly by and let a subordinate make a mistake that might endanger the company or the subordinate's position in the company, continual checking on the subordinate to ensure that no mistakes are ever made will make true delegation impossible. Since everyone makes mistakes, a subordinate must be allowed to make some, and their cost must be considered an investment in personal development.

Serious or repeated mistakes can be largely avoided without nullifying delegation or hindering the development of a subordinate. Patient counseling, asking leading or discerning questions, and carefully explaining the objectives and policies are some of the methods available to the manager who would delegate well. None of these techniques involve discouraging subordinates with intimidating criticism or harping on their shortcomings.

Willingness to trust subordinates

Superiors have no alternative to trusting their subordinates, for delegation implies a trustful attitude between them. This trust is sometimes hard to come by. A superior may put off delegation with the thought that subordinates are not yet experienced enough, that they cannot handle people, that they have not yet developed judgment, or that they do not appreciate all the facts bearing on a situation. Sometimes these considerations are true, but then a superior should either train subordinates or else select

others who are prepared to assume the responsibility. Too often, however, bosses distrust their subordinates because they do not wish to let go, are threatened by subordinates' successes, do not delegate wisely, or do not know how to set up controls to ensure proper use of the authority.

Willingness to establish and use broad controls

Since superiors cannot delegate responsibility for performance, they should not delegate authority unless they are willing to find means of getting feedback, that is, of assuring themselves that the authority is being used to support enterprise or departmental goals and plans. Obviously, controls cannot be established and exercised unless goals, policies, and plans are used as basic standards for judging the activities of subordinates. More often than not, reluctance to delegate and to trust subordinates comes from the superior's inadequate planning and understandable fear of loss of control.

Overcoming Weak Delegation

The following practical guide will facilitate successful delegation:

- *Define assignments and delegate authority in light of results expected.* Or, to put it another way, grant sufficient authority to make possible the accomplishment of goal assignments.
- *Select the person in light of the job to be done.* Although the good organizer will approach delegation primarily from the standpoint of the task to be accomplished, in the final analysis staffing as a part of the total system of delegation cannot be ignored.
- *Maintain open lines of communication.* Since the superior does not delegate all authority or abdicate responsibility, and therefore managerial independence does not exist, decentralization should not lead to insulation. There should be free flow of information between superior and subordinate, furnishing the subordinate with the information needed to make decisions and to interpret properly the authority delegated. Delegation, then, does depend on situations.
- *Establish proper controls.* Because no manager can relinquish responsibility, delegation should be accompanied by techniques for ensuring that the authority is properly used. But if controls are to enhance delegation, they must be relatively broad and be designed to show deviations from plans, rather than interfering with routine actions of subordinates.

Reward effective delegation and successful assumption of authority. Managers should be ever-watchful for means of rewarding both effective delegation and effective assumption of authority. Although many of these rewards will be monetary, the granting of greater discretion and prestige—both in a given position and by promotion to a higher position—is often even more of an incentive.

Recentralization of Authority[9] and Balance as the Key to Decentralization

Recentralization Centralization of authority that was once decentralized; normally not a complete reversal of decentralization, as the authority delegated is not wholly withdrawn.

At times, an enterprise can be said to recentralize authority—to centralize authority that was once decentralized. **Recentralization** is normally not a complete reversal of decentralization, as the authority delegation is not wholly withdrawn by the managers who made it. The process is a centralization of authority over a certain type of activity or function wherever in the organization it may be found. To avoid pitfalls, any program for decentralization of authority must take into consideration the advantages and limitations shown in Table 9-1.

TABLE 9-1 Advantages and limitations of decentralization

Advantages
1. Relieves top management of some burden of decision making and forces upper-level managers to let go.
2. Encourages decision making and assumption of authority and responsibility.
3. Gives managers more freedom and independence in decision making.
4. Promotes establishment and use of broad controls that may increase motivation.
5. Makes comparison of performance of different organizational units possible.
6. Facilitates setting up of profit centers.
7. Facilitates product diversification.
8. Promotes development of general managers.
9. Aids in adaptation to fast-changing environment.
Limitations
1. Makes it more difficult to have a uniform policy.
2. Increases complexity of coordination of decentralized organizational units.
3. May result in loss of some control by upper-level managers.
4. May be limited by inadequate control techniques.
5. May be constrained by inadequate planning and control systems.
6. Can be limited by the lack of qualified managers.
7. Involves considerable expenses for training managers.
8. May be limited by external forces (national labor unions, governmental controls, tax policies).
9. May not be favored by economies of scale of some operations.

Summary

There are a number of different bases of power. Power can be legitimate, expert, referent, reward, or coercive. Empowerment enables people to make decisions without asking their superiors for permission. Line authority is that relationship in which a superior exercises direct supervision over subordinates. The staff relationship, on the other hand, consists of giving advice and counsel. Functional authority is the right to control selected processes, practices, policies, or other matters in departments other than a person's own. It is a small slice of a line manager's authority and should be used sparingly.

Another important concept is decentralization, which is the tendency to disperse decision-making authority. Centralization, on the other hand, is the concentration of authority. It may refer to geographic concentration, departmental centralization, or the tendency to restrict delegation of decision making. The process of delegation of authority includes determining the results to be achieved, assigning tasks, delegating authority for accomplishing the tasks, and holding people responsible for results.

Failures in effective delegation are often due to personal attitudes. Weak delegation can be overcome by considering the tasks and the goals, maintaining open communication, establishing proper controls, and motivating through appropriate rewards. Previously decentralized authority may be recentralized. Balance is the key to proper decentralization.

KEY IDEAS AND CONCEPTS FOR REVIEW

Power
Authority
Bases of power
Empowerment
Scalar principle
Line
Staff
Functional authority
Decentralization
Three kinds of centralization
Process of delegation
Attitudes toward delegation
Recentralization
Advantages and limitations of decentralization

FOR DISCUSSION

1. What are the kinds of power exercised in your organization or school?
2. Take as examples a number of positions in any kind of enterprise (business, church, government, etc.). Classify each as line or staff.

3. How many cases of functional authority in organization have you seen? Analyzing a few, do you agree that they could have been avoided? If avoidance had been possible, would you have eliminated them? If they could not have been avoided or if you had not wanted to eliminate them, how would you remove most of the difficulties that might arise?
4. If you were asked to advise a young college graduate who has accepted a staff position as assistant to a factory manager, what suggestions would you make?
5. Why is poor delegation of authority often found to be the most important cause of managerial failure?
6. In many countries, companies often have grown from within and are family-owned. In these companies, very little authority is decentralized. What do you think would explain this tendency? What effect does it have?
7. If you were a manager, would you decentralize authority? State several reasons for your answer. How would you make sure that you did not decentralize too much?
8. Should authority be pushed down in an organization as far as it will go? Why or why not?

EXERCISES/ACTION STEPS

1. Interview a line manager and a staff person at a local company. Ask them what they like and dislike about their jobs. Reflect on the interviews and ask yourself whether a line or a staff position is the major aim of your career plan.
2. Interview two line managers about their views on delegation. Do they think that their superiors delegate sufficient authority to them? Also inquire how they feel about delegating authority to their subordinates.

INTERNET RESEARCH

1. Search the Internet for the term "employee empowerment" and read what others think about the empowerment theory. Also find out what "disempowerment" and "dysempowerment" are.
2. Search the Internet using the key words "scalar principle." Find out the details of the principle.



Ford's European Organization Changes Strategy[10]

Ford Motor Company has a long history of operating in Europe. Starting with exports to the United Kingdom in 1903, the company established sales branches in France and England in 1908 and 1909. Later, assembly plants were set up there. A plant was established in Germany in 1926. For several decades, the European operations were separate subsidiaries each being accountable to the headquarters in the United States with little coordination among them. The rationale for the organization structure was that each country's customers had different needs, tastes, and preferences. In addition, each country had its own tariff regulations.

As the European countries grew closer together, Ford viewed its European operations as serving a common market with a regional organization, named Ford Europe, and two large manufacturing facilities in Germany and England. When the European companies were not considered separate and independent anymore, Ford used a coordination strategy. The aim was to achieve economies of scale and to reduce the cost of engineering. Therefore, Ford designed cars that were considered suitable for most European countries. Models such as Fiesta, Capri, and Escort were the results of this new organization structure. Congruent with the new strategy, products were largely designed in Britain and Germany and manufactured there as well as in Belgium and Spain.

In 1994, a new strategy emerged that was named Ford 2000. Ford merged its Automotive Operation unit in North America with that of Europe in 1995. Again, an important reason was to be more competitive and to achieve cost reduction through the elimination of unnecessary car platforms and the duplication of engine models. This meant fewer basic vehicle platforms as well as engines and transmissions. Moreover, the regional profit center concept was replaced by product-line concentration. Specifically, the Ford Automotive Operation consisted of five vehicle centers with worldwide development for cars and trucks. While four of the centers were in North America, the European center was responsible for developing small and midsize automobiles. Moreover, the North American centers worked together with the Europeans to develop the Mondeo, which was produced in the United States and Mexico as the Mercury Mystique and the Ford Contour. These models were sold in some 78 countries.

But the Ford 2000 strategy and organization did not work well, as shown by the 1998 performance report: in Europe, Ford was losing market share to competitors such as General Motors and Volkswagen. Consequently, the newly elected chief Jacques Nasser reviewed the centralized Ford 2000 strategy and reintroduced the market focus orientation, which gives more autonomy to the regions, especially Europe where many of its competitors introduced brands that addressed the specific needs of customers. Moreover, Nasser created the Premier Automotive Group for luxury cars, which were more profitable than the low- and mid-priced cars. This division consisted of luxury cars such as Lincoln, Volvo, Jaguar, and Aston Martin.

The 21st century brought new challenges for Ford. While in the past European car makers were protected by quotas on Japanese cars, those restrictions are being reduced or eliminated. This means that Japanese and Korean car manufacturers will compete more fiercely in the European market. Also, the introduction of the European currency enables customers to compare prices across borders for the best deal. Finally, the global car industry is plagued by overcapacity, resulting in fierce competition. William C. Ford, Jr., the successor of Jacques Nasser, may have to review the company's strategy and organization to adjust to the changing situation.

Questions

1. What are the advantages and disadvantages of centralization and decentralization?
2. What was the rationale for the Ford 2000 program?

3. Why did Ford change from decentralization to centralization to recentralization?
4. Why did Ford establish a luxury car division?
5. Do you think Ford will be in the competitive global market in the future? Why or why not?

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Chapter 10

Effective Organizing and Organization Culture

CHAPTER OBJECTIVES

After studying this chapter, you should be able to:

1. Avoid mistakes in organizing by planning.
2. Show how organizing can be improved by maintaining flexibility and by making staff more effective.
3. Avoid conflict by clarifying the organization structure and ensuring an understanding of organizing.
4. Promote and develop an appropriate organization culture.

In organizing, there is no one best way; it depends on the specific situation.

Organizing involves developing an intentional structure of roles for effective performance. It requires a network of decision and communication centers for coordinating efforts toward group and enterprise goals. To work, an organization structure must be understood, and principles must be put into practice. As emphasized earlier, in organizing, as elsewhere in managing, there is no one best way. What works will always depend on the specific situation.

Avoiding Mistakes in Organizing by Planning

Establishment of objectives and orderly planning are necessary for good organization.

As with the other functions of managing, establishment of objectives and orderly planning are necessary for good organization. As Lyndall Urwick said in his classic book *The Elements of Administration*, "Lack of design [in organization] is illogical, cruel, wasteful, and inefficient."[1]

Planning for the Ideal

The search for an ideal organization to reflect enterprise goals under given circumstances is the impetus to planning. The search entails charting the main lines of organization, considering the organizational philosophy of the enterprise managers (e.g., whether authority should be centralized as much as possible or whether enterprise operations should be divided into semi-independent product or territorial divisions), and sketching out consequent authority relationships. The ultimate form established, like all other plans, seldom remains unchanged, and continual remolding of the ideal plan is normally necessary. Nevertheless, an ideal organization plan constitutes a standard; and by comparing the present structure with it, enterprise leaders know what changes should be made when possible.

An organizer must always be careful not to be blinded by popular notions in organizing because what may work in one enterprise may not work in another. Principles of organizing have general application, but the background of each enterprise's operation and needs must be considered in applying these principles. Organization structure needs to be tailor-made.

Modification for the Human Factor

If the available personnel do not fit into the ideal structure and cannot or should not be pushed aside, the only choice is to modify the structure to fit individual capabilities, attitudes, or limitations. Although this modification may seem like organizing around people, in this case one is first organizing around the goals to be met and activities to be undertaken and only then making modifications for the human factor. Thus, planning will reduce compromising the necessity for principle whenever changes occur in personnel.

Advantages of Organization Planning

Planning the organization structure helps determine future personnel needs and required training programs.

Planning the organization structure helps determine future personnel needs and required training programs. Unless it knows what managerial personnel will be needed and what experience should be demanded, an enterprise cannot intelligently recruit people and train them.

Furthermore, organization planning can disclose weaknesses. Duplication of effort, unclear lines of authority, overlong lines of communication, excessive red tape, and obsolete practices show up best when desirable and actual organization structures are compared.

Avoiding Organizational Inflexibility

One basic advantage of organization planning is the avoidance of organizational inflexibility. Many enterprises, especially those that have been in operation for many years, become too rigid to meet the first test of effective organization structure: the ability to adapt to a changing environment and meet new contingencies. This resistance to change can cause considerable loss of efficiency in organizations.

Some older companies provide ample evidence of inflexibility: an organization pattern that is no longer suited to the times, a district or regional organization that could be either abolished or enlarged because of improved communication, or a structure that is too highly centralized for an enlarged enterprise requiring decentralization.

Avoiding Inflexibility through Reorganization

Although reorganization is intended to respond to changes in the enterprise environment, there may be other compelling reasons for reorganization. Those related to the business environment include changes in operation

caused by the acquisition or sale of major properties, changes in product line or marketing methods, business cycles, competitive influences, new production techniques, labor union policy, government regulatory and fiscal policies, and the current state of knowledge about organizing. New techniques and principles may become applicable, such as developing managers by allowing them to manage decentralized semi-independent units of a company. Or new methods may come into use, such as gaining adequate financial control with a high degree of decentralization.

Moreover, a new chief executive officer (CEO) and new vice presidents and department heads are likely to have some definite organizational ideas of their own. Shifts may be due merely to the desire of new managers to make changes based on ideas formulated through their previous experience or to the fact that their methods of managing and their personalities require a changed organization structure.

Furthermore, reorganization may be caused by demonstrated deficiencies in an existing structure. Some of these arise from organizational weaknesses: excessive spans of management, an excessive number of committees, lack of uniform policy, slow decision making, failure to accomplish objectives, inability to meet schedules, excessive costs, or a breakdown of financial control. Other deficiencies may stem from inadequacies of managers. Failure due to lack of knowledge or skill of a manager who for some reason cannot be replaced may be avoided by organizing in a way that moves much of the authority for decision making to another position.

Personality clashes between managers also may be solved by reorganization. Staff–line conflict may develop to such an extent that it can be resolved only by reorganization.

The Need for Readjustment and Change

In addition to pressing reasons for reorganization, there is a certain need for moderate and continuing readjustment merely to keep the structure from becoming stagnant. "Empire building" (i.e., building up a large organization so that the manager appears to be more important) is not so attractive when those involved know that their positions are subject to change. As a company president told his subordinates, "Don't bother to build any empires because I can assure you that you won't be in the same position three years from now." Some managers, realizing that an organization structure must be a living thing, make structural changes merely to accustom subordinates to change.

Making Staff Work Effective

The line–staff problem is not only one of the most difficult that organizations face but also the source of an extraordinarily large amount of inefficiency. Solving this problem requires great managerial skill, careful attention to principles, and patient teaching of personnel.

Understanding Authority Relationships

Managers must understand the nature of authority relationships if they want to solve the problems between line and staff. As long as managers regard line and staff as groups of people or groupings of activities, confusion will result. Line and staff are authority relationships, and many jobs have elements of both. The line relationship involves making decisions and acting on them. The staff relationship, on the other hand, implies the right to assist and counsel. In short, the line may "tell," but the staff must "sell" (its recommendations).

Making Line Listen to Staff

Line managers should be encouraged or required to consult with staff. Enterprises would do well to adopt the practice of compulsory staff assistance where line must listen to staff. At General Motors, for example, product division managers would consult with the headquarters staff divisions before proposing a major program or policy to the top executive or the finance committee. They may not be required to do so, but they are likely to find that this practice results in smoother sailing for their proposals; and if they can present a united front with the staff division concerned, there will unquestionably be a better chance for the adoption of their proposals.

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Keeping Staff Informed

Common criticisms of staff are that specialists operate in a vacuum, fail to appreciate the complexity of the line manager's job, and overlook important facts in making recommendations. To some extent, these criticisms are warranted because specialists cannot be expected to know all the fine points of a manager's job. Specialists should take care that their recommendations deal only with matters within their competence, and operating managers should not lean too heavily on a recommendation if it deals only with part of a problem.

Many criticisms arise because staff are not kept informed on matters within their field. Even the best staff cannot advise properly in such situations. If line managers fail to inform their staff of decisions affecting their work or if they do not pave the way—through announcements and requests for cooperation—for staff to obtain the requisite information on specific problems, the staff cannot function as intended. In relieving their superiors of the necessity for gathering and analyzing such information, staff largely justify their existence.

Requiring Complete Staff Work

Staff often overlook the fact that, in order to be most helpful, their recommendations should be complete enough to enable a line manager to make a simple positive or negative answer. Staff should be problem solvers and not problem creators. They create problems for managers when their advice is indecisive or vague, when their conclusions are wrong, when they have not taken into account all the facts or have not consulted the persons seriously affected by a proposed solution, or when they do not point out to superiors the pitfalls as well as the advantages of a recommended course of action.

Complete staff work implies presentation of a clear recommendation based on full consideration of a problem, clearance with persons who will be greatly affected, suggestions about avoiding any difficulties involved, and, often, preparation of the paperwork—letters, directives, job descriptions, and specifications—so that a manager can accept or reject the proposal without further study, long conferences, or unnecessary work. Should a recommendation be accepted, thorough staff work provides line managers with the machinery to put it into effect. People in staff positions who have acquired these capabilities can find themselves highly valued and appreciated.

Making Staff Work as a Way of Organizational Life

An understanding of staff authority lays the foundation for an organizational way of life. Wherever staff are involved, their responsibility is to develop and maintain a climate of favorable personal relations. Essentially, the task of staff is to make the responsible line managers "look good" and to help them do a better job. A staff person should not attempt to assume credit for an idea. Not only is this a sure way of alienating line teammates who do not like being shown up by a staff person, but operating

managers who accept ideas actually bear responsibility for the implementation of the proposals.

Companies also employ the assistance of professional firms, such as consultants to provide advice to line managers. The relationships between line and outside staff are similar to those discussed above. However, outside assistance is often only for a limited time, and it is even more difficult to hold outside staff accountable, especially when they are not involved in the implementation of their recommendations.

Avoiding Conflict by Clarification

A major reason for conflict in organizations is that people do not understand their assignments and those of their coworkers. No matter how well conceived an organization structure may be, people must understand it to make it work. Understanding is aided materially by the proper use of organization charts, accurate job descriptions, spelling out of authority and informational relationships, and introduction of specific goals for specific positions.

Organization Charts

An organization chart indicates how departments are tied together along the principal lines of authority.

Every organization structure, even a poor one, can be charted, for a chart merely indicates how departments are tied together along the principal lines of authority. It is therefore somewhat surprising to find top managers occasionally taking pride in the fact that they do not have an organization chart or, if they do have one, feeling that the chart should be kept a secret.

Advantages of organization charts

A prominent manufacturer once said that, although he could see some use for an organization chart for his factory, he had refused to chart the organization above the level of factory superintendent. His argument was that charts tend to make people overly conscious of being superiors or inferiors, destroy team feeling, and give persons occupying boxes on the chart too great a feeling of "ownership." Another top executive once said that an organization can be changed more easily if it is left uncharted and that the absence of a chart also encourages a competitive drive for higher executive positions by the uncharted middle management group.

These reasons for not charting organization structures are clearly unsound. Subordinate–superior relationships exist not because of charting but, rather, because of essential reporting relationships. As for a chart's

creating a too-comfortable feeling and causing a lack of drive in those who have "arrived," these are matters of top leadership—of reorganizing whenever the enterprise environment demands, of developing a tradition of change, and of making subordinate managers continue to meet adequate and well-understood standards of performance. Managers who believe that team spirit can be produced without clearly spelling out relationships are fooling themselves and preparing the way for politics, intrigue, frustration, buck-passing, lack of coordination, duplicated effort, vague policy, uncertain decision making, and other evidence of organizational inefficiency.

Since a chart maps lines of decision-making authority, sometimes merely charting an organization can show inconsistencies and complexities and thus lead to their correction. A chart also reveals to managers and new personnel how they tie into the entire structure.

Limitations of organization charts

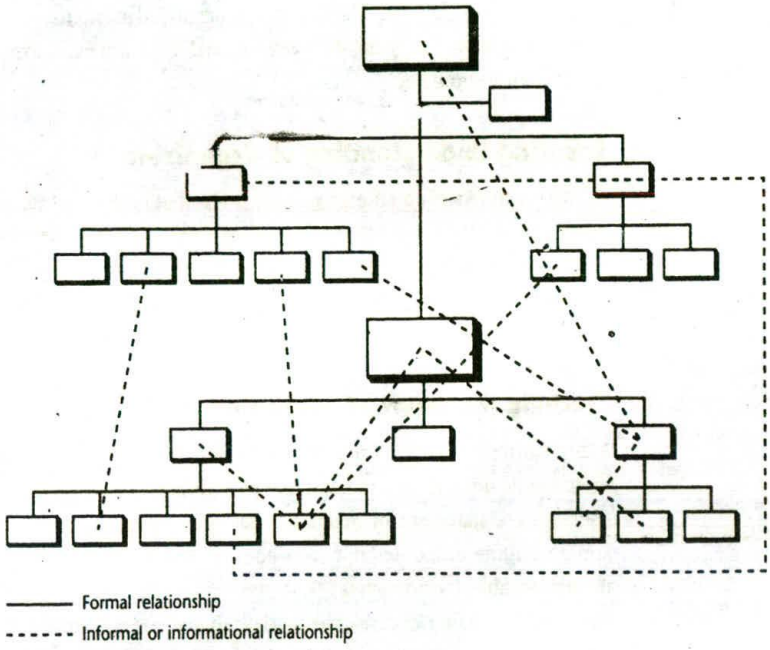
An **organization chart** shows formal authority relationships and omits the many significant informal and informational relationships.

Organization charts are subject to important limitations. A chart shows only formal authority relationships and omits the many significant informal and informational relationships. Figure 10-1 shows many, but not nearly all, of the informal and informational relationships found in a typical organized enterprise. It shows also the major line, or formal, relationships. It does not show how much authority exists at any point in the structure. While it would be interesting to chart an organization with lines of different widths to denote formal authority of varying degrees, authority is not subject to such measurement. And if the multiple lines of informal relationships and of communication were drawn, they would so complicate a chart that it could not be understood.

Many charts show structures as they are supposed to be or used to be, rather than as they really are. Managers hesitate or neglect to redraft charts, forgetting that organization structures are dynamic and that charts should not be allowed to become obsolete.

Another difficulty with organization charts is that individuals may confuse authority relationships with status. The staff officer reporting to the corporation's president may be shown at the top of the organization chart, while a regional line officer may be shown one or two levels lower. Although good charting attempts to make levels on the chart conform to levels of enterprise importance, it cannot always do so. This problem can be handled by clearly spelling out authority relationships and by using that best indicator of status—salary and bonus levels. No one is likely, for

FIGURE 10-1 Formal and informal or informational organization



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example, to hear that the general manager of Chevrolet in General Motors feels a sense of inferiority because his position on the chart is below that of the company secretary.

Position Descriptions

A good **position description** informs everyone of the incumbent's responsibilities.

Every managerial position should be defined. A good position description informs everyone of the incumbent's responsibilities. A modern position description is not a detailed list of all the activities an individual is expected to undertake, and it certainly does not specify how to undertake them. Rather, it states the basic function of the position, the major end-result areas for which the manager is responsible, and the reporting relationships involved. The description also clarifies the position's authority, and it states the set of verifiable objectives for the end-result areas.

Position descriptions have many benefits. As jobs are analyzed, duties and responsibilities are brought into focus and areas of overlapping or neglected duties come to light. Forcing people to consider what should be done and who should do it is more than worth the effort. Further benefits of job descriptions include the guidance they provide in training new

managers, in drawing up candidate requirements, and in setting salary levels. Finally, as a means of control over organization, the position description furnishes a standard against which to judge whether a position is necessary and, if so, what its organizational level and exact location in the structure should be.

Ensuring Understanding of Organizing

All the members of an enterprise must understand the structure of their organization in order for that structure to work. This requires teaching. Also, since formal organization is supplemented by informal organization, members of an enterprise must understand the general workings of informal as well as formal organization.

Teaching the Nature of Organizing

Many soundly conceived organization plans fail because organization members do not understand them. A well-written organization manual—containing a statement of organizational philosophy, programs, charts, and an outline of job descriptions—goes far toward making organizing understandable. If an organization structure is put into written words and charts, it has a better chance of being clear than if it is not. However, even the best-written words and charts do not always clearly convey the same meaning to every reader, so effective managers cannot stop with written clarification. They must teach those in their operation the meaning of the organization structure, their position in it, and the relationships involved. Managers may do this by individual coaching, through staff or special meetings, or by simply watching how the structure works.

Recognizing the Importance of Informal Organization and the Grapevine

Another way of making the formal organization work effectively is to recognize and take full advantage of informal organization. The nature of informal organization and its distinction from formal organization were discussed in Chapter 7. Many informal organizations arise from the formal organization in which they operate. They include interrelationships that are not usually charted, such as the unwritten rules of organizational conduct, the way to "learn the ropes," the people in an enterprise who have power not implied by or coming from an organizational position, and gossip. One of the best-known examples of informal organization,

one which seems to exist in every department and organization, is the "grapevine."

The grapevine

Informal organization tends to exist when members of a formal organization (perhaps a company department) know one another well enough to pass on information—sometimes only gossip—that is in some way connected with the enterprise. In the typical enterprise—whose members spend many hours a day deriving material security and status, as well as social satisfaction, from the grapevine—the desire for information concerning the organization and its people is strong enough for such information to be rapidly transmitted between persons who know and trust one another.

The grapevine, of course, thrives on information not openly available to the entire group, whether because that information is regarded as confidential, or because formal lines of communication are inadequate to spread it, or because it is of the kind, like much gossip, that would never be formally disclosed. Even managers who conscientiously inform employees through company bulletins or newspapers never so completely or quickly disclose all information of interest as to make the grapevine purposeless.

Since all forms of informal organization serve essential human communication needs, the grapevine is inevitable and valuable. Indeed, an intelligent top manager would probably be wise to feed it accurate information, since it is very effective for quick communication. There is much to be said for a manager's getting a place—personally or through a trusted staff member or secretary—on the company grapevine.

Benefits of the informal organization

Informal organization brings a kind of cohesiveness to formal organization. It imparts to members of a formal organization a sense of belonging, status, self-respect, and satisfaction. Many managers, understanding this fact, consciously use informal organizations as channels of communication and molders of employee morale.

Promoting an Appropriate Organization Culture[2]

The effectiveness of an organization is also influenced by the organization culture, which affects the way the managerial functions of planning,

The effectiveness of an organization is influenced by the organization culture.

organizing, staffing, leading, and controlling are carried out. Illustrations of organization culture are given in Table 10-1. Given the choice, most people would probably prefer to work in an organization with an environment such as B, in which one can participate in the decision-making process, one is evaluated on the basis of performance criteria rather than on the basis of friendship, one has open communication channels in all directions, and one has the opportunity to exercise a great deal of self-control. In their search for excellent companies, Thomas Peters and Robert Waterman, the authors of a best-selling book on management, found that the dominance of a coherent culture characterized these organizations.[3]

But the recognition of the importance of corporate culture is not new at all (although some management gurus want you to believe it is). Over 2,000 years ago, in 431 B.C., Pericles in ancient Greece eloquently urged

TABLE 10-1 Illustrations of organization culture and management practice

Environment A	Environment B
Planning	
Goals are set in an autocratic manner.	Goals are set with a great deal of participation.
Decision making is centralized.	Decision making is decentralized.
Organizing	
Authority is centralized.	Authority is decentralized.
Authority is narrowly defined.	Authority is broadly defined.
Staffing	
People are selected on the basis of friendship.	People are selected on the basis of performance criteria.
Training is in a narrowly defined specialty.	Training is in many functional areas.
Leading	
Managers exercise directive leadership.	Managers practice participative leadership.
Communication flow is primarily top-down.	Communication flow is top-down, bottom-up, horizontal, and diagonal.
Controlling	
Superiors exercise strict control.	Individuals exercise a great deal of self-control.
Focus is on financial criteria.	Focus is on multiple criteria.

the Athenians, who were at war with the Spartans, to adhere to values such as those inherent in democracy: informality in communication, the importance of individual dignity, and promotion based on performance. Pericles realized that the underlying values might mean victory or defeat. These values are not so different from those espoused by many U.S. companies.

International Perspective

How to Create a Value-based Organization Culture[4]

Hatim Tyabji was the founding chairman and CEO of VeriFone, Inc., from 1986 to 1998 when he established Saraide, a highly respected company in the telecommunication industry. At the national meeting of the Academy of Management in Toronto in 2000, Mr. Tyabji shared his experience in creating an organization based on ethical values. On one occasion, it was brought to his attention that a manager with excellent performance figures was engaged in malfeasance. Revealing this information would have a very negative effect on the company's share price. Instead of hiding this information until the next quarterly reporting, Mr. Tyabji, after checking carefully the facts, approached the manager, who was in charge of a foreign operation, and fired him on the spot. Impressed by this decision, the associates worked especially hard so that the quarterly projection could still be achieved. What message did Mr. Tyabji's decision communicate to the employees of the company? This is a company with a culture in which performance, no matter how impressive, cannot be achieved by unethical behavior—period.

Defining Organization Culture

Organization culture The general pattern of behavior, shared beliefs, and values that organization members have in common.

As it relates to organizations, **culture** is the general pattern of behavior, shared beliefs, and values that members have in common.[5] Culture can be inferred from what people say, do, and think within an organizational setting. It involves the learning and transmitting of knowledge, beliefs, and patterns of behavior over a period of time, which means that an organization culture is fairly stable and does not change fast. It often sets the tone for the company and establishes implied rules for the way people should behave. Many company slogans give a general idea of what a particular company stands for. Here are some examples: For General Electric, it is "Progress is our most important product." AT&T is proud of its "universal service." Du Pont makes "better things for better living through chemistry." Delta Airlines describes its internal climate as "the Delta family feeling." KLM Royal Dutch Airlines wants to be known as

www.ge.com
www.att.com
www.dupont.com
www.delta.com
www.klm.com

"the reliable airline." Its president, Jan F. A. de Soet, stated that KLM is not a flamboyant airline; instead, the organization culture reflects the Dutch dislike of ostentation.

www.ibm.com
www.sears.com
www.caterpillar.com

Similarly, IBM wants to be known for its service, Sears for quality and price, Caterpillar for its 24-hour parts service, and so on. Indeed, the orientation of these companies, often expressed in slogans, contributed to the successful conduct of their businesses.

www.abb.com

Asea Brown & Boveri (a giant electrical company), which comprises a Swedish and a Swiss firm, is guided by a culture illustrated by the phrase "think globally, act locally."[6] The organization culture of the highly decentralized company with more than 200,000 employees around the world is integrated with the culture of the country in which the division operates. On the other hand, its managers act globally with respect to sourcing. For example, depending on the prevailing financial market conditions, goods and services are acquired in the country where it is most favorable to do so.

International Perspective

Corporate Structure and Culture at Acer in Taiwan and around the World[7]

www.acer.com

Acer Inc. ranks among the world's top personal computer (PC) vendors, offering a wide variety of PC products. By the turn of the century, the Acer Group had some 230 enterprises, employing some 35,000 people in more than 40 countries. Very successful until 1999, the company encountered difficulties in 2000 because of external and internal circumstances. Externally, growth of the PC market stagnated, and internally the company experienced problems often associated with growth.

The company structure consisted of two parts: the original equipment manufacturing (OEM) operation, which produced computers for companies such as IBM and Dell, and the Acer brand operation, which focused on its own brand. The OEM unit was more profitable, with a steady demand from the major computer manufacturers. Conflict between the two units led to a new organization structure that divided them. Still, the company was guided by a common philosophy. Specifically, Acer's corporate culture is based on four basic beliefs:[8] (1) human nature is basically good; (2) the customer is number 1; (3) putting knowledge to work for the company; (4) being pragmatic and accountable.

The belief in the goodness of human nature is based on Chinese philosophy. It is also congruent with McGregor's assumptions of human nature, a topic that will be discussed later in the book when the focus is on leading. The customer

orientation is similar to that in vogue in the United States since the 1990s. The application of knowledge is critical in the new knowledge economy. Being pragmatic, the fourth point in Acer's beliefs, means a common-sense approach to managing in which individuals are held responsible for their own actions.

The challenge for Acer is to develop strategies that can effectively adapt to the changing environment and the fallen demand for PC products. At the same time, the organization, anchored in its basic philosophy, must create a flexible organization that can change with the dynamic environment.

The Influence of the Leader on Organization Culture

Value A fairly permanent belief about what is appropriate and what is not that guides the actions and behavior of employees in fulfilling the organization's aims.

Managers, especially top managers, create the climate for the enterprise. Their values influence the direction of the enterprise. Although the term *value* is used differently, a **value** can be defined as a fairly permanent belief about what is appropriate and what is not that guides the actions and behavior of employees in fulfilling the organization's aims. Values can be thought of as forming an ideology that permeates everyday decisions.

In many successful companies, value-driven corporate leaders serve as role models, set the standards for performance, motivate employees, make the company special, and are a symbol to the external environment. It was Edwin Land, the founder of Polaroid, who created a favorable organizational environment for research and innovation. It was Jim Treybig of Tandem, in the Silicon Valley near San Francisco, who emphasized that every person is a human being and deserves to be treated accordingly. It was William Cooper Procter of Procter & Gamble who ran the company with the slogan "Do what is right." It was Theodore Vail of AT&T who addressed the needs of customers by emphasizing service. It was Du Pont's CEO Woolard who initiated the "Adopt a Customer" program, through which workers are encouraged to visit their customers monthly to find out their needs and concerns. The organization culture created by corporate leaders can result in managerial functions being carried out in quite different ways.

www.polaroid.com
www.pg.com

While the CEO must indicate the direction, some contend that change must come from the bottom of the organization. At Du Pont's Towanda plant in Pennsylvania, people are organized in self-directing teams. Employees have a great deal of freedom to set their own schedules, solve their own problems, and even participate in selecting coworkers. Indicative of this culture is that managers are called facilitators rather than superiors.

Changing a culture may take a long time, even five to ten years. It demands changing values, symbols, myths, and behavior. It may require, first, understanding the old culture, then identifying a subculture in the organization, and rewarding those living this new culture. Rewards do not have to be in financial terms. In Sharp's factory in Japan, top performers are rewarded by becoming members of the "gold badge" team that reports directly to the president. At any rate, CEOs must symbolize the culture they want to promote.

www.sharp-world.com

A clear vision of a common purpose elicits commitment. Moreover, when people participate in the decision-making process and exercise self-direction and self-control, they feel committed to their own plans. But espoused values need to be reinforced through rewards and incentives, ceremonies, stories, and symbolic actions.

Summary

Organizing involves developing an intentional structure of roles for effective performance. Many mistakes in organizing can be avoided by first planning the ideal organization for goal achievement and then making modifications for the human or other situational factors. Organization planning identifies staffing needs and helps overcome staffing deficiencies. It also discloses duplication of effort, unclear authority and communication lines, and obsolete ways of doing things. An effective organization remains flexible and adjusts to changes in the environment.

To make staff work effective, it is important to clarify authority relationships, to make line listen to staff, and to keep staff informed. Furthermore, effectiveness demands that staff prepare complete recommendations and that the utilization of staff becomes a way of organizational life.

Organizational conflict can be reduced by the use of organization charts and position descriptions. Organizing is improved by teaching its nature and by recognizing the informal organization and the grapevine. Moreover, effective enterprises develop and nurture an appropriate organization culture.

KEY IDEAS AND CONCEPTS FOR REVIEW

Avoiding mistakes in organizing by planning
Avoiding organizational inflexibility
Effective staff work
Avoiding conflict by clarification
Organization chart
Position description
Understanding of organizing
Informal organization
The grapevine
Organization culture and values

FOR DISCUSSION

1. Many psychologists have pointed to the advantage of job enlargement, which refers to assigning tasks that are not so specialized that an individual loses a sense of doing things that are meaningful. Assuming that managers wish to limit task specialization and "enlarge" jobs, can they do so and still apply the basic principles of organizing? How?
2. Taking an organized enterprise with which you have some familiarity, can you find any of the deficiencies that commonly occur in organization structures?
3. It is sometimes stated that the typical organization chart is undemocratic in that it emphasizes the superiority and inferiority of people and positions. Comment.
4. What would you need to know to plan an organization structure? How far ahead should you plan it? How would you go about making such a plan?
5. Take an organization that you know and discuss its culture. Is the culture helping or hindering the organization with respect to the achievement of its goals? In what ways?

EXERCISE/ACTION STEPS

Visit a company in your area that is considered a model of effective management. Get any information on this company that gives you some insight into its operation. What makes this organization excellent? Would you like to work for this enterprise? Why or why not?

INTERNET RESEARCH

1. Search the Internet for the term "organization planning" and locate the resources of organization planning on the Web.
2. Search the Internet for reviews of the book *In Search of Excellence* by Peters and Waterman.

International Case

Restructuring at Korea's Daewoo[9]

Daewoo was founded in 1967 by its hardworking, relentlessly driven chairman Kim Woo-Choong. After its initial success in exporting textiles, the company expanded into trade, autos, machinery, consumer electronics, construction, heavy shipping, computers, telephones, and financial services, becoming Korea's fourth largest business group. It became a textile supplier for Sears, Christian Dior, Calvin Klein, and London Fog. It also engaged in a joint venture with General Motors (GM) to build the Le Mans car. However, labor and other problems limited car shipments.

Chairman Kim's philosophy of hard work and the value placed in people were important factors in the firm's success. However, in the late 1980s and early 1990s, the company faced several problems. For one, Kim was concerned that, with the increasing prosperity of Koreans, the work force might lose the spirit of hard work. Moreover, there was growing discontent among younger workers and decreasing motivation.

Through Kim's hands-off approach to managing, some of the companies in the Daewoo group went out of control. For example, in the unprofitable heavy shipping unit, he noticed many unnecessary expenses. The elimination of company-sponsored barbershops saved the company $8 million a year. In general, Daewoo's work force was young and well educated. In contrast to similar positions in many other Korean companies, top positions at Daewoo were occupied by managers with no family ties.

Although Daewoo was a major company with its 91,000 employees, it was not dominant in any one industry. The strategy of being a supplier for major foreign companies, such as Caterpillar, GM, and Boeing, may have led to opportunities being bypassed for becoming a major marketer of its own brands. Now in the 1990s, Kim was also looking at opportunities in Europe; for example, he formed a joint venture with a distribution company in France.

The massive restructuring had already shown some positive effects. Kim sold some steel, financial, and real estate units. The hands-off managerial style had been replaced by a hands-on style, resulting in recentralization. Managers were "retired" or otherwise let go. Thousands of positions were also eliminated.

Things were looking better in 1991. The company lost money in 1988 and 1989 but made some profit in 1990 partly because of the sale of some major assets. The joint venture with GM registered a healthy growth. The company was also optimistic about the future of the new compact car Espero. Still, Daewoo had to cope with its labor costs and Japanese competition.

What looked good in the early 1990s dramatically changed in the latter part of that decade and especially in the years 2000 to 2002. In 2000, Ford planned to buy Daewoo Motor for some $7 billion. However, the deal fell apart later that year. Moreover, the company went bankrupt in November 2000. Chairman Kim mysteriously disappeared. He liked to think big, and he also left behind a company with big debts. Several billion dollars were also unaccounted for. With Ford out of the picture, GM entered seriously into negotiations with Daewoo, which was once Korea's second biggest car maker. On April 30, 2002, GM agreed to buy the bankrupt company, which was renamed GM-Daewoo. What is in it for GM? The acquisition is a key component of its global strategy. On the other hand, restructuring Daewoo is going to be a formidable task. The brand image has to be restored and the Korean market share of 10 percent (which was 37 percent in 1998) has to be improved. The product line also has to be reviewed and complemented with new models. Moreover, GM-Daewoo can expect difficulties with Korea's aggressive unions.

Questions

1. What are the advantages and disadvantages of a hands-off, decentralized management approach?
2. How can Daewoo stay competitive with the Japanese?
3. What were some of the controllable and uncontrollable factors in this case? How should Mr. Kim have responded to those factors?

4. What do you think of Daewoo's expansion into Europe? What are the advantages and risks for the company?
5. Why do you think GM acquired the company, while Ford did not?
6. What problems can GM-Daewoo expect in the future?

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Part - 3 closing

Global Organizing

This part closing is about global organizing. First, the managerial practices in Japan, the United States, and China are discussed. As pointed out in the closing section of Part 2, the managerial practices in China refer to those in state-owned enterprises. Moreover, Japanese practices are changing, although very slowly and only in some enterprises. Second, the international focus is on the study of quality service in Europe, North America, and Japan. Finally, the global car industry case is illustrated by the Lexus car company.

Organizing Practices in Japan, the United States, and China[1]

In Part 2 closing, the managerial planning practices in Japan, the United States, and China were compared. In this part closing, a similar analysis is done for the managerial function of organizing, as summarized in Table C3-1.

Organizing involves setting up a structure to coordinate human efforts so that people can contribute effectively and efficiently to the aims of the enterprise. This requires determining roles, responsibilities, and accountability.

Organizing in Japan

In Japanese companies, largely owing to the search for consensus in decision making, the emphasis is on collective responsibility and accountability. Individual responsibilities, then, are implied rather than explicitly defined. Although this may discourage placing the blame for an incorrect decision on individuals, it also can create a great deal of uncertainty. In fact, the organization structure is rather ambiguous, and the de-emphasis on formal authority promotes informality and egalitarianism. Another characteristic found in Japanese firms is a common organization culture and philosophy, placing a high value on unity and harmony within the organization. At the same time, there is a competitive spirit toward other enterprises. Organizational change is accomplished by changing processes, with the aim of maintaining harmony among those affected. Also, the change agent (organization development consultant) is virtually always an employee of the company and not an outside consultant.

TABLE C3.1 Comparison of Japanese, U.S., and Chinese organizing

Japanese	American	Chinese*
• Collective responsibility and accountability	• Individual responsibility and accountability	• Collective and individual responsibility
• Ambiguous decision responsibility	• Clear and specific decision responsibility	• Attempts to introduce the "factory responsibility system"
• Informal organization structure	• Formal, bureaucratic organization structure	• Formal, bureaucratic organization structure
• Well-known common organization culture and philosophy; • competitive spirit toward other enterprises	• Lack of common organization culture; identification with profession rather than with company	• Identification with the company but no competitive spirit

* As practiced by state-owned enterprises.

Organizing in the United States

Organizations in the United States emphasize individual responsibility, with efforts to clarify and make explicit who is responsible for what. Often, specific job descriptions clarify the nature and extent of individual responsibilities. Indeed, many organizations, especially those operating in a stable environment, have been rather successful in using the formal, bureaucratic organization structure. As far as the climate is concerned, not many managers make special efforts to create a commonly shared organization culture. This may indeed be difficult because professionals—managers as well as technical people—often have a closer identification with their profession than with a particular company. In addition, the work force often consists of people with different values derived from a diverse heritage. Many American firms have a high employee turnover rate, which is partly due to the great mobility of the people in this country. With a relatively short duration of employment with any one company, loyalty toward the company is at times rather low. Organizational change is often accomplished by changing goals instead of processes. But organizations using change agents with a behavioral science orientation may focus on interpersonal processes to reduce conflict and improve performance. In the United States, it is quite common to employ organization development consultants from outside the firm, which is almost never done in Japan.

Organizing in China[2]

Chinese managerial practices are very much influenced by the fact that the enterprises are owned by the state and guided by government officials. This results in a bureaucratic organization structure that does not respond well to changes in the environment. Although ineffective, such a structure may not have been crucial in the past because managers did not have to respond to competition. This is changing, especially since China has been admitted to the World Trade Organization.

While factory managers, as individuals, are expected to achieve the yearly plan, on lower levels the notion of a vague collective responsibility prevails. Within the formal, bureaucratic structure, the relationships between people are rather informal. The person heading the organization is not always the one in power. Personal connections, family relationships, and seniority are frequently more important than formal authority.

Recently, attempts have been made through the "factory responsibility system" to delegate more authority to lower levels. In fact, factories are allowed to make profits. As in Japan, one can find strong organization cultures in Chinese enterprises. Research indicates that the degree of identification with the enterprise may vary greatly. But a low degree of commitment to the company does not result in frequent organizational changes because it is difficult to change jobs among state-owned organizations. Also, there is a lack of competitive spirit among employees, unlike in the United States.



Organizing for Quality Service in Europe, North America, and Japan[3]

Service excellence will be one of the key success factors in the global competitive environment. John Humble, with the support of the Management Centre Europe and its parent company, the American Management Association, as well as the Japanese Management Association, conducted a landmark international study on service in the late 1980s. A total of 3,375 top- and middle-level managers took part in the study: 1,300 Europeans, almost the same number of Americans and Canadians, and nearly 800 Japanese. While differences between the Europeans, North Americans, and Japanese were found, all seemed to agree on the importance of superior service.

In this study, the concept of service was used in a broad sense, applying to the external and internal philosophy, policies, procedures, and selected other elements.

Overall Findings

These were the findings in a nutshell: Over 90 percent of the participants in the study felt that service would become more important in the next five years. Perhaps even more important for managers is that almost 80 percent of the respondents felt that improving the quality of service would be "the key to competitive success." Providing superior service is not limited to top- or lower-level management positions; 92 percent of the respondents stated that it is one of the key responsibilities of any position.

Customer Satisfaction

A more detailed analysis of the study shows some interesting results. When the respondents were asked about the importance of service five years ago and its importance in the next five

years, the Japanese attached much more importance to service than either the Europeans or the North Americans. Some of the reasons for giving importance to service were that it is a major differentiating factor, competition is fiercer, and customers are more demanding than in the past.

A variety of means for improving service were employed, including discussions with the sales force, regular customer/senior management meetings, market research of potential customers, and customer questionnaires. On all the criteria for improving service, the Japanese scored higher than the Europeans and North Americans.

In measuring the degree of customer satisfaction, a variety of methods were used The Japanese scored higher than the Europeans and North Americans on all criteria. There were some interesting differences between the North American and the European respondents in the methods used for measuring satisfaction, which included personal visits by salespeople and managers, analysis of customer complaints, focus meetings with customer groups, employment of independent professionals, the use of questionnaires (Europeans, 65 percent; North Americans, 97 percent), and toll-free telephone services (Europeans, 39 percent; North Americans, 51 percent). Somewhat puzzling is how the Japanese measure customer satisfaction. When asked whether the companies had quantified performance standards, only 36 percent of the Japanese said "yes" (Europeans, 59 percent; North Americans, 58 percent) while 53 percent answered "no" (Europeans, 32 percent; North Americans, 38 percent). The other respondents answered "don't know." It appears, then, that the Japanese have more feel for customer service than hard data.

Organizing for Service Excellence

In organizing for superior service, respondents from the three areas said that bureaucracy often gets in the way of eliminating barriers. A very interesting finding is the degree of authority given to managers to satisfy customers. Specifically, when respondents were asked "In your organization, do you personally have the authority to use your own judgment to satisfy the customer?" 84 percent in North America and 68 percent in Europe said "yes," but only 34 percent in Japan did. This clearly indicates the individualistic approach to managing in North America versus the group approach aiming at consensus in Japan.

Implications of the Survey

The survey findings have important implications. Managers and nonmanagers need to pay more attention to service in order to stay competitive. Training is one answer. Another is to observe competitors' approaches to servicing their customers. Moreover, customer satisfaction must be systematically monitored. Perhaps most important, an improved customer service commitment must be a major part of everyone's job (e.g., included as a performance standard) and an integral aspect of the company's strategic plan.

Global Car Industry Case

How the Lexus Was Born—and Continued Its Success in the United States[4]

One of the best examples of global competition is in the car industry. As the Japanese gained market share in America, U.S. car makers required the Japanese to self-impose quotas on cars exported to the United States. This encouraged Japanese firms not only to establish their plants in the United States but also to build bigger and more luxurious cars to compete against the higher-priced U.S. cars and the expensive European cars such as the Mercedes and the BMW.

One such Japanese car is the Lexus, by Toyota. This car is aimed at customers who would like to buy a Mercedes or BMW but cannot afford either. With a sticker price of $35,000, the Lexus is substantially less expensive than comparable European imports.

In 1983, Toyota set out to develop the best car in the world—measured against the Mercedes and the BMW. The aim was to produce a quiet, comfortable, and safe car that could travel at 150 miles per hour and still avoid the gas guzzler tax imposed on cars getting less than 22.5 miles per gallon. This seemed to be an idea of conflicting goals: cars being fast seemed irreconcilable with cars being at the same time fuel-efficient. To meet these conflicting goals, each subsystem of the car had to be carefully scrutinized, improved whenever possible, and integrated with the total design. The first version of the 32-valve V-8 engine did not meet the fuel economy requirement. The engineers applied a problem-solving technique called "thoroughgoing countermeasures at the source." This means an attempt to improve every component until the design objectives are achieved. Not only the engine but also the transmission and other parts underwent close scrutiny to make the car meet U.S. fuel requirements.

Toyota's approach to achieving quality is different from that of German car manufacturers. The latter use relatively labor-intensive production processes. In contrast, Toyota's advanced manufacturing technology aims at high quality through automation requiring only a fraction of the work force used by German car makers. Indeed, this strategy, if successful, may be the secret weapon to gain market share in the luxury car market.

In the development of the Lexus, each aspect of the car was carefully studied with the consumer in mind. The car body and the rear, for example, were meticulously designed and tested for air drag. The cars of competitors serving as benchmarks were thoroughly studied. Similarities of the Lexus with the Mercedes and BMW are unmistakable. The name Lexus, by the way, was carefully chosen. Several potential names consisting of nonsense words were selected by the computer. Lexus, it was thought, conveys a sense of luxury.

To market the car, Toyota established a separate dealer network, an approach taken previously by Honda to sell its Acura cars. Again, painstaking effort was applied in designing the showrooms and in training mechanics. For the introduction of the car, reporters were flown to Germany, where they had the opportunity to compare the Lexus with Jaguar, BMW, and Mercedes cars on the *autobahn*, which has no speed limit. After six years in the making, the $500 million car was finally born. What will the future hold for the Lexus?

European car makers are naturally concerned about the coming invasion of Japanese luxury cars. Mercedes and BMW not only have to compete in the U.S. market but also may face threats of a Japanese invasion on the Continent as the European Union moves toward a global automobile market.

Since its birth in the 1980s, Lexus has grown into a formidable competitor in the United States. Lexus cars are known for their quality, reliability, and smooth ride. Originally, the ES 250 model was based on the less expensive Toyota Camry, a fact that competitors used in their advertising. By 2002, however, the company offered an array of models, such as the five-passenger cars LS 430 (starting at $54,800 in the United States), ES 300, GS 430, and IS 300. These cars are supplemented by the LX 470, which is an eight-passenger sport utility vehicle, and the five-passenger RX 300. Critics think of some Lexus cars as being comfortable but boxy luxury vehicles. But this image does not apply to the Lexus SC 430, which is a hardtop convertible with an automatically retractable roof. Clearly, the model lineup may have overshadowed General Motors' Cadillac line, which was held in high esteem in the past. On the other hand, German brands such as Mercedes-Benz, BMW, and Audi as well as the Japanese Infiniti compete for the same markets as Lexus does.

Questions

1. Could U.S. manufacturers apply the same approach as Toyota to build such a car? Why or why not? What might be some obstacles?
2. Do you think that the Lexus can obtain an image similar to that of the BMW and Mercedes cars?
3. Prepare a profile of the potential buyer of the Lexus.
4. What should Mercedes and BMW do to counteract the Japanese threat in the United States and Europe?

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Part - 4

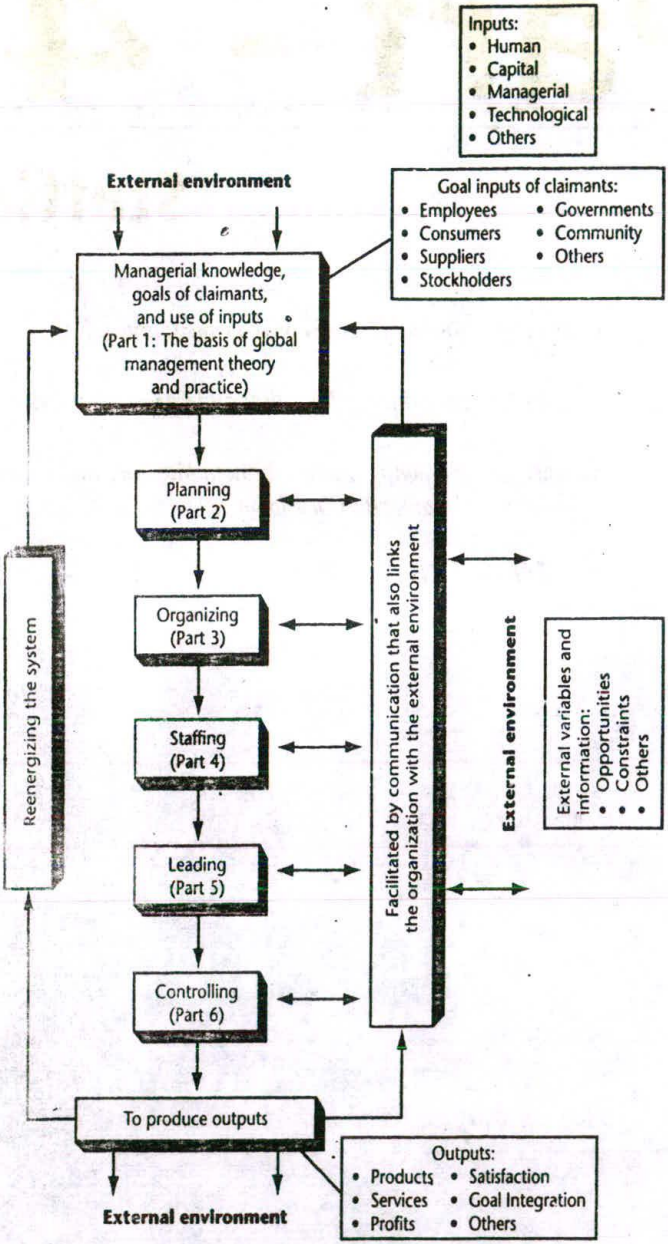
Staffing

Chapter 11 Human Resource Management and Selection

Chapter 12 Performance Appraisal and Career Strategy

Chapter 13 Managing Change through Manager and Organization Development

Part 4 Closing Global Staffing



Systems approach to management

Chapter 11

Human Resource Management and Selection

CHAPTER OBJECTIVES

After studying this chapter, you should be able to:

1. Define the managerial function of staffing.
2. Describe the systems approach to human resource management.
3. Explain the management inventory and the factors in the external and internal environments affecting staffing.
4. Explain the policy of open competition and ways to make staffing more effective.
5. Summarize important aspects of the systems approach to manager selection.
6. Analyze position requirements, important characteristics of job design, and personal characteristics needed in managers.
7. Describe the process of matching manager qualifications with position requirements.
8. Discuss the orientation and socialization process for new employees.

Few executives would argue with the fact that people are vital for the effective operation of a company. Managers often say that people are their most important asset. Yet the "human assets" are virtually never shown on the balance sheet as a distinct category, although a great deal of money is invested in the recruitment, selection, and training of people. It is for this reason that the late Rensis Likert and his colleagues suggested maintaining accounts of the valuable human assets. They refer to this process as "human resource accounting." This approach is not without its problems, and there is even conflict among management experts, between the proponents of human resource accounting and the financial people who have to develop the system for measuring human assets.[1] What is important here is the recognition that staffing is a crucial function of managers, one that may well determine the success or failure of an enterprise.

This chapter begins with a definition of the managerial function of staffing and an explanation of the role of the manager in this function. It then provides an overview of the systems approach to human resource management before concluding with a discussion of the various aspects of selecting the right person.

Definition of Staffing

Staffing Filling, and keeping filled, positions in the organization structure.

The managerial function of **staffing** is defined as filling, and keeping filled, positions in the organization structure. This is done by identifying workforce requirements, inventorying the people available, and recruiting, selecting, placing, promoting, appraising, planning the careers of, compensating, and training or otherwise developing both candidates and current jobholders so that they can accomplish their tasks effectively and efficiently. It is clear that staffing must be closely linked to organizing, that is, the setting up of intentional structures of roles and positions.

Many writers on management theory discuss staffing as a phase of organizing. In this book, however, staffing is identified as a separate managerial function for several reasons. First, the staffing of organizational positions includes knowledge and approaches not usually recognized by practicing managers, who often think of organizing as just setting up a

structure of roles and give little attention to filling these roles. Second, making staffing a separate function facilitates placing an even greater emphasis on the human element in personnel selection, appraisal, career planning, and manager development. Third, an important body of knowledge and experience has been developed in the area of staffing. The fourth reason for separating staffing is that managers often overlook the fact that staffing is their responsibility—not that of the personnel department. To be sure, this department provides valuable assistance, but it is the job of managers to fill the positions in their organization and to keep them filled with qualified people.

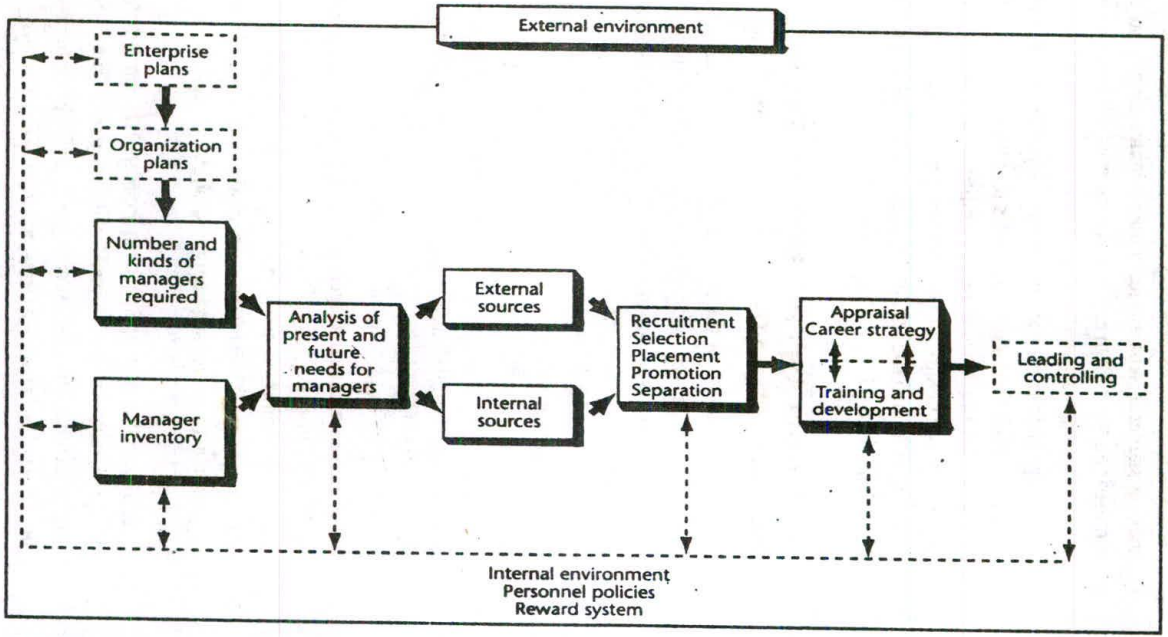
The Systems Approach to Human Resource Management: An Overview of the Staffing Function[2]

Figure 11-1 shows how the managerial function of staffing relates to the total management system. Specifically, enterprise plans become the basis for organization plans, which are necessary in order to achieve enterprise objectives. The present and projected organization structures determine the number and kinds of managers required. These demands are compared with available talent through the management inventory. On the basis of this analysis, external and internal sources are utilized in the processes of recruitment, selection, placement, promotion, and separation. Other essential aspects of staffing are appraisal, career strategy, and training and development of managers.

Staffing, as seen in the model, affects leading and controlling. For instance, well-trained managers create an environment in which people, working together in groups, can achieve enterprise objectives and at the same time accomplish personal goals. In other words, proper staffing facilitates leading. Similarly, selecting quality managers affects controlling, for example, by preventing many undesirable deviations from becoming major problems.

Staffing requires an open-system approach. It is carried out within the enterprise, which in turn is linked to the external environment. Therefore, internal factors of the firm—such as personnel policies, the organizational climate, and the reward system—must be taken into account. Clearly, without adequate rewards it is impossible to attract and keep quality managers. The external environment cannot be ignored either: high technology demands well-trained, well-educated, and highly skilled managers. Inability to meet the demand for such managers may well prevent an enterprise from growing at a desired rate.

FIGURE 11-1 Systems approach to staffing



The figure is an overview of the staffing function. The variables not discussed in Part 4, but which also affect staffing, are enclosed with broken lines. Enterprise plans are discussed in Part 2, organization plans in Part 3, and leading and controlling in parts 5 and 6.

Factors Affecting the Number and Kinds of Managers Required

The number of managers needed in an enterprise depends not only on its size but also on the complexity of the organization structure, the plans for expansion, and the turnover rate of managerial personnel. The ratio between the number of managers and the number of employees does not follow any law. It is possible, by expanding or contracting the delegation of authority, to modify a structure so that the number of managers in a given instance will increase or decrease regardless of the size of an operation.

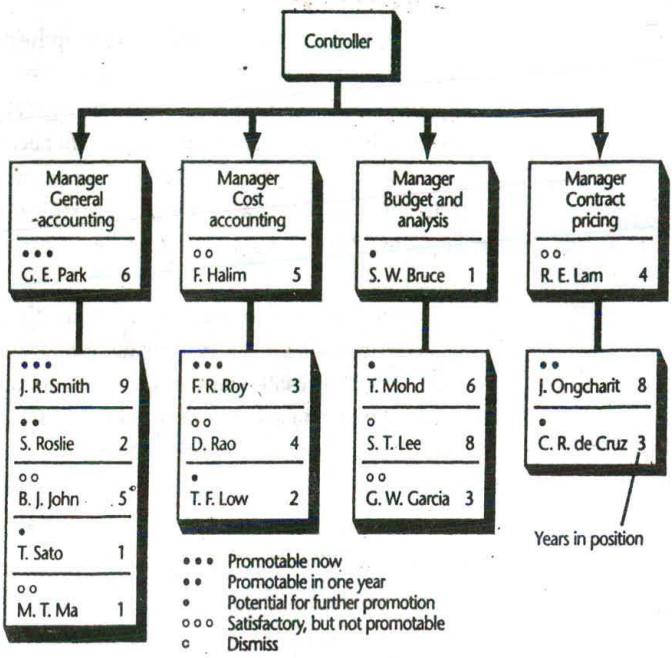
Although the need for determining the number of managers required has been stressed here, it is clear that numbers are only part of the picture. Specifically, the qualifications for individual positions must be identified so that the best-suited managers can be chosen. This kind of detailed analysis of position requirements will be discussed later in this chapter.

Determination of Available Managerial Resources: The Management Inventory

It is common for any business, as well as for most nonbusiness enterprises, to keep an inventory of raw materials and goods on hand to enable it to carry on its operation. It is far less common for enterprises to keep an inventory of available human resources, particularly managers, despite the fact that the required number of competent managers is a vital requirement for success. Keeping abreast of the management potential within a firm can be done by the use of an inventory chart (also called management replacement chart), which is simply an organization chart of a unit with managerial positions indicated and keyed as to the promotability of each incumbent.

Figure 11-2 depicts a typical manager inventory chart. At a glance, the controller can see where he or she stands with respect to the staffing function. The controller's successor is probably the manager of general accounting, and this person in turn has a successor ready for promotion. Supporting that person, in turn, is a subordinate who will be ready for promotion in a year, but below that position are one person who does not have potential and two newly hired employees.

FIGURE 11.2 Manager inventory chart



International Perspective

Brain Drain at BMW[3]

www.bmw.com

BMW, the maker of luxury cars that wants to be known for producing the "ultimate driving machine," encountered the exodus of key managers after the failed association with British Rover. Bernd Pischetsrieder, the chief executive officer (CEO), left for Volkswagen; the production manager, Carl-Peter Forster, left for Opel; Wolfgang Reitzle of the development and purchasing group moved to Ford, while his successor, Wolfgang Ziebart, is now at Continental Tire. One may wonder if a company with so much managerial talent drain can survive in the very competitive car industry.

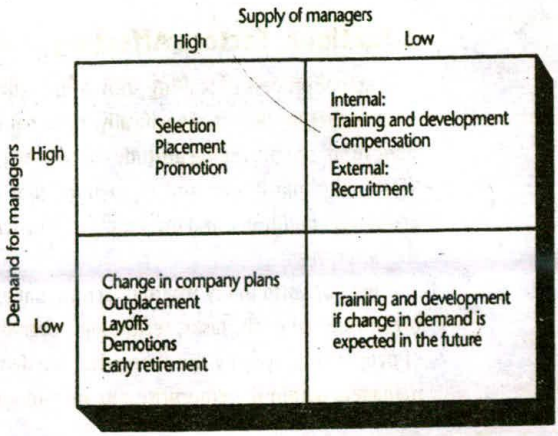
Mr. Milberg, BMW's new CEO, ex-professor, and machine fitter apprentice in his formative years, is confident that BMW will do well as a niche player with 20 new models in the planning stage. The conventional wisdom is that organization size is essential to survival in the very competitive car industry; yet Mr. Milberg states that "There's no reason for BMW to merge with anyone."[4] Still, the strength or weakness of his managerial talent inventory must be on his mind.

Analysis of the Need for Managers: External and Internal Information Sources

As shown in Figure 11-1, the need for managers is determined by enterprise and organization plans and, more specifically, by an analysis of the number of managers required and the number available as identified through the management inventory. But there are other factors, internal and external, that influence the demand for and supply of managers. The external forces include economic, technological, social, political, and legal factors (which were discussed in chapters 2 and 3). For example, economic growth may result in increased demand for a product, which in turn requires an expansion of the work force, thus increasing the demand for managers. At the same time, competing companies may also expand and recruit from a common labor pool, thus reducing the supply of managers. One must also consider the trends in the labor market, the demographics, and the composition of the community with respect to knowledge and skills of the labor pool and the attitude toward the company. Information about the long-term trends in the labor market may be obtained from several sources. The U.S. government, for example, publishes the *Monthly Labor Review* and the annual *Manpower Report of the President*, which makes long-term projections. Some trade associations and unions also project the demand for labor.

The need for and the availability of personnel give rise to four demand and supply situations, each requiring a different emphasis in personnel actions. This is illustrated in the matrix shown in Figure 11-3.

FIGURE 11-3 Personnel actions based on manager supply and demand within the enterprise



The demand for and supply of labor must not be viewed from a national, or even local, perspective only. On a global scale, we find the imbalance of demand and supply increasing. In the past, labor was very much a fixed factor of production. But in several developing countries, such as Taiwan, South Korea, Poland, and Hungary, the demand for qualified labor and managers has increased with their rapid economic development, resulting in labor shortages. The educational level of the global work force is also changing, with the proportion of college graduates rising in developing countries such as China and Brazil.

Other Important Aspects in the Systems Approach to Staffing

The staffing model shows that managers have to be recruited, selected, placed, and promoted.

After the need for managerial personnel has been determined, a number of candidates may have to be *recruited* (see Figure 11-1). This involves attracting qualified candidates to fill organizational roles. From these, managers or potential managers are *selected;* this is the process of choosing from among the candidates the most suitable ones. The aim is to *place* people in positions that allow them to utilize their personal strengths and, perhaps, overcome their weaknesses by getting experience or training in those skills in which they need improvement. Finally, placing a manager within the enterprise in a new position often means a *promotion,* which normally involves more responsibility. Since recruitment, selection, placement, and promotion are complex processes, they will be discussed in greater detail later in this chapter. Similarly, appraisal, career strategy, training, and development will be discussed in the following staffing chapters. The reference to leading and controlling in Figure 11-1 indicates that effective staffing influences these functions.

Situational Factors Affecting Staffing

The actual process of staffing shown in Figure 11-1 is affected by many environmental factors. Specifically, external factors include the level of education, the prevailing attitudes in society (such as the attitude toward work), the many laws and regulations that directly affect staffing, the economic conditions, and the supply of and demand for managers outside the enterprise.

There are also many internal factors that affect staffing. They include organizational goals, tasks, technology, organization structure, the kinds of people employed by the enterprise, the demand for and the supply of managers within the enterprise, the reward system, and various kinds of

policies. Some organizations are highly structured; others are not. For some positions, such as that of a sales manager, skill in human relations may be of vital importance, while the same skill may be less critical for a research scientist working fairly independently in the laboratory. Effective staffing, then, requires recognition of many external and internal situational factors, but the focus here is on those that have a particular relevance to staffing.



Why Leave a "Dream Job" at Microsoft?[5]

www.microsoft.com

Microsoft is well known for attracting exceptionally bright, ambitious people. Many have become multimillionaires during their tenure at Microsoft. So why would they leave the company? It has been estimated that about 50 or more depart each week. Many who left had been with the company from its early beginning, becoming very rich during that time. Still, the number leaving the company is only about half the industry average.

Because of the phenomenal growth of the company, the number of employees grew to over 30,000. Even with the best programs, a small-company atmosphere gives way to more structure with some loss of freedom to create and innovate. Microsoft probably has done a better job in maintaining an open corporate culture than most other firms. Still, some of the creative people feel constrained by the size of the corporation.

Changes in the external environment also have tempted many employees to leave. The Internet, new dot-com firms, and wireless service companies are offering new challenges. Although leaving Microsoft and joining startup companies may mean considerable career risks, some still have the burning feeling to "change the world"—and this can often be better accomplished by joining a small, nimble startup firm exploiting the new technologies. For Microsoft, the loss of intellectual capital can be a serious threat—perhaps even more so than its competitors Sun and Oracle, or even the government threatening to break up the company. For many people, it was a difficult decision to leave a "dream job."

The External Environment

Factors in the external environment do affect staffing to various degrees. These influences can be grouped into educational, sociocultural, legal–political, and economic constraints or opportunities. For example, the high technology used in many industries requires extensive and intensive education. Similarly, managers in the sociocultural environment in the

United States generally do not accept orders blindly but would want to become active participants in the decision-making process. Furthermore, now and in the future, managers will have to be more oriented toward the public than they have been in the past, responding to the public's legitimate needs and adhering to high ethical standards.

The economic environment, including the competitive situation, determines the external supply of and the demand for managers. Legal and political constraints require that organizations follow laws and guidelines issued by various levels of government. As examples, Table 11-1 summarizes major U.S. federal laws relating to fair employment that influence the staffing function. The following discussion focuses on equal employment opportunity and the role of women in management, as well as on the staffing of international businesses.

TABLE 11-1 Major U.S. federal laws governing equal employment opportunity

Law	Provision
Equal Pay Act (1963)	Equal pay for equal work regardless of sex
Title VII of the Civil Rights Act (1964) (as amended in 1972)	Equal employment opportunity regardless of race, color, religion, sex, and national origin
Age Discrimination in Employment Act (1967) (as amended from ages 65 to 70 in 1978)	Equal employment opportunity for ages 40 to 70
Vocational Rehabilitation Act (1973)	Equal employment opportunity and reasonable affirmative action for handicapped people
Pregnancy Discrimination Act (1978)	Equal employment opportunity during pregnancy
Immigration Reform and Control Act (1986)	Making illegal the hiring, recruitment, or referral of a person known to be an unauthorized alien
Americans with Disabilities Act (1990)	Better access for disabled persons to services and jobs
Older Workers Benefit Protection Act (1990)	Protection for employees over 40 years old with respect to fringe benefits; requirement that employees be given time to consider early-retirement offer
Civil Rights Act (1991)	Allowing women, persons with disabilities, and persons who are religious minorities to a jury trial as well as to suing for punitive damages in certain situations
Family and Medical Leave Act (1993)	Allowing qualified persons to have prolonged unpaid leave for family- and health-related reasons without fear of job loss

Sources: Keith Davis and John W. Newstrom, *Human Behavior at Work: Organizational Behavior*, 8th ed. (New York: McGraw-Hill, 1990); Lloyd L. Byars and Leslie W. Rue, *Human Resource Management*, 5th ed. (Chicago: Irwin, 1997); Family and Medical Leave Act of 1993, *www.dol.gov/esa/regs/statutes/whd/fmla.htm*, accessed June 5, 2002.

Equal employment opportunity

Several laws have been passed in the United States that provide for equal employment opportunity. They prohibit employment practices that discriminate on the basis of race, color, religion, national origin, sex, or age (in specified age ranges). These laws impact on staffing, as recruitment and selection for promotion must be in compliance with them. This means that managers making decisions in these areas must be knowledgeable about these laws and the way they apply to the staffing function.

Women in management

In the last decade or so, women have made significant progress in obtaining responsible positions in organizations. Among the reasons for this development are laws governing fair employment practices, changing societal attitudes toward women in the workplace, and the desire of companies to project a favorable image by placing qualified women in managerial positions.

Staffing in the international environment[6]

One must look beyond the immediate external environment and recognize the worldwide changes brought about primarily by advanced communication technology and by the existence of multinational corporations. It is not unusual for large international firms to have top management teams composed of managers of many different nationalities. The geocentric attitude is the basis for viewing the organization as a worldwide entity engaged in global decision making, including staffing decisions.

Companies have three sources for staffing the positions in international operations: (1) managers from the home country of the firm, (2) managers from the host country, and (3) managers from third countries. In the early stages of the development of an international business, managers are often selected from the home country. Some of the reasons include the managers' experience at the head office and their familiarity with products, personnel, enterprise goals and policies, and so on. This facilitates not only planning but also control. On the other hand, the home-country national may be unfamiliar with the language or the environment of the foreign country. Moreover, it is usually more expensive to send managers and their families abroad, and the family often find it difficult to adjust to the new environment of a foreign country. Also, host countries may pressure the parent firm to employ host-country managers.

Managers who are host-country nationals speak the local language and are familiar with their country's environment. Employing them is generally less costly, and it may not require relocating them and their families. The problem is that those managers may not be familiar with the firm's products and operations, and thus control may be more difficult.

The other alternative is to employ third-country nationals, who often are international career managers. Still, the host country may prefer to have its own nationals in the positions of power. One has to be also cautious in selecting managers from countries that had political conflicts in the past. There are of course many other factors that have to be taken into account when operating abroad.

The Internal Environment

The internal factors selected for this discussion concern staffing managerial positions—with personnel from within the firm as well as from the outside—and determining the responsibility for staffing.

Promotion from within

Originally, promotion from within implied that workers proceeded into first-line supervisory positions and then upward through the organization structure. Thus, a firm was pictured as receiving a flow of nonmanagerial employees from which future managers emerged. As used to be said in the railroad industry, "When a president retires or dies, we hire a new office worker."

As long as the matter is considered in general terms, there is little doubt that employees overwhelmingly favor a policy of promotion from within. The banning of outsiders reduces competition for positions and gives employees an established monopoly on managerial openings. Employees come to doubt the wisdom of the policy, however, when they are confronted with a specific case of selection of one of their own for promotion. This feeling is present at all levels of the organization, largely because of jealousy or because of rivalry for promotion. The difficulty becomes most evident when a general manager is being selected from among the sales, production, finance, or engineering managers. Top managers are often inclined to choose the easy way and avoid problems by selecting an outsider.

Promoting from within the enterprise not only has positive values relating to morale, employees' long-run commitment to the company,

and the firm's reputation, but it also allows the enterprise to take advantage of the presence of potentially fine managers among its employees. However, although these positive but unmeasurable values are important, executives should not be blind to the dangers of either overemphasizing this source or relying on it exclusively.

A danger presented by a policy of exclusively promoting from within is that it may lead to the selection of persons who have, perhaps, only imitated their superiors. This is not necessarily a fault, especially if only the best methods, routines, and viewpoints are cultivated, but this is likely to be an unapproachable ideal. The fact is that enterprises often need people from the outside to introduce new ideas and practices. Consequently, there is good reason to avoid a policy of exclusive promotion from within.

Promotion from within in large companies

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On the other hand, a policy of promotion from within may be quite suitable for very large companies such as Sears, Du Pont, or General Motors. Large business and nonbusiness organizations usually have so many qualified people that promotion from within actually approaches a condition similar to an open-competition policy. Even in these large companies, however, it may be necessary to go outside, as General Motors did when it hired a university professor as vice president to head its environmental control staff.

International Perspective

Managing Human Resources at Wal-Mart[7]

Wal-Mart is the largest U.S. private employer with over a million people. Sam Walton, the founder of the company, had a special rapport with his employees, called associates. Although he died in 1992, he is lovingly remembered for his caring, his concern, his listening to them, and his open-door policy. His legacy continues. He was lovingly called Mr. Sam, who showed his concern for people by initiating a policy of paying a time and a half for working on Sundays. Wal-Mart paid low wages, yet employees were generally happy, which was one of the reasons the company grew rapidly. The importance of people is also shown in the associates' handbook: "The undeniable cornerstone of Wal-Mart's success can be traced back to our strong belief in the dignity of each individual."

Sam's successors tried to maintain the organizational climate—and succeeded to a great extent. But things are changing, ranging from the elimination of the 50 percent extra pay for Sunday work to demands created by the long store hours, such as unsuitable working hours in stores that are open 24 hours. The

change in orientation may also be shown by the slogan on the blue aprons associates wear. It changed from "Our people make the difference" to "How may I help you?", which could be interpreted as a change in focus from the associate to the customer. Taking advantage of the concern of some associates, labor unions try to recruit members in some locations.

Although Wal-Mart is still very successful, its growth has slowed. The challenge is to maintain a concerned human organization despite its size.

The policy of open competition

Principle of open competition Vacant positions should be opened to the best-qualified persons available, whether inside or outside the enterprise.

Managers must decide whether the benefits of a policy of promotion from within outweigh its shortcomings. There are clear-cut reasons for implementing the **principle of open competition** by opening vacant positions to the best-qualified persons available, whether inside or outside the enterprise. It gives the firm, in the final analysis, the opportunity to secure the services of the best-suited candidates. It counters the shortcomings of a policy of exclusive promotion from within, permits a firm to adopt the best techniques in recruiting managers, and motivates the complacent "heir apparent." To exchange these advantages for the morale advantages attributed to internal promotion would appear questionable.

A policy of open competition is a better and more honest means of ensuring managerial competence than is obligatory promotion from within. However, it does put the managers who use it under a special obligation. If morale is to be protected in applying an open-competition policy, the enterprise must have fair and objective methods of appraising and selecting its people. It should also do everything possible to help them develop so that they can qualify for promotion.

When these requirements are met, it would be expected that every manager making an appointment to a vacancy or a new position would have available a roster of qualified candidates within the entire enterprise. If people know that their qualifications are being considered, if they have been fairly appraised and have been given opportunities for development, they are far less likely to feel a sense of injustice if an opening goes to an outsider. Other things being equal, present employees should be able to compete with outsiders. If a person has the ability for a position, he or she has the considerable advantage of knowing the enterprise and its personnel, history, problems, policies, and objectives. For the superior candidate, the policy of open competition should be a challenge and not a hindrance to advancement.

Responsibility for staffing

While responsibility for staffing should rest with every manager at every level, the ultimate responsibility is with the CEO and the policy-making group of top executives. They have the duty of developing policy, assigning its execution to subordinates, and ensuring its proper application. Policy considerations include decisions about the development of a staffing program, the desirability of promoting from within or securing managers from the outside, the sources of candidates, the selection procedure to follow, the kind of appraisal program to use, the nature of manager and organization development, and the promotion and retirement policies to follow.

Line managers should certainly make use of the services of staff members, usually from the personnel department, in recruiting, selecting, placing, promoting, appraising, and training people. In the final analysis, however, it is the manager's responsibility to fill positions with the best-qualified persons.

Selection: Matching the Person with the Job

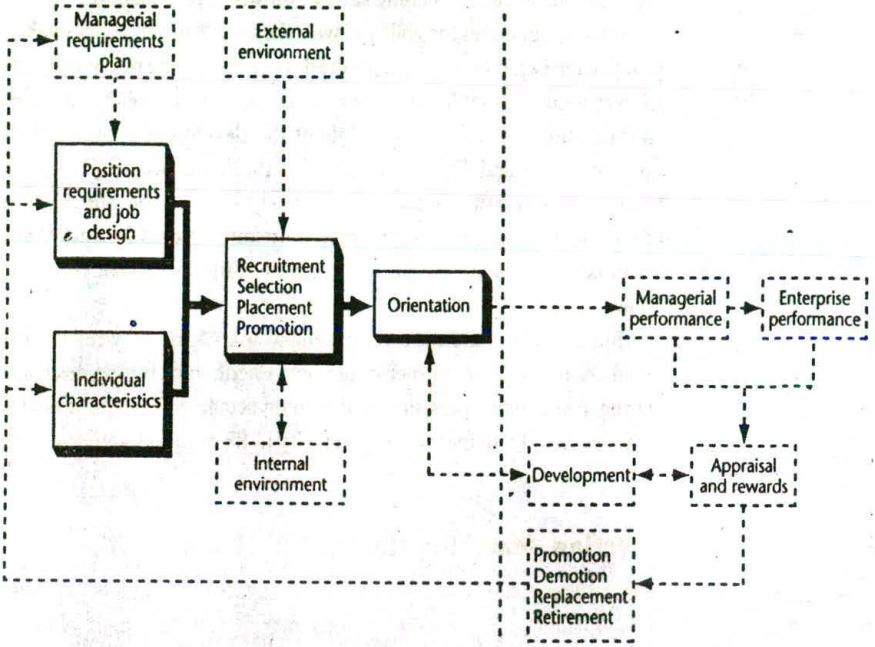
Selection Choosing from among candidates, from within or outside the organization, the most suitable person for a position.

Plant, equipment, materials, and people do not make a business any more than airplanes, tanks, ships, and people make an effective military force. One other element is indispensable: effective managers. The quality of managers is one of the most important factors determining the continuing success of any organization. It necessarily follows, therefore, that the selection of managers is one of the most critical steps in the entire process of managing. **Selection** is the process of choosing from among candidates, from within the organization or from the outside, the most suitable person for the current position or for future positions.

The Systems Approach to Selection: An Overview

Since qualified managers are critical to the success of an enterprise, a systematic approach is essential to manager selection and to the assessment of present and future needs for managerial personnel. An overview of the systems approach to selection is illustrated in Figure 11-4. The managerial requirements plan is based on the firm's objectives, forecasts, plans, and strategies. This plan is translated into position requirements and job design, which are matched with such individual characteristics as intelligence, knowledge, skills, attitudes, and experience. To meet organizational requirements, managers recruit, select, place, and promote people. This,

FIGURE 11-4 Systems approach to selection



Variables marked with broken lines are staffing and other activities that are discussed in other chapters.

of course, must be done with due consideration for the internal environment (e.g., company policies, manager supply and demand, and the organizational climate) and the external environment (laws, regulations, availability of managers). After people have been selected and placed in positions, they must be introduced to the new job. This orientation involves learning about the company, its operation, and its social aspects.

The newly placed managers then carry out their managerial and nonmanagerial functions (such as marketing), and the resulting managerial performance will eventually determines enterprise performance. Subsequently, managerial performance is appraised, and managers who meet their performance goals are rewarded (see Chapter 12). On the basis of this evaluation, manager and organization development is initiated (Chapter 13). Finally, appraisal may also become the basis for promotion, demotion, replacement, and retirement decisions.

That is the selection model in brief; now each major variable in the model will receive closer attention.

Position Requirements and Job Design

Selecting a manager effectively requires a clear understanding of the nature and purpose of the position that is to be filled. An objective analysis of position requirements must be made and, as far as possible, the job must be designed to meet organizational and individual needs. In addition, positions must be evaluated and compared so that the incumbents can be treated equitably. Among other factors to consider are the skills required, since they vary with the level in the organizational hierarchy, and the personal characteristics desired in managers.

Identifying Job Requirements

In identifying job requirements, firms must answer questions such as these: What has to be done in this job? How is it done? What background knowledge, attitudes, and skills are required? Since positions are not static, additional questions may have to be considered: Can the job be done differently? If so, what are the new requirements? Finding answers to these and similar questions requires that the job be analyzed. This can be done through observation, interviews, questionnaires, or even a systems analysis. Thus, a job description, based on job analysis, usually lists important duties, authority–responsibility, and the relationship to other positions. Many firms also include objectives and expected results in job descriptions.

There is of course no foolproof rule for designing managerial jobs. Nevertheless, firms can avoid mistakes by following some guidelines.

Appropriate scope of the job

A job too narrowly defined provides no challenge, no opportunity for growth, and no sense of accomplishment. Consequently, good managers will be bored and dissatisfied. On the other hand, a job must not be so broad that it cannot be effectively handled. The result will be stress, frustration, and loss of control.

Meeting managerial skills required by job design

Generally, the design of the job should start with the tasks to be accomplished. The design is usually broad enough to accommodate people's needs and desires. But some writers on management suggest that it may be necessary to design the job to fit the leadership style of a particular person. It may be especially appropriate to design jobs for exceptional

persons in order to utilize their potential. The problem, of course, is that such a position would probably have to be restructured every time a new manager occupies it. The job description, then, must provide a clear idea of the performance requirements for a person in a particular position but must also allow some flexibility so that the employer can take advantage of individual characteristics and abilities.

Any position description is contingent on the particular job and the organization. For example, in a bureaucratic and fairly stable organizational environment, a position may be described in relatively specific terms. In contrast, in a dynamic organization with an unstable, fast-changing environment, a job description may have to be more general and most likely will have to be reviewed more frequently. A situational approach to job description and job design is called for.

Job Design

People spend a great deal of time on the job, and it is therefore important to design jobs so that individuals feel good about their work. This requires an appropriate job structure in terms of content, function, and relationships.

Design of jobs for individuals and work teams

The focus of job design can be on the individual position or on work groups. First, individual jobs can be enriched by grouping tasks into natural work units. This means putting tasks that are related into one category and assigning an individual to carry out the tasks. A second related approach is to combine several tasks into one job. For example, rather than having the tasks of assembling a water pump carried out by several persons on the assembly line, workstations can be established with individuals doing the whole task of putting the unit together and even testing it. A third way of enriching the job is to establish direct relationships with the customer or client. Rather than reporting to his or her superior, who would then make the recommendations to top management, a systems analyst may present findings and recommendations directly to the managers involved in the systems change. Fourth, prompt and specific feedback should be built into the system whenever appropriate. In one retail store, for example, salespersons received sales figures for each day and summary figures for each month. Fifth, individual jobs can be enriched through vertical job loading, which means increasing individuals' responsibility for planning, doing, and controlling their job.

Similar arguments can be made for improving the design of jobs for work teams. Jobs should be designed so that groups have a complete task to perform. Moreover, teams may be given a great deal of autonomy in the form of authority and freedom to decide how well the jobs shall be performed. Within the team, individuals can often be trained so that they can rotate to different jobs within the group. Finally, rewards may be administered on the basis of group performance, which tends to induce cooperation rather than competition among team members.

Factors influencing job design

In designing jobs, the requirements of the enterprise have to be taken into account. But other factors must also be considered in order to realize maximum benefits; they include individual differences, the technology involved, the costs associated with restructuring the jobs, the organization structure, and the internal climate.

People have different needs. Those with unused capabilities and a need for growth and development usually want to have their job enriched and to assume greater responsibility. While some people prefer to work by themselves, others with social needs usually work well in groups. The nature of the task and the technology related to the job must also be considered. While it may be possible for work teams to assemble automobiles, as it was done at a Volvo plant in Sweden, it may not be efficient to use the same work design for the high production runs at General Motors in the United States. The costs of changing to new job designs must also be considered. It makes a great deal of difference whether a plant is newly designed or an old plant has to be redesigned and changed to accommodate new job design concepts.

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The organization structure must also be taken into account. Individual jobs must fit the overall structure. Autonomous work groups, for example, may work well in a decentralized organization, but they may be inappropriate in a centralized structure. Similarly, the organizational climate influences job design. Groups may function well in an atmosphere that encourages participation, job enrichment, and autonomous work, while they may not fit into an enterprise with an autocratic, top-down approach to managerial leadership.

Skills and Personal Characteristics Needed in Managers

To be effective, managers need various skills: technical, human, conceptual, and design. The relative importance of these skills varies according to the

level in the organization, as discussed in Chapter 1. In addition, analytical and problem-solving abilities and certain personal characteristics are sought in managers.

Analytical and Problem-solving Abilities

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One of the frequently mentioned skills desired of managers is analytical and problem-solving ability. As Alan Stoneman, former president of Purex Corporation, used to say, "We have no problems here; all are opportunities; all a problem should be is an opportunity." In other words, managers must be able to identify problems, analyze complex situations, and, by solving the problems encountered, exploit the opportunities presented. They must scan the environment and identify, through a rational process, those factors that stand in the way of opportunities. Thus, analytical skills should be used to find the needs of present customers—or potential ones—and then to satisfy those needs with a product or service. It has been amply demonstrated that this opportunity-seeking approach can mean corporate success. For example, Edwin H. Land of Polaroid filled the needs of people who wanted instant photographs. But problem identification and analysis are not enough. Managers also need the will to implement the solutions; they must recognize the emotions, needs, and motivations of the people involved in initiating the required change as well as of those who resist change.

Personal Characteristics Needed in Managers

In addition to the various skills that effective managers need, several personal characteristics are also important. They are a desire to manage; the ability to communicate with empathy; integrity and honesty; and experience as manager, which is a very significant characteristic.

Desire to manage

The successful manager has a strong desire to manage, to influence others, and to get results through the team efforts of subordinates. To be sure, many people want the privileges of managerial positions, which include high status and salary, but they lack the basic motivation to achieve results by creating an environment in which people work together toward common aims. The desire to manage requires effort, time, energy, and, usually, long hours of work.

Communication skills and empathy

Intragroup communication Communication with people in the same organizational unit.

Intergroup communication Communication with other departments as well as with groups outside the enterprise.

Another important characteristic of managers is the ability to communicate through written reports, letters, speeches, and discussions. Communication demands clarity, but, even more, it demands empathy. This is the ability to understand the feelings of another person and to deal with the emotional aspects of communication. Communication skills are important for effective **intragroup communication**, that is, communication with people in the same organizational unit. As one moves up in the organization, however, **intergroup communication** becomes increasingly important. This is communication not only with other departments but also with groups outside the enterprise: customers, suppliers, governments, the community, and the stockholders in business enterprises.

Integrity and honesty

Managers must be morally sound and worthy of trust. Integrity in managers includes honesty in money matters and in dealing with others, adherence to the full truth, strength of character, and behavior in accordance with ethical standards.

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Many of these qualities, and others, have been cited by top executives of major companies. For example, Henry Ford II, former chairman of Ford Motor Company, considers as appealing qualities honesty, candor, and openness.

Past performance as manager

Another very important characteristic for selection is past performance as a manager. It is probably the most reliable forecast of a manager's future performance. Of course, an assessment of managerial experience is not possible in selecting first-line supervisors from the ranks since they have not had such experience. But past accomplishments are important considerations in the selection of middle- and upper-level managers.

Matching Qualifications with Position Requirements

After the positions are identified, managers are obtained through recruitment, selection, placement, and promotion (see Figure 11-4). There are basically two sources of managerial personnel: (1) promotion or transfer of people from within the enterprise and (2) hiring from the outside. For internal promotions, a computerized information system may help identify

qualified candidates. It can be used in conjunction with a comprehensive human resource plan. Specifically, it can be utilized to anticipate staff requirements, new openings, attritions, development needs, and career planning.

There are several external sources available, and the enterprise may use different channels to find qualified managers. Many employment agencies—public and private—and executive recruiters (sometimes called headhunters) locate suitable candidates for positions. Other sources of managers are professional associations, educational institutions, referrals from people within the enterprise, and unsolicited applications from persons interested in the firm.

Recruitment of Managers

Recruiting Attracting candidates to fill positions in the organization structure.

Recruiting involves attracting candidates to fill the positions in the organization structure. Before recruiting begins, the position's requirements, which should relate directly to the task, must be clearly identified to facilitate recruitment from the outside. Enterprises with a favorable public image find it easier to attract qualified candidates. A company such as Sony has a well-recognized image, while small firms—which frequently offer excellent growth and development opportunities—may have to make great efforts to communicate to applicants the kind of business they do and the opportunities they offer.

Selection, Placement, and Promotion

Two approaches to filling positions: selection and placement.

Selecting a manager is choosing from among the candidates the one who best meets the position requirements. Since the selection may be for a specific job opening or for future managerial requirements, there are two approaches to filling organizational positions. In the *selection approach*, applicants are sought to fill a position with rather specific requirements; while in the *placement approach*, the strengths and weaknesses of the individual are evaluated, and a suitable position is found or even designed.

Promotion is a move within the organization to a higher position that has greater responsibilities and requires more advanced skills. It usually involves a raise in status and in pay. The various facets of selection generally apply also to promotion, which may be a reward for outstanding performance or a result of the firm's desire to better utilize an individual's skills and abilities. Promotions may be a reward for past performance, but only if there is evidence of potential competency; otherwise, the persons may be promoted to a level at which they are incompetent.

The Peter Principle

Errors in selection are possible, perhaps even common. According to Laurence J. Peter and Raymond Hall, authors of *The Peter Principle*, managers tend to be promoted to the level of their incompetence.[8] Specifically, if a manager succeeds in a position, this very success may lead to promotion to a higher position, often one requiring skills that the person does not possess. Such a promotion may involve work that is over the manager's head. While the possibility of individual growth must not be overlooked, the Peter Principle can serve as a warning not to take the selection and promotion process lightly.

Selection Process, Techniques, and Instruments

Validity The degree to which the data predict the candidate's success as a manager.

Reliability The accuracy and consistency of the measurement.

This section presents an overview of the selection process, followed by a discussion of a number of selection instruments and techniques, including interviews, tests, and the assessment center approach. For good selection, the information about the applicant should be both valid and reliable. When people ask if data are valid, they are asking if the data are measuring what they are supposed to be measuring. In selection, **validity** is the degree to which the data predict the candidate's success as a manager. The information should also have a high degree of **reliability**, a term that refers to the accuracy and consistency of the measurement. For example, a reliable test, if repeated under the same conditions, would give essentially the same results.

The Selection Process

There are some variations of the specific steps in the selection process. For example, the interview of a candidate for a first-line supervisory position may be relatively simple when compared with the rigorous interviews for a top-level executive. Nevertheless, the following broad outline is indicative of the typical process.

First, the selection criteria are established, usually on the basis of current, and sometimes future, job requirements. These criteria include such items as education, knowledge, skills, and experience. The candidate is then requested to complete an application form (this step may be omitted if the candidate is from within the organization). A screening interview follows to identify the more promising candidates. Additional information may be obtained by testing the candidate's qualifications for the position. Formal interviews are then conducted by the manager, his or her superior, and

other persons within the organization. The information provided by the candidate is checked and verified. A physical examination may be required. Finally, on the basis of the information gathered, the candidate is either offered the job or informed that he or she has not been selected for the position. Let us examine some parts of the selection process in greater detail.

Interviews

Virtually every manager hired or promoted by a company is interviewed by one or more people. Despite its general use, the interview is considerably distrusted as a reliable and valid means for selecting managers. Different interviewers may weigh or interpret the gathered information differently. Interviewers often do not ask the right questions. They may be influenced by the interviewee's general appearance, which may have little bearing on job performance. They also frequently make up their minds early in the interview, before they have all the information necessary to make a fair judgment.

Several techniques can be used to improve the interviewing process and overcome some of these weaknesses. First, interviewers should be trained so that they know what to look for. For example, in interviewing people from within the enterprise, they should analyze and discuss past records. They should study the results achieved as well as the way key managerial activities were performed. Chapter 12, on performance appraisal, shows in greater detail how this can be done. When selecting managers from outside the firm, these data are more difficult to obtain, and interviewers usually get them by checking with the listed references.

Second, interviewers should be prepared to ask the right questions. There are structured, semistructured, and unstructured interviews. In an *unstructured* interview, an interviewer may say something like "Tell me about your last job." In the *semistructured* interview, the interviewer follows an interview guide but may also ask other questions. In a *structured* interview, the interviewer asks a set of prepared questions.

A third way to improve selection is to conduct multiple interviews utilizing different interviewers. Thus, several people can compare their evaluations and perceptions. However, not all interviewers should vote in selecting a candidate; rather, their role is to provide additional information for the manager who will be responsible for the final decision.

Fourth, the interview is just one aspect of the selection process. It should be supplemented by data from the application form, the results of tests,

and the information obtained from persons listed as references. Reference checks and letters of recommendation may be necessary to verify the information given by the applicant. For a reference to be useful, the person must know the applicant well and give a truthful and complete assessment of the applicant. Many people are reluctant to provide information that may jeopardize an applicant's chances, and so the applicant's strong points are often overemphasized while shortcomings may be omitted or glossed over. In the United States, the Privacy Act of 1974 and related legislation and judicial rulings have made it even more difficult to obtain objective references. Under the Privacy Act, the applicant has a legal right to inspect letters of reference, unless this right is waived. This is one of the reasons that teachers are sometimes reluctant to make objective and accurate job referrals for their students.

Tests

The primary aim of testing is to obtain data about applicants that help predict their probable success as managers. Some of the benefits from testing include finding the best person for the job, obtaining a high degree of job satisfaction for the applicant, and reducing turnover. Some of the commonly used tests can be classified as follows:

- *Intelligence tests* are designed to measure mental capacity and to test memory, speed of thought, and ability to see relationships in complex problem situations.
- *Proficiency and aptitude tests* are constructed to discover interests, existing skills, and potential for acquiring skills.
- *Vocational tests* are designed to indicate a candidate's most suitable occupation or the areas in which the candidate's interests match the interests of people working in those areas.
- *Personality tests* are designed to reveal a candidate's personal characteristics and the way the candidate may interact with others, thereby giving a measure of leadership potential.

Tests have a number of limitations, however. First, competent industrial psychologists agree that tests are not accurate enough to be used as the sole measure of candidates' characteristics but must be interpreted in light of each individual's entire history. Second, the test user must know what tests do and what their limitations are. One of the major limitations is uncertainty about whether tests are really applicable; even psychologists are not highly confident that present-day tests are effective in measuring

managerial abilities and potentials. Third, before any test is widely used, it should be tried out, if possible on existing personnel, to see whether it is valid for employees whose managerial abilities are already known. Fourth, it is also important that tests be administered and interpreted by experts in the field. Finally, tests should not discriminate unfairly and should be consistent with laws and government guidelines.

Assessment Centers

Assessment center A technique for selecting and promoting managers.

The **assessment center** is not a location but a technique for selecting and promoting managers. This approach may be used in combination with training. Assessment centers were first used for selecting and promoting lower-level supervisors, but now they are applied to middle-level managers as well. They seem, however, to be inappropriate for top executives. The assessment center technique is not new. It was used by the German and British military in World War II and the American Office of Strategic Services. But its first corporate use in the United States is generally attributed to the American Telephone and Telegraph Company in the 1950s.

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Intended to measure how a potential manager will act in typical managerial situations, the usual center approach is to have candidates take part in a series of exercises. During this period, they are observed and assessed by psychologists or experienced managers. A typical assessment center will have the candidates do the following: take various psychological tests; engage in management games in small groups; engage in "in-basket" exercises, in which they are asked to handle a variety of matters that they might face in a managerial job; participate in a leaderless group discussion of some problem; give a brief oral presentation on a particular topic or theme, usually recommending a course of desirable action to a mythical superior; and engage in various other exercises, such as preparing a written report.

During these exercises, the candidates are observed by their evaluators, who also interview them from time to time. At the end of the assessment center period, the assessors summarize their own appraisal of each candidate's performance; then they compare their evaluations, come to conclusions concerning each candidate's managerial potential, and write a summary report on each candidate. These reports are made available to appointing managers for their guidance. They are also often used as guides for management development. In many cases, candidates are given feedback on their evaluation; in other cases, feedback is given only when candidates request it. Sometimes the overall evaluation as to promotability

remains confidential, even though candidates may be informed by assessors about their performance in the various exercises.

Evidence of the usefulness of the assessment center approach, although not conclusive, is encouraging. On the other hand, there is controversy over to whom, by whom, and under what circumstances this and other tests should be administered and as to who should receive the test results.

Assessment centers do present some problems. First, they are costly in terms of time, especially since many effective programs extend over a five-day period. Second, training assessors is a problem, particularly in companies that believe, with some justification, that the best assessors are likely to be experienced line managers rather than trained psychologists. Third, although a number of different exercises are used to cover the kinds of things a manager does, questions have been raised as to whether these exercises are the best criteria for evaluation. An even greater problem exists in determining which evaluation measures should be applied to each exercise. Most assessment centers, being highly oriented to individual and interpersonal behavior under various circumstances, may be overlooking the most important element in selecting managers, especially those about to enter the managerial ranks for the first time. That element is motivation—whether or not a person truly wants to be a manager. To be so motivated, candidates must know what managing is, what it involves, and what is required to be a successful manager. Obviously, motivation is a difficult quality to evaluate. However, by making clear to a candidate what managing involves and requires and then asking the candidate to think this over, the interviewer can give the candidate a good basis on which to determine whether he or she really wants to be a manager.

Limitations of the Selection Process

The diversity of selection approaches and tests indicates that there is no one perfect way to select managers. Experience has shown that even carefully chosen selection criteria are still imperfect in predicting performance. Furthermore, there is a distinction between what persons can do—that is, their ability to perform—and what they will do, which relates to motivation. The latter is a function of the individual and the environment. For example, a person's needs may be different at various times. The organizational environment also changes. The climate of an enterprise may change from one that encourages initiative to one that restricts it because a new top management introduces a different managerial philosophy. Therefore, selection techniques and instruments are not a sure

way to predict what people will do, even though they may have the ability to do it.

Testing itself, especially psychological testing, has limitations. Specifically, the seeking of certain information may be considered an invasion of privacy. In addition, it has been charged that some tests unfairly discriminate against women or members of minority groups. These complex issues are not easily resolved, yet they cannot be ignored when an enterprise is selecting managers.

Still other concerns in selection and hiring are the time and costs involved, including advertising, agency fees, tests, interviews, reference checks, medical examinations, relocation, orientation, and startup time required for the new manager to get acquainted with the job. When recruiting costs are recognized, it becomes evident that turnover can be very expensive to an enterprise.

Orienting and Socializing New Employees

The selection of the best person for the job is only the first step in building an effective management team. Even companies that make great efforts in the recruitment and selection process often ignore the needs of new managers after they have been hired. Yet the first few days and weeks can be crucial for integrating the new person into the organization.

Orientation The introduction of new employees to the enterprise—its functions, tasks, and people.

Orientation involves the introduction of new employees to the enterprise—its functions, tasks, and people. Large firms usually have a formal orientation program that explains these features of the company: history, products and services, general policies and practices, organization (divisions, departments, and geographic locations), benefits (insurance, retirement, vacations), requirements for confidentiality and secrecy (especially with regard to defense contracts), as well as safety and other regulations. These may be further described in detail in a company booklet, but the orientation meeting provides new employees with an opportunity to ask questions. Although staff from the personnel department usually conduct these formal programs, the primary responsibility for orienting the new manager still rests with the superior.

International Perspective

Creating an Environment that People Enjoy[9]

In the new millennium, companies are fiercely competing for talent in a very competitive job market. Losing a valuable employee may cost a company $50,000 to $100,000. How, then, can a company retain its intellectual capital?

www.southwest.com
www.ge.com
www.cisco.com

Leaders such as Herb Kelleher at Southwest Airlines and Jack Welch at General Electric have done much to inspire their employees by providing an environment with challenging work and opportunities for personal and professional growth. Companies have pursued various strategies to retain employees. Firms with a good reputation, such as Southwest Airlines and General Electric, can highlight to their employees the competitive advantage of their firm and the opportunities in a growing organization. Companies in a market leadership position also have an advantage in retaining employees, as they can point out that leaving the company may be a step down. Other firms have created a feeling of community and family in their organization. Employees also like the flexibility of gaining different kinds of experience in various parts of the company. Empowerment through broad delegation gives employees decision-making authority and a sense of responsibility. Cisco Systems constantly makes its employees aware that they are welcomed. General Electric makes heavy investments in the best people through training and mentoring. Southwest Airlines pays much attention to finding the right people during the selection process by hiring people who fit the organization culture.

While companies face serious challenges in recruiting and retaining employees, people preparing for a career in management or as a staff person find in this situation a great opportunity.

Organizational socialization
Acquisition of work skills and abilities, adoption of appropriate role behaviors, and adjustment to the norms and values of the work group.

There is another and perhaps even more important aspect of orientation: the socialization of new managers. **Organizational socialization** is defined in several different ways. A global view includes three aspects: acquisition of work skills and abilities, adoption of appropriate role behaviors, and adjustment to the norms and values of the work group. So, in addition to meeting the specific requirements of the job, new managers will usually encounter new values, new personal relationships, and new modes of behavior. They do not know whom they can ask for advice, they do not know how the organization works, and they have a fear of failing in the new job. All this uncertainty can cause a great deal of anxiety for a new employee, especially a management trainee. Because the initial experience in an enterprise can be very important for future management behavior, the first contact of trainees should be with the best superiors in the enterprise, people who can serve as models for future behavior.

Summary

Staffing means filling positions in the organization structure. It involves identifying work-force requirements, inventorying the people available,

and recruiting, selecting, placing, promoting, appraising, planning the careers of, compensating, and training people.

In the systems approach to staffing, enterprise and organization plans become important inputs for staffing tasks. The number and quality of managers required to carry out crucial tasks depend on many different factors. One major step in staffing is to determine the people available by making a management inventory, which can be done in the form of an inventory chart.

Staffing does not take place in a vacuum; one must consider many situational factors, both internal and external. Staffing requires adherence to equal employment opportunity laws so that practices do not discriminate, for example, against minorities or women. Also, one must evaluate the pros and cons of promoting people from within the organization or selecting people from the outside.

In the systems model for selection, the comprehensive managerial requirements plan is the basis for position requirements. In designing jobs, the enterprise must see that the job has an appropriate scope, is challenging, and reflects required skills. The job structure must be appropriate in terms of content, function, and relationships. Jobs can be designed for individuals or work teams. The importance of technical, human, conceptual, and design skills varies with the level in the organizational hierarchy. The position requirements have to be matched with the various skills and personal characteristics of individuals. The matching is important in recruitment, selection, placement, and promotion.

Errors in selection can lead to actualization of the Peter Principle, which states that managers tend to be promoted to the level of their incompetence. Although the advice of several people should be sought, the selection decision should generally rest with the immediate superior of the candidate for the position.

The selection process may include interviews, various tests, and the use of assessment centers. To avoid dissatisfaction and employee turnover, companies must ensure that new employees are introduced to and integrated with other persons in the organization.

KEY IDEAS AND CONCEPTS FOR REVIEW

Staffing
Systems approach to human resource management
Management inventory
Situational factors affecting staffing
Equal employment opportunity

Promotion from within
Policy of open competition
Systems approach to selection
Position and job requirements
Job design
Recruitment
Selection
Placement
Promotion
Peter Principle
Validity and reliability
Selection process
Interview
Kinds of tests
Assessment center
Orientation and socialization

FOR DISCUSSION

1. Why is the function of staffing seldom approached logically? Briefly describe the systems approach to staffing. How is staffing related to other managerial functions and activities?
2. List and evaluate external factors affecting staffing. Which ones are most critical today? Explain.
3. What are the dangers and difficulties in applying a policy of promotion from within? What is meant by a policy of open competition? Do you favor such a policy? Why or why not?
4. What is the systems approach to selection of managers? Why is it called a systems approach? How does it differ from other approaches?
5. What are some of the factors that are important in designing individual jobs and jobs for work teams? Which ones seem most important to you? Why?
6. The Peter Principle has been widely quoted in management circles. What do you think of it? Do you think that it could ever apply to you? Does it mean that all chief executives are incompetent? Explain.
7. What is an assessment center? How does it work? Would you like to participate in such a center? Why or why not?

EXERCISES/ACTION STEPS

1. Select an organization that you know and evaluate the effectiveness of its recruitment and selection of people. How systematically are these and other staffing activities carried out?
2. Go to the library and research the background of successful CEOs. You may begin by looking at *Fortune* magazine or reading the biography of a CEO. What makes the CEOs successful?

INTERNET RESEARCH

1. Use one of the popular search engines to search for "workforce.com." What are some of the current topics human resource managers are concerned about?
2. What does equal employment opportunity mean? Search the Web, then select a topic and present it to the class.

International Case

Trials and Challenges for Mr. Barrett at Intel[10]

Intel Corporation is best known for its processors. The sign "Intel Inside" is familiar to most people using a computer. There are, for example, Pentium 3 and 4 and the new-generation Itanium. For servers and workstations, Intel produces the Xeon. The colorful CEO Andy Grove led the company to success for many years. By 2001, however, CEO Craig R. Barrett faces many challenges, including criticism.

The new strategy of moving into new markets such as information appliances, communications, and Internet services was costly and so far less than successful. In fact, the move beyond its core businesses may have detracted from its core business of computer chips. These new directions resulted in frequent reorganization, causing organizational uncertainties for the managers. While some think that the frequent changes were necessary to adapt to new situations and to keep the organization agile, others disagree.

Barrett's leadership, and his moves into various directions, is quite different from Grove's carefully crafted strategy that focused on chips. Barrett's personal strengths lie in manufacturing. He invested heavily in research and development. But new products such as the Itanium require several years before they show results, and Barrett has only a few more years before his retirement. Investing in new manufacturing technologies with the aim of achieving virtually automated plants leads to cost reduction in chip manufacturing. However, the personal computer market is stagnated in the early 21st century, while wireless communications and cell phones are rising in the market. In the cell phone market, for example, Motorola and Texas Instruments are developing new digital signal processors, and Intel would have to work hard to catch up. A key to success of Intel may be whether the company can become an important player in the wireless market. Barrett made a number of costly acquisitions, including Level One Communications. But the question remains as to whether the heavy investment in new technologies will result in profitable business. This may determine the legacy of Craig Barrett.

Questions

1. What is your assessment of Barrett's performance and his vision for Intel? Is he the right person for the job at Intel?
2. What are some problems associated with frequent reorganization?
3. What are the pros and cons of focusing on the distant future and making heavy investment in new technologies?

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Chapter 12

Performance Appraisal and Career Strategy

CHAPTER OBJECTIVES

After studying this chapter, you should be able to:

1. Recognize the importance of effectively appraising managers.
2. Identify the qualities that should be measured in appraising managers.
3. Present a system of managerial appraisal based on evaluating performance against verifiable objectives and performance as a manager.
4. Describe the team approach to evaluation.
5. Recognize the rewards and stress of managing.
6. Identify important aspects of career planning.

Managerial appraisal has sometimes been referred to as the Achilles' heel of managerial staffing, but it is probably a major key to managing itself. It is the basis for determining who is promotable to a higher position. It is also important to management development because it is difficult to determine whether development efforts are aimed in the right direction if a manager's strengths and weaknesses are not known. Appraisal is, or should be, an integral part of a system of managing. Knowing how well a manager plans, organizes, staffs, leads, and controls is really the only way to ensure that those occupying managerial positions are actually managing effectively. If a business, a government agency, a charitable organization, or even a university is to reach its goals effectively and efficiently, ways of accurately measuring management performance must be found and implemented.

There are other reasons why effective managerial appraisal is important. One of the most compelling in the United States arises from the provisions of Title VII of the Civil Rights Act of 1964 (as amended in 1972) and the regulations of the Equal Employment Opportunity Commission and the Office of Federal Contract Compliance. These agencies have been highly critical of many appraisal programs, finding that they often result in discrimination, particularly in areas of race, age, and sex. Courts have supported the federal agencies in their insistence that, to be acceptable, an appraisal program must be reliable and valid. That these agencies set rigorous standards is apparent.

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Effective performance appraisal should also recognize the legitimate desire of employees for progress in their professions. One way to integrate organizational demands and individual needs is through career management, which can be a part of performance appraisal, as this chapter will explain.

Choosing Appraisal Criteria

The appraisal should measure performance in accomplishing goals and plans as well as performance as a manager. No one wants a person in a managerial role who appears to do everything right as a manager but who cannot turn in a good record of profit making, marketing, controllership,

or whatever the area of responsibility may be. Nor should one be satisfied to have a "performer" in a managerial position who cannot operate effectively as a manager. Some star performers may have succeeded by chance and not through effective managing.

Performance in Accomplishing Goals

In assessing performance, systems of appraising against verifiable preselected goals have extraordinary value. Given consistent, integrated, and understood planning designed to reach specific objectives, probably the best criteria of managerial performance relate to the ability to set goals intelligently, to plan programs that will accomplish those goals, and to succeed in achieving them. Those who have operated under some variation of this system often claim that these criteria are inadequate and that elements of luck or other factors beyond the manager's control are not excluded when arriving at any appraisal. In too many cases, managers who achieve results owing to sheer luck are promoted, and those who do not achieve the expected results because of factors beyond their control are blamed for failures. Thus, appraisal against verifiable objectives is, by itself, insufficient.

Performance as Managers

The system of measuring performance against preestablished objectives should be supplemented by an appraisal of the manager as a manager.

The system of measuring performance against preestablished objectives should be supplemented by an appraisal of the manager as a manager. Managers at any level also undertake nonmanagerial duties, and these cannot be overlooked. However, the primary purpose for which managers are hired and against which they should be measured is their performance as managers, which means they should be appraised on the basis of how well they understand and undertake the managerial functions of planning, organizing, staffing, leading, and controlling. The standards to use in this area are the fundamentals of management; but, first, appraising against performance objectives should be examined.

Appraising Managers against Verifiable Objectives

A network of meaningful and attainable objectives is basic to effective managing.

One widely used approach to managerial appraisal is the system of evaluating managerial performance against the setting and accomplishing of verifiable objectives. As was noted in Chapter 4, a network of meaningful and attainable objectives is basic to effective managing. This is simple logic, since people cannot be expected to accomplish a task with effectiveness or

efficiency unless they know what the end points of their efforts should be. Nor can any organized enterprise be expected to do so.

The Appraisal Process

Once a program of managing by verifiable objectives is operating, appraisal is a fairly easy step. Superiors determine how well managers set objectives and how well they have performed against them. In cases where appraisal by results has failed or has been disillusioning, the principal reason is that managing by objectives was seen only as an appraisal technique. The system is not likely to work if used only for this purpose. Management by objectives must be a way of managing, a way of planning, as well as the key to organizing, staffing, leading, and controlling. When this is the case, appraisal boils down to whether managers have established adequate and reasonably attainable objectives and how they have performed against them in a certain period. Look at the systems approach to management by objectives in Figure 4-4 in Chapter 4. As the figure shows, appraising is merely a last step in the entire process.

There are other questions to consider too. Were the goals adequate? Did they call for "stretched" (high but reasonable) performance? These questions can be answered only through the judgment and experience of a person's superior, although this judgment can become sharper with time and experience, and it may be even more objective if the superior can use the goals of other managers in similar positions for comparison.

In assessing the accomplishment of goals, the evaluator must take into account such considerations as whether the goals were reasonably attainable in the first place, whether factors beyond a person's control unduly helped or hindered the person in accomplishing goals, and what the reasons for the results were. The reviewer should also note whether an individual continued to operate against obsolete goals when situations changed and revised goals were called for.

Different Views on Appraisal Issues

People hold different views on performance appraisal issues. We will focus on three of them.

Subjective versus objective evaluation

There are those who still maintain that subjective rating of subordinates is sufficient. After all, it is argued, managerial performance is difficult to

evaluate. On the other side of the argument are those who maintain that an appraisal must be completely objective and only numbers count; either a person achieves the previously set objective or not.

Appraisal should focus on results, but one must be careful to avoid the "numbers game."

Appraisal should focus on results, but one must be careful to avoid the "numbers game." Figures can be manipulated to suit the individual, thus defeating the purpose of appraisal. Also, pursuing a limited number of verifiable criteria may ignore other, not formally stated objectives, as one cannot set objectives for all tasks. It is therefore not only important to look at performance figures but also at the causes of positive or negative deviations from standards, although this may involve some subjective judgment.

Judging versus self-appraisal

There is the view that managers have the authority vested in their position, and therefore they should be the sole judge in assessing the performance of their subordinates. But many managers dislike being placed in the role of a judge, especially when they are asked to evaluate subordinates on personality characteristics. Similarly, employees feel uncomfortable being judged on factors that have questionable relationships to the tasks they are doing. The other view holds that people should be asked to appraise themselves. It is realized that some subordinates may be harsher on themselves than their superior would be; but other individuals may rate themselves unreasonably high, especially if the rating influences their salary.

The management-by-objectives philosophy places emphasis on self-control and self-direction.

The management-by-objectives philosophy places emphasis on self-control and self-direction. But this presupposes that verifiable objectives have been previously set (primarily by the subordinate in conjunction with the superior), against which performance can be measured. Indeed, if this is done well, appraising is relatively easy. There should be no surprises during the appraisal meeting: subordinates know what they want to achieve and superiors know what contributions they can expect from their subordinates. Besides the comprehensive appraisal, periodic and constant monitoring of performance can uncover deviations from standards. Generally, then, subordinates should have an opportunity to exercise self-control, but the superior still has the veto power in case of controversy about the objective that is the basis for performance appraisal.

Assessing past performance versus future development

Some managers see the purpose of appraisal primarily as assessing past performance, but others focus on the developmental aspects of appraisal. The improvement orientation in the latter is toward the future.[1]

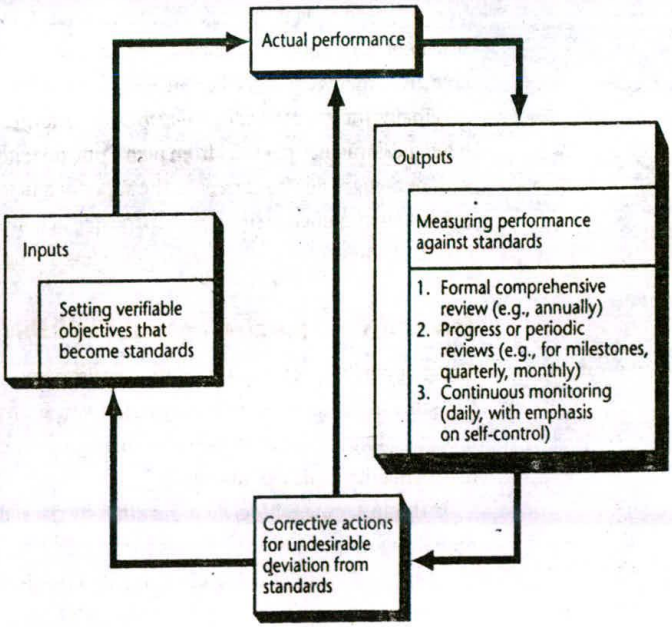
One should learn from past mistakes and translate these insights into development plans for the future.

With the emphasis on self-appraisal and responsible self-direction, the judgmental aspect in appraisal is considerably reduced. To be sure, one should learn from past mistakes, but one should use these insights for translating them into development plans for the future. Clearly, appraisal can be an excellent opportunity to emphasize a person's strengths and to prepare action plans for overcoming weaknesses, as discussed in the career planning section later in this chapter.

Three Kinds of Reviews

The simplified model of performance appraisal shown in Figure 12-1 indicates three kinds of appraisals: (1) a comprehensive review, (2) progress or periodic reviews, and (3) continuous monitoring.

FIGURE 12-1 The appraisal process



Redrawn from Heinz Weihrich, *Management Excellence: Productivity through MBO* (New York: McGraw-Hill, 1985), p. 125.

The formal comprehensive appraisal should be conducted at least once a year, with discussions taking place more frequently. It should be supplemented by frequent progress or periodic reviews as well as continuous monitoring.

There is general agreement that a *formal comprehensive appraisal* should be conducted at least once a year, but some people suggest that such discussions should take place more frequently. Some enterprises do all the reviews within a short period of time each year, while others schedule the appraisals throughout the year, often at the employment anniversary. A case could be made against any rigid schedule of annual performance reviews. Instead, it may be argued with good reason that performance should be reviewed, for example, after the completion of a major project. Obviously, no universally applicable suggestion can be made about the time frame for the formal comprehensive review. It depends on the nature of the task, past company practices, and other situational factors. Once, twice, or even three times may be appropriate for a particular organization or a person who is new in a job.

What is important is that the formal comprehensive review should be supplemented by frequent *progress or periodic reviews*. These reviews can be short and relatively informal, but they help identify problems or barriers that hinder effective performance. They also keep communication open between the superior and the subordinates. Furthermore, priorities can be rearranged and objectives can be renegotiated if warranted by changed situations. It certainly is inappropriate to pursue obsolete or even unsuitable objectives that were agreed on in an environment of uncertainties.

Finally, there is *continuous monitoring* of performance. With this system, when performance deviates from plans, one does not have to wait for the next periodic review to correct it. The superior and the subordinate discuss the situation immediately so that corrective actions can be taken at once in order to prevent a small deviation from developing into a major problem.

Strengths of Appraisal against Verifiable Objectives

The strengths of appraising against accomplishment of objectives are almost the same as those of managing by objectives. Both are part of the same process, both are basic to effective managing, and both are means of improving the quality of managing.

In the area of appraising, there are other special and important strengths. Appraising on the basis of performance against verifiable objectives has the great advantage of being operational. Appraisals are not apart from the job that managers do but are a review of what they actually did as managers.

There are always questions of how well a person did; of whether goals were missed or accomplished, and for what reasons; and of how much in

the way of goal attainment should be expected. But information about what a person has done, measured against what that individual agreed was a reasonable target, is available. This information furnishes strong presumptions of objectivity and reduces the element of pure judgment in appraisal. Besides, the appraisal can be carried on in an atmosphere in which superiors work cooperatively with subordinates rather than sitting in judgment of them.

Weaknesses of Appraisal against Verifiable Objectives

As noted in Chapter 4, there are certain weaknesses in the implementation of managing by objectives. These apply with equal force to appraisal. One of them is that it is entirely possible for persons to meet or miss goals through no effort or fault of their own. Luck often plays a part in performance. A new product's acceptance may be far beyond expectations, and its success will make a marketing manager look exceptionally good, even though the quality of the marketing program and its implementation might actually be poor. Or an unpredictable cancellation of a major military contract might make the record of a division manager look unsatisfactory. There may also be an overemphasis on output quantity and not enough attention given to the quality of the product or service.[2]

Most evaluators will say that they always take uncontrollable or unexpected factors into account in assessing goal performance, and to a very great extent they do. But it is extremely difficult to do so. In an outstanding sales record, for example, how can anyone be sure how much was due to luck and how much to competence? Outstanding performers are rated highly, at least as long as they perform. Nonperformers can hardly escape having a cloud cast over them.

With its emphasis on accomplishing operating objectives, the system of appraising against these may overlook needs for individual development. Goal attainment tends to be short-run in practice. Even if longer-range goals are put into the system, seldom are they so long-range as to allow for adequate long-term development of managers. Managers concerned primarily with results might be driven by the system to take too little time to plan, implement, and follow through with programs required for their development and that of their subordinates.

On the other hand, since managing by objectives gives better visibility to managerial needs, development programs can be better pinpointed. If individual development is to be ensured, goals in this area should be specifically set.

From an appraisal as well as an operating management point of view, perhaps the greatest deficiency of management by objectives is that it appraises operating performance only. Not only is there the question of luck, but also there are other factors to appraise, notably an individual's managerial abilities. This is why an adequate appraisal system must appraise performance as a manager as well as performance in setting and meeting goals.

Appraising Managers as Managers: A Suggested Program

The most appropriate standards to use for appraising managers as managers are the fundamentals of management.

The most appropriate standards to use for appraising managers as managers are the fundamentals of management. It is not enough to appraise a manager broadly, evaluating only performance of the basic functions of the manager; appraisal should go further.

The best approach is to utilize the basic techniques and principles of management as standards. If they are basic, as they have been found to be in a wide variety of managerial positions and environments, they should serve as reasonably good standards. As crude as they may be, and even though some judgment may be necessary in applying them to practice, they give the evaluator some benchmarks for measuring how well subordinates understand and are following the functions of managing. They are definitely more specific and more applicable for evaluation than such broad standards as work and dress habits, cooperation, intelligence, judgment, and loyalty. They at least focus attention on what may be expected of a manager as a manager. And when used in conjunction with appraisal of the performance of plans and goals, they can help remove much of the weakness in many management appraisal systems.

In brief, the appraisal program that we suggest involves classifying the functions of the manager as done in this book and then dealing with each function by a series of questions. The questions are designed to reflect the most important fundamentals of managing in each area. Although the whole list of 73 key questions, the form used, the system of ratings, and the instructions for operating the program are too extensive to be treated in this book, sample "checkpoints" in the areas of planning and organizing are presented in Table 12-1.

Semantics has always been a problem in management. Therefore, it is wise to use a standard book on management (such as this one) and refer to the pages that correspond to the questions. This approach leads to a fair degree of managerial development.

TABLE 12-1 Sample questions for appraising managers as managers

Planning
• Does the manager set for the department both short- and long-term goals in verifiable terms that are related in a positive way to those of the superiors and of the company?
• In choosing from among alternatives, does the manager recognize and give primary attention to those factors that are limiting or critical to the solution of a problem?
• Does the manager check plans periodically to see if they are still consistent with current expectations?
Organizing
• Does the manager delegate authority to subordinates on the basis of results expected of them?
• Does the manager refrain from making decisions in that area once authority has been delegated to subordinates?
• Does the manager regularly teach subordinates, or otherwise make sure that they understand, the nature of line and staff relationships?

Source: Harold Koontz and Heinz Weihrich, *Measuring Managers: A Double-barreled Approach* (New York: AMACOM, 1981).

Managers are rated on how well they perform the activities. The scale used is from 0 for "inadequate" to 5 for "superior." To give the numerical ratings more rigor, each rating is defined. For example, "superior" means "a standard of performance which could not be improved under any circumstances or conditions known to the rater."

To further reduce subjectivity and to increase the discrimination between performance levels, the program requires that (1) in the comprehensive annual appraisal, incident examples be given to support certain ratings; (2) the ratings be reviewed by the superior's superior; and (3) the raters be informed that their own appraisal will depend in part on how well they discriminate on the ratings of performance levels when evaluating their subordinates. Obviously, objectivity is enhanced by the number and the specificity of the checkpoint questions.

Advantages of the Program

Experience with this program in a multinational company showed certain advantages. By focusing on the essentials of management, this method of evaluation gives operational meaning to what management really is. Also, the use of a standard reference text for interpretation of concepts and terms removes many of the semantic and communication difficulties so

commonly encountered. Such things as variable budgets, verifiable objectives, staff, functional authority, and delegation take on consistent meaning. Likewise, many management techniques become uniformly understood.

The system, furthermore, has proved to be a tool for management development. In many cases, it has brought to managers' attention certain basics that they may have long disregarded or not understood. In addition, it has been found useful in pinpointing areas in which weaknesses exist and to which development should be directed. Finally, as intended, the program acts as a supplement to, and a check on, appraisal of managers' effectiveness in setting and achieving goals. If a manager has a record of outstanding performance in goal accomplishment but is found to be a less-than-average manager, those in charge will look for the reason. Normally, one would expect a truly effective manager to be effective also in meeting goals.

Weaknesses of the Program

There are, however, a number of weaknesses or shortcomings in the approach. It applies only to managerial aspects of a given position and not to such technical qualifications as marketing or engineering abilities that might also be important. These, however, can be weighed on the basis of goals selected and achieved. There is also the apparent complexity of the 73 checkpoints; rating on all of them does take time, but the time is well spent.

Perhaps the major shortcoming in appraising managers as managers is the subjectivity involved. Some subjectivity in rating each checkpoint is unavoidable. However, the program still has a high degree of objectivity and is far more objective than appraisal of managers only on the broader areas of the managerial functions. At least the checkpoints are specific and pertain to the essentials of managing.

A Team Evaluation Approach[3]

More recently, another approach to performance appraisal has been introduced. The criteria selected for evaluation are in part similar to the ones mentioned above and include planning, decision making, organizing, coordinating, staffing, motivating, and controlling. But other factors, such as selling skills, may also be included.

The appraisal process involves the person being evaluated and consists of the following steps:

- Selection of job-related criteria
- Development of examples of observable behavior
- Selection of four to eight raters (peers, associates, other supervisors, and, naturally, the immediate superior)
- Preparation of the rating forms applicable to the job
- Completion of the forms by the raters
- Integration of the various ratings
- Analysis of the results and preparation of the report

This approach has been used not only for appraisal but also for the selection of people for promotion and for personnel development, and even for dealing with alcoholism.

The advantages suggested by the originators of this approach include a rather high degree of accuracy in appraising people by obtaining several inputs rather than input from the superior only. The program can be used to identify raters' bias (e.g., rating consistently high or low, or giving such ratings to certain groups of people, such as women or people of minority groups). The persons being rated apparently would consider this approach quite fair, since they are involved in selecting the evaluation criteria as well as the raters. It also allows comparison of individuals with each other. Although this approach has been used by a variety of enterprises, further assessment seems necessary.

Rewards and Stress of Managing

Managers are different: they have different needs, desires, and motives. The essentials of motivation will be discussed in Chapter 14; the concern here is with some of the general and financial rewards, as well as the stressful aspects, of managing.

Rewards of Managing: General Aspects

Since managerial candidates differ widely in age, economic position, and level of maturity, their needs and wants vary, but they usually include opportunity, power, and income. Most managerial candidates desire the opportunity for a progressive career that provides depth and breadth of managerial experience. Related to this is the challenge found in meaningful work. Most people, but perhaps managers in particular, want to feel that they have the power to make a significant contribution to the aims of an enterprise and even to society.

In addition, managers want to be, and should be, rewarded for their contributions, although the size of financial rewards has been criticized.

Pay for Performance

www.ge.com

There is probably no other item as controversial as the relationship between appraisal of performance and pay. At General Electric (GE), workers get paid for performance: they are paid bonuses when they achieve challenging goals instead of according to a person's title or the length of service. Such an approach requires that the goals be clear and people know what is expected of them. Also, it must be explained to employees what the total compensation is, including fringe benefits. At one university, for example, faculty members get a benefit statement that shows not only the annual salary but also the university's contribution to the health plan, the faculty assistance program, life insurance, dental insurance, long-term disability insurance, worker's compensation, travel accident insurance, Social Security tax, and the university's retirement contribution.

www.gemedicalsystems.com

The reward should be timely. This means that it should be given shortly after the work well done. The GE Medical Systems group, for example, has a Quick Thanks program that lets employees nominate a colleague for an exceptional performance. The $25 gift certificate can be used in selected stores and restaurants. The positive psychological effect may be even more important than the monetary reward.

An increase in salary can hardly ever be reversed. A bonus, on the other hand, can be made contingent on outstanding performance. Steven Kerr at GE recommends variable compensation based on performance, but he also recognizes that this may not be suitable in some countries. A cash bonus could be considered a bribe in Japan because it may be seen as paying for work that is a part of the job anyway. Also, some employees may prefer an extra vacation instead of a cash payment. Therefore, cultural differences should be taken into account when using variable compensation.

International Perspective

Pay for Performance at Lincoln Electric[4]

www.lincolnelectric.com

Lincoln Electric's incentive plan has been the model for other companies for years. Yet even its successful pay-for-performance system is beginning to change.

The family-controlled company, making welding equipment and supplies, has been known for its unique compensation system. Its 3,400 employees are paid for work, with no pay for holidays or sick leave; they are considered self-

managing entrepreneurs. Twice a year, they are held accountable for their output, quality, cooperation, dependability, and ideas. Their average hourly pay is only slightly above the average manufacturing wage in the area around Cleveland, but their bonuses averaged 56 percent of annual wages in 1995. Substantial? Yes, but lower than in some previous years. Because of the bonuses, the pay differential among workers is substantial, ranging from about $32,000 to more than $100,000.

The pressure to perform is great. Yet the turnover rate is less than 4 percent among those who survived at least the first 180 days in the company. When Lincoln Electric lost money in 1992 and 1993 because of an unwise foreign acquisition, it borrowed money to pay bonuses to its workers.

But things began to change somewhat when the company made public offerings in 1996 so that outsiders gained a 40 percent stake in the firm. While the unique bonus system is to remain, the bonuses may be reduced. With global competition, the company expects to modernize its facilities, expand abroad, and recruit more outsiders.

Stress in Managing[5]

Stress An adaptive response, mediated by individual differences and/or psychological processes, that is a consequence of any external action, situation, or event that places excessive psychological and/or physical demands on a person.

Stress is a very complex phenomenon. It is therefore no surprise that there is no commonly accepted definition. A widely used working definition is an adaptive response, mediated by individual differences and/or psychological processes, that is a consequence of any external (environmental) action, situation, or event that places excessive psychological and/or physical demands on a person.

Hans Selye, probably the leading authority on the concept of stress, describes stress as "the rate of all wear and tear caused by life."[6] There are many physical sources of stress, such as work overload, irregular work hours, loss of sleep, loud noises, bright light, and insufficient light. Psychological sources of stress may be due to a particular situation, such as a boring job, inability to socialize, lack of autonomy, responsibility for results without sufficient authority, unrealistic objectives, role ambiguity or role conflict, or a dual-career marriage. But what might be stressful to one person may be less so to another; people react differently to situations.

Stress can have various effects on the individual as well as on the organization.[7] There are the physiological effects that may be linked to a variety of illnesses. Then there are psychological effects such as burnout or boredom. Various kinds of behavior, such as drug and alcohol abuse, inordinate food consumption, accidents, or withdrawal from the stressful

situation (absenteeism, excessive labor turnover), may be a reaction to stress. Clearly, not only does the individual suffer, but the organization may also be affected by the turnover or impaired decision making of its managers and nonmanagers alike.

Individuals and organizations have attempted to deal with stress in various ways. Individuals may try to reduce stress through better time management, healthful nutrition, exercise, career planning, a change in jobs, promotion of psychological health, relaxation, meditation, and prayer. Organizations may provide counseling or recreation facilities or may improve the job design by matching the person with the job.

Fitting the Needs of the Individual to the Demands of the Job

Managing, then, offers rewards but also involves stress. An individual aspiring to a managerial position should evaluate both the advantages and the disadvantages of managing before pursuing this career. A proper fit between individual needs and the demands of the task will benefit both the individual and the enterprise. Career management will help to achieve this fit.

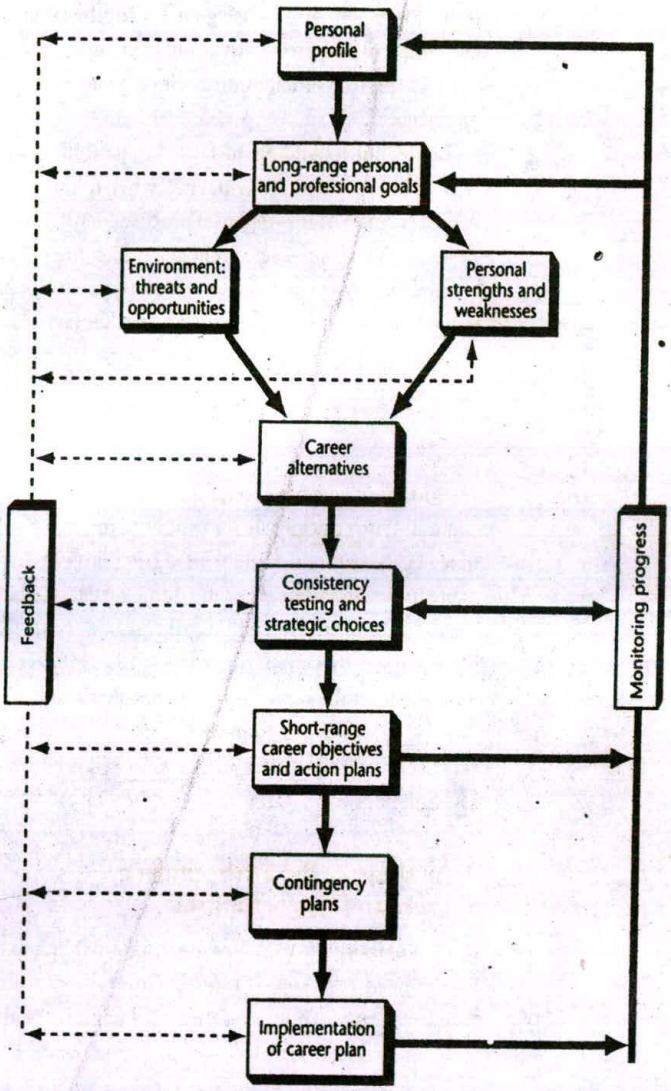
Formulating the Career Strategy[8]

The appraisal of performance should identify the strengths and weaknesses of an individual; this identification can be the starting point for a career plan. The personal strategy should be designed to utilize strengths and overcome weaknesses in order to take advantage of career opportunities. Although there are different approaches to career development,[9] it is considered here as a process of developing a personal strategy that is conceptually similar to an organizational strategy. This process is summarized in Figure 12-2 and elaborated below.

1. Preparation of a Personal Profile

One of the most difficult tasks is gaining insight into oneself, yet this is an essential first step in developing a career strategy. Managers should ask themselves: Am I an introvert or an extrovert? What are my attitudes toward time, achievement, work, material things, and change? The answers to these and similar questions and a clarification of values will help in determining the direction of the professional career.

FIGURE 12.2 Formulation of a career strategy



2. Development of Long-Range Personal and Professional Goals

No airplane would take off without a flight plan including a destination. Yet how clear are managers about the direction of their lives? People often resist career planning because it involves making decisions. By choosing

one goal, a person gives up opportunities to pursue others; if an individual studies to become a lawyer, he or she cannot become a doctor at the same time. Managers also resist goal setting because uncertainties in the environment cause concern about making commitments. Furthermore, there is the fear of failing to achieve goals because failure is a blow to one's ego.

But by understanding the factors that inhibit goal setting, one can take steps to increase commitment. First, when the setting of performance goals becomes a part of the appraisal process, identifying career goals is easier. Besides, one does not set career goals all at once. Rather, goal setting is a continuing process that allows flexibility; professional goals can be revised in light of changing circumstances. Another factor that reduces resistance to goal setting is the integration of long-term aims with the more immediate requirement for action. For example, the aim of becoming a doctor makes one accept the study of boring subjects that are necessary for the medical degree.

How far in advance should one plan? The answer may be found in the commitment principle. It states that planning should cover a period of time necessary for the fulfillment of commitments involved in the decision made today. Therefore, the time frame for career planning will differ with the circumstances. For example, if a person wants to become a professor, it is necessary to plan for university studies of seven to nine years. On the other hand, if the career goal is to become a taxi driver, the time span is much shorter. At any rate, the long-term aim has to be translated into short-term objectives. Before this is done, it is necessary to make a careful assessment of the environment, including its threats and opportunities.

3. Analysis of the Environment: Threats and Opportunities

In the analysis of the environment, internal and external, many diverse factors need to be taken into account. They include economic, social, political, technological, and demographic factors; they also include the labor market, competition, and other factors relevant to a particular situation. For example, joining an expanding company usually provides more career opportunities than working for a mature company that is not expected to grow. Similarly, working for a mobile manager means a higher probability that the position of the superior will become vacant, or one might "ride on the coattails" of a competent mobile superior by following him or her through a series of promotions up the organizational hierarchy.

At any rate, successful career planning requires a systematic scanning of the environment for opportunities and threats.



Scanning for Opportunities

In the search for opportunities, many sources can be consulted. For example, *Fortune* magazine lists the 100 best U.S. companies to work for.[10] They include the Container Store (retailer of boxes), Microsoft (software giant), Agilent Technologies (Hewlett-Packard spinoff), Deloitte & Touche (professional services firm), Charles Schwab (discount brokerage), Intel (microprocessor manufacturer), Sun Microsystems (computer systems manufacturer), Lands' End (catalog seller of clothes), and many others.

Fortune also lists the most admired companies in various areas. In the "Quality of Management" category, General Electric, Walgreen, and Citigroup ranked high.[11] In the "Employee Talent" group, Intel, General Electric, and Walgreen are some of the top firms.

Among *Fortune*'s global most admired companies are Nokia (Finland), Toyota Motor (Japan), Sony (Japan), Néstle (Switzerland), Honda Motor (Japan), BP (Britain), and Singapore Airlines (Singapore).[12]

One has to be concerned not only about the present but also about the future environment. This requires forecasting. Since there are a great many factors that need to be analyzed, planning one's career necessitates being selective and concentrating on those factors critical to personal success.

4. Analysis of Personal Strengths and Weaknesses[13]

For successful career planning, the environmental opportunities and threats must be matched with the strengths and weaknesses of individuals. Capabilities may be categorized as technical, human, conceptual, or design. As Figure 1-2 in Chapter 1 illustrates, the relative importance of these skills differs for the various positions in the organizational hierarchy, with technical skills being very important on the supervisory level, conceptual and design skills being crucial for top managers, and human skills being important at all levels.

5. Development of Strategic Career Alternatives

In developing a career strategy, one usually has several alternatives. The most successful strategy would be to build on one's strengths to take advantage of opportunities. For example, if a person has an excellent

knowledge of computers and many companies are looking for computer programmers, he or she should find many opportunities for a satisfying career. On the other hand, if there is a demand for programmers and if an individual is interested in programming but lacks the necessary skills, the proper approach would be a development strategy to overcome the weakness and develop the skills in order to take advantage of the opportunities.

It may also be important to recognize the threats in the environment and develop a strategy to cope with them. If a person with excellent managerial and technical skills is working in a declining company or industry, the appropriate strategy might be to find employment in an expanding firm or in a growing industry.

6. Consistency Testing and Strategic Choices

In developing a personal strategy, one must realize that the rational choice based on strengths and opportunities is not always the most fulfilling alternative. Although one may have certain skills demanded in the job market, a career in that field may not be congruent with personal values or interests. For example, a person may prefer dealing with people to programming computers. Some may find great satisfaction in specialization, while others prefer to broaden their knowledge and skills.

Strategic choices require trade-offs. Some alternatives involve high risks, others low risks. Some choices demand action now; other choices can wait. Careers that were glamorous in the past may have an uncertain future. Rational and systematic analysis is just one step in the career-planning process, for a choice also involves personal preferences, personal ambitions, and personal values.

7. Development of Short-Range Career Objectives and Action Plans

So far, concern has centered on career direction. But the strategy has to be supported by short-term objectives and action plans, which can be a part of the performance appraisal process. Thus, if the aim is to reach a certain management position that requires a Master of Business degree, the short-term objective may be to complete a number of relevant courses. Here is an example of a short-term verifiable objective: to complete the course Fundamentals of Management by May 30 with a grade of A. This objective is measurable, as it states the task to be done, the deadline, and the quality of performance (the grade).

Objectives often must be supported by action plans. Continuing with the example, the completion of the management course may require preparing a schedule for attending classes, doing the homework, and obtaining the understanding and support of the spouse for sacrificing family time to attend the course. It is obvious that the long-term strategic career plan needs to be supported by short-term objectives and action plans.

8. Development of Contingency Plans

Career plans are developed in an environment of uncertainty, and the future cannot be predicted with great accuracy. Therefore, contingency plans based on alternative assumptions should be prepared. While one may enjoy working for a small, fast-growing venture company, it may be wise to prepare an alternative career plan based on the assumption that the venture may not succeed.

9. Implementation of the Career Plan

Career planning may start during the performance appraisal. At that time, the person's growth and development should be discussed. Career goals and personal ambitions can be considered in selecting and promoting and in designing training and development programs.

10. Monitoring Progress

Monitoring is the process of evaluating progress toward career goals and making necessary corrections in the aims or plans. An opportune time for assessing career programs is during the performance appraisal. This is the time not only to review performance against objectives in the operating areas but also to review the achievement of milestones in the career plan. In addition, progress should be monitored at other times, such as at the completion of an important task or project.



Career Planning in the New Economy

The traditional career model in which people prepared plans for working themselves up in a single organization needs to be modified. Today, people change jobs more frequently or even may work from their homes. There are more job opportunities. This is especially true for California's high-tech firms in the Silicon Valley with its rapidly changing business environment. While there are many opportunities in such an environment, job insecurity also increases. It

is not unusual for a 32-year-old to have worked for nine different firms. California workers stay a medium of about three years with a company. Job seekers there are better informed as the Internet provides data on job openings as well as pay scales. It has been estimated that the turnover rate in the Silicon Valley is almost 20 percent a year.

But the Silicon Valley is not representative of America in general. Generally, Americans work longer hours than people in most European countries, such as France, Germany, and Sweden. On the other hand, Japanese workers put in similar hours as the Americans. The Japanese practice of lifelong employment is beginning to change, replaced by job insecurity. Furthermore, the use of temporary workers has also increased in Japan.

Perhaps more than ever before, developing a career strategy is important. Have a clear goal in mind, but be flexible and find alternative ways to reach it. Many people switch from big manufacturing firms to small service companies during the course of their career. In addition, it is essential to develop new skills needed for the new economy, join professional organizations, and invest in education and reeducation because the rapid changes in the work environment demand new skills.

Strategy for Dual-Career Couples[14]

An effective career strategy requires that consideration be given to the career of the spouse. Dual-career couples, with both partners working, sometimes have to make very stressful choices. For example, if both partners have successful careers, the opportunity for a promotion that requires relocation poses a particularly painful situation. Some companies are accommodating the special needs of dual-career couples by having a flexible approach to transfers that involve relocation, considering the needs of both partners in career planning, helping to find employment for the spouse either within the company or outside, and providing maternity leave and day-care services for children. With the large number of married women in the work force, an increasing number of companies have recognized the stressful situation of dual-career couples and incorporated more flexibility in their policies, in career planning, and in personnel selection, placement, and promotion.

Summary

Appraisal is essential for effective managing. It should measure performance in achieving goals and plans as well as performance as a manager. An

effective method is to appraise managers against verifiable objectives. This approach is operational, related to the manager's job, and relatively objective. Still, a person may perform well (or badly) because of luck or factors beyond his or her control. Therefore, the management-by-objectives approach should be supplemented by appraisal of managers as managers, which assesses how well they perform their key managerial activities.

There are three kinds of reviews: (1) the formal comprehensive appraisal, (2) progress or periodic reviews, and (3) continuous monitoring. In a suggested appraisal program, key managerial activities are presented as checklist questions and grouped under the categories of planning, organizing, staffing, leading, and controlling.

Since managers differ greatly, they look for different rewards, such as opportunity and income. The job of a manager is also stressful, and this can affect the individual as well as the organization. Therefore, various ways of coping with stress have evolved.

Career planning can be effectively integrated with performance appraisal. Although the specific steps in developing a career strategy may vary, the process is similar to developing an organizational strategy. Since dual-career couples are quite common today, an effective career strategy must include consideration of the spouse's career.

KEY IDEAS AND CONCEPTS FOR REVIEW

Three kinds of reviews
Appraisal against verifiable objectives
Appraising managers as managers
Team evaluation approach
Rewards of managing
Stress in managing
Ten steps in formulating a career strategy
Career strategy for dual-career couples

FOR DISCUSSION

1. Do you think that managers should be appraised regularly? If so, how?
2. Many firms evaluate managers on such personality factors as aggressiveness, cooperation, leadership, and attitude. Do you think this kind of rating makes sense?
3. An argument has been made in this book for appraising managers on their ability to manage. Should anything more be expected of them?
4. How do you feel about an appraisal system based on results expected and realized? Would you prefer to be appraised on this basis? If not, why not?
5. On what basis should your performance in college be appraised?
6. What would you say to a student who tells you that he studied at least four hours every day in preparation for the midterm examination and still got only a C?

7. Describe the most rewarding and most stressful aspects of your job or your college experience.
8. What is your career goal? Have you developed a plan to achieve your goal? If not, why not?

EXERCISES/ACTION STEPS

1. Interview two managers. Ask them what criteria are used for their performance appraisal. Are the criteria verifiable? Do these managers think that the performance evaluation measures their performance in a fair manner?
2. Develop a career plan for yourself. Identify a personal profile for yourself and state your long-range personal and professional goals. What are your strengths and weaknesses? Follow the steps explained in this chapter to develop a comprehensive strategic career plan for yourself.

INTERNET RESEARCH

1. Access *Fortune* magazine's Web site and read on three topics in the "Careers" section. How can these sources help you in developing a career strategy?
2. Search the Internet for "performance appraisal." What criteria are used for evaluating performance? On what criteria would you like to be evaluated as a student, a subordinate, or a manager?

International

Case Foresite Incorporated

Carl Fisher was the president of Foresite, Inc., a multidivisional company in the high-tech field. The large company was well known for its technical innovations and the high caliber of its scientists and engineers. But competition was on the rise, and the president realized that the success of the firm depended on effective management. It was felt that planning was one of the very weak areas where improvement was needed. Therefore, Fisher invited John Weigand, a management consultant, to "look at his company" and explore alternative ways of improving the organization. At the first meeting, considerable trust developed between Fisher and Weigand; and in the course of the discussion, it was agreed that any major organizational intervention should be based on facts—data collected from the organization itself. Weigand began by interviewing the heads of three major departments—Ms. Albani, Mr. Johnson, and Mr. Baker—to get an overview of the firm and the quality of its managers. The president agreed, tentatively, to a long-range systematic organization development effort. However, the immediate problem was making selections for some key managerial positions.

Managers have to be well versed in all managerial functions, but at this point it was felt that aspects of planning were particularly important. With the guidance of the consultant, Carl Fisher assessed the planning activities of three managers considered for two positions: head of the corporate planning group and division manager. He found useful the appraisal approach developed by Harold Koontz and described in this text.

The instructions for rating the candidates for the positions were as follows: In rating each question, use the following marks (for each level of rating, use only one of two numbers given, such as 4.0 or 4.5 for Excellent; use no other decimals). The possible marks were the following:

X = Not applicable to position

N = Do not know accurately enough for rating

5.0 = *Superior:* a standard of performance which could not be improved under any circumstances or conditions known to the rater

4.0 or 4.5 = *Excellent:* a standard of performance which leaves little of any consequence to be desired

3.0 or 3.5 = *Good:* a standard of performance above the average and meeting all normal requirements of the position

2.0 or 2.5 = *Average:* a standard of performance regarded as average for the position involved and the people available

1.0 or 1.5 = *Fair:* a standard of performance which is below the normal requirements of the position but may be regarded as marginally or temporarily acceptable

0.0 = *Inadequate:* a standard of performance regarded as unacceptable for the position involved

The results of the evaluations are shown in the table on the next page.

To gain greater confidence in his judgment, Fisher asked two of his vice presidents to also rate the three candidates. Their evaluations were consistent with his appraisal.

Questions

Assume that all three candidates have similar technical and managerial skills besides those shown in the table and that their performance results are similar:

1. Whom would you select for the position of head of the corporate planning staff? Why?
2. Whom would you choose for the position of division manager?
3. What other factors would you consider in making the selection?
4. What training and development would you recommend for each of the managers?

Performance as a manager

Planning	Florence Albani	Ted Johnson	George Baker
1. Does the manager set for the department both short- and long-term goals in verifiable terms (qualitative or quantitative) that are related in a positive way to those of the superior and of the company?	N	3.5	4.5
2. To what extent does the manager make sure that the goals of the department are understood by those who report to him or her?	3.0	3.0	4.0
3. How well does the manager assist those who report to him or her in establishing verifiable and consistent goals for their operations?	3.5	3.0	4.5
4. To what extent does the manager utilize consistent and approved planning premises in planning and see that subordinates do likewise?	4.5	3.5	4.0
5. Does the manager understand the role of company policies in decision making and ensure that subordinates do likewise?	4.5	4.0	4.0
6. Does the manager attempt to solve the problems of subordinates by policy guidance, coaching, and encouragement of innovation, rather than by rules and procedures?	4.0	3.0	4.5
7. Does the manager help subordinates get the information they need to assist them in their planning?	4.5	3.5	4.0
8. To what extent does the manager seek out applicable alternatives before making a decision?	4.0	4.0	3.5
9. In choosing from among alternatives, does the manager recognize and give primary attention to those factors that are limiting, or critical, to the solution of a problem?	4.0	N	3.5
10. In making decisions, how well does the manager bear in mind the size and length of commitment involved in each decision?	4.5	4.0	3.5
11. Does the manager check plans periodically to see if they are still consistent with current expectations?	3.0	4.5	4.0
12. To what extent does the manager consider the need for, as well as the cost of, flexibility in arriving at a planning decision?	4.0	4.5	4.5
13. In developing and implementing plans, does the manager regularly consider long-range implications of the decisions along with the short-range results expected?	4.0	4.5	4.0
14. When the manager submits problems to the superior, or when a superior seeks help in solving problems, does the manager submit considered analyses of alternatives (with advantages and disadvantages) and recommended suggestions for solution?	4.0	4.0	3.5
Total number of questions on which ratings are made	13	13	14
Total score of questions given ratings	51.5	49.0	56.0
Average of ratings in Planning	4.0	3.8	4.0

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Chapter -13

Managing Change through Manager and Organization Development

CHAPTER OBJECTIVES

After studying this chapter, you should be able to:

1. Distinguish between manager development, managerial training, and organization development.
2. Discuss the manager development process and training.
3. Describe the various approaches to manager development.
4. Identify changes and sources of conflict and show how to manage them.
5. Describe the characteristics and process of organization development.
6. Understand the learning organization.

Manager development The use of long-term, future-oriented programs to develop a person's ability in managing.

Managerial training The use of mostly short-term programs that facilitate the learning process to help managers do their jobs better.

Organization development A systematic, integrated, and planned approach to improving the effectiveness of groups of people and of the whole organization or a major organizational unit.

This chapter deals with change. First, the focus is on the change of individuals, specifically manager development and training. However, people do not operate in isolation. Consequently, in the second part of this chapter, the emphasis shifts to groups of individuals and organizations.

Excellent executives look to the future and prepare for it. One important way to do this is to develop and train managers so that they are able to cope with new demands, new problems, and new challenges. Indeed, executives have a responsibility to provide training and development opportunities for their employees so that they can reach their full potential.

The term **manager development** refers to long-term, future-oriented programs and the progress a person makes in learning how to manage. **Managerial training**, on the other hand, pertains to the programs that facilitate the learning process and is mostly a short-term activity to help managers do their jobs better. In this book, **organization development** is a systematic, integrated, and planned approach to improving the effectiveness of groups of people and of the whole organization or a major organizational unit. Organization development uses various techniques for identifying and solving problems.

Essentially, then, organization development focuses on the total organization (or a major segment of it), while manager development concentrates on individuals. These approaches support each other and should be integrated to improve the effectiveness of both the managers and the enterprise.

Manager Development Process and Training

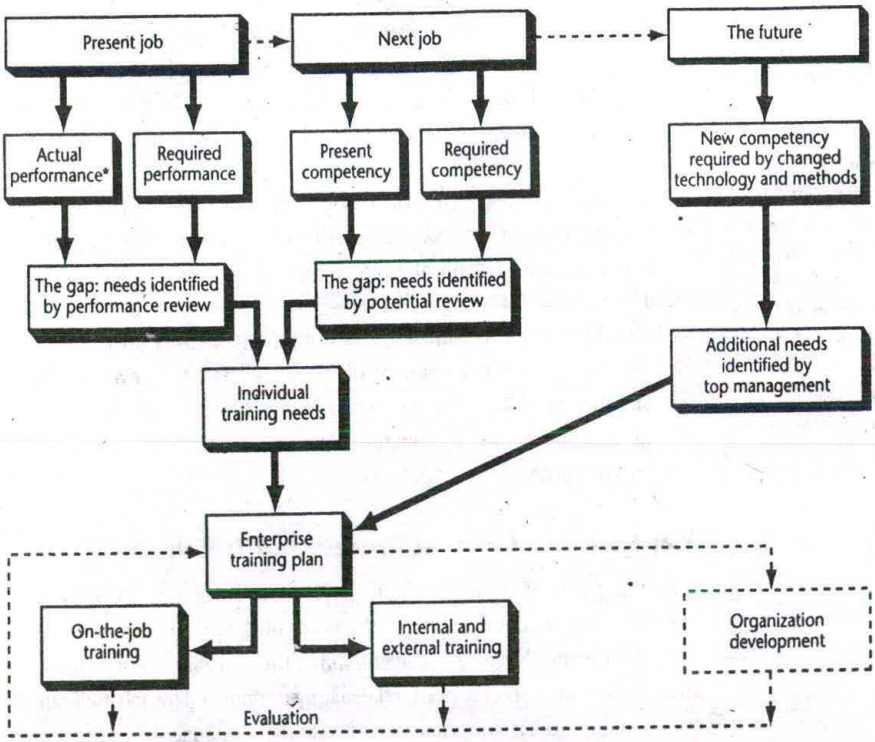
Before specific training and development programs are chosen, three kinds of needs must be considered. First, the needs of the organization include such items as the objectives of the enterprise, the availability of managers, and turnover rates. Second, needs related to operations and the job itself can be determined from job descriptions and performance standards. Third, data about individual training needs can be gathered from performance appraisals, interviews with the jobholder, tests, surveys, and career plans for individuals. Let us look more closely at the steps in the manager development process, focusing first on the present job, then on the next job in the career ladder.

and finally on the long-term future needs of the organization. The steps in manager development are depicted in Figure 13-1.

Present Job

Manager development and training must be based on a needs analysis derived from a comparison of actual performance and behavior with required performance and behavior. Such an analysis is shown in Figure 13-2. A district sales manager has decided that 1,000 units is a reasonable sales expectation, but the actual sales are only 800, which is 200 units short of the target. Analysis of the deviation from the target might indicate that the manager lacks the knowledge and skills for making a forecast and that

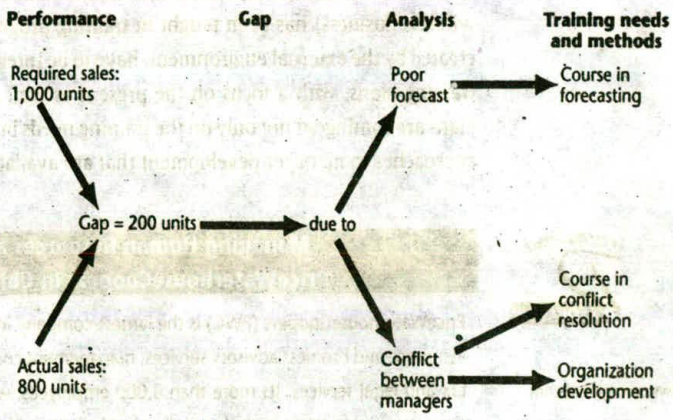
FIGURE 13-1 Manager development process and training



* This includes performance measured against verifiable objectives and performance in carrying out key managerial activities.

Adapted from John W. Humble, *Improving Business Results* [Maidenhead, England: McGraw-Hill Book Company (UK), Ltd., 1968].

FIGURE 13-2 Analysis of training needs



conflict between subordinate managers hinders effective teamwork. On the basis of this analysis, training needs and methods for overcoming the deficiencies are identified. Consequently, the district sales manager enrolls in courses in forecasting and conflict resolution. Furthermore, organization development efforts are undertaken to facilitate cooperation among organizational units.

Next Job

As shown in Figure 13-1, a similar process is applied in the identification of the training needs for the next job. Specifically, present competency is compared with the competency demanded by the next job. A person who has worked mainly in production may be under consideration for a job as a project manager. This position requires training in functional areas such as engineering, marketing, and even finance. This systematic preparation for a new assignment certainly is a more professional approach than simply thrusting a person into a new work situation without training.

Future Needs

Progressive organizations go one step further in their training and development approach: they prepare for the more distant future. This requires that they forecast what new competencies will be demanded by changing technology and methods. For example, energy shortages may again occur, and this requires that managers be trained not only in the technical aspects of energy conservation but also in energy-related long-range planning

and creative problem solving. In the new millennium, training in e-business is essential. In Europe especially, the impact of m-business (mobile and wireless business) has been taught in training programs. These changes, created by the external environment, have to be integrated into enterprise training plans, with a focus on the present as well as the future. These plans are contingent not only on the training needs but also on the various approaches to manager development that are available.



www.pwcglobal.com

Managing Human Resources at PriceWaterhouseCoopers in China[1]

PriceWaterhouseCoopers (PWC) is the largest company in China that provides assurance and business advisory services, management consulting services, and tax and legal services. Its more than 3,000 employees, with a wealth of local experience, help international as well as local clients with business solutions.

The management of human resources is of critical importance for the success of the company. Great emphasis is placed on recruiting in schools. Selecting from among the many candidates is a thorough process that includes close contacts with university personnel who can identify potential candidates. Moreover, résumés posted on Web sites are also scanned for qualified candidates, who have to show proficiency in the English language.

The selection process includes initial interviews, workshop exercises, additional interviews, and the hiring decision. After being hired, the recruits have to undergo extensive training that includes lectures, audiovisual material, simulations, and self-study programs. Performance and progress are assessed through the appraisal process. The company employs behaviorally anchored rating scales as well as other instruments which focus on specific, measurable objectives that are agreed upon by the superior and the subordinate.

The PWC approach to the management of human resources illustrates how managerial practices can be transferred through global companies by the use of modern management tools.

Approaches to Manager Development: On-the-Job Training

Many opportunities for development can be found on the job. Trainees can learn as they contribute to the aims of the enterprise. However, because this approach requires competent higher-level managers who can teach and coach trainees, there are limitations to on-the-job training.

Planned Progression

Planned progression gives managers a clear idea of their path of development.

Planned progression is a technique that gives managers a clear idea of their path of development. Managers know where they stand and where they are going. For example, a lower-level manager may have available an outline of the path from superintendent to works manager and eventually to production manager. The manager then knows the requirements for advancement and the means of achieving it. Unfortunately, there may be an overemphasis on the next job instead of on good performance of present tasks. Planned progression may be perceived by trainees as a smooth path to the top, but it really is a step-by-step approach which requires that tasks be done well at each level.

Job Rotation

Job rotation is intended to broaden the knowledge of managers or potential managers in different enterprise functions.

The purpose of job rotation is to broaden the knowledge of managers or potential managers. Trainees learn about the different enterprise functions by rotating into different positions. They may rotate through (1) nonsupervisory work, (2) observation assignments (observing what managers do, rather than actually managing), (3) various managerial training positions, (4) middle-level "assistant" positions, and even (5)various managerial positions in different departments such as production, sales, and finance.

The idea of job rotation is good, but there are difficulties. In some job rotation programs, participants do not actually have managerial authority. Instead, they observe or assist line managers, and they do not have the responsibility they would have if they were actually managing. Even in rotations to managerial positions, the participants in the training program may not remain long enough in each position to prove their future effectiveness as managers. Furthermore, when the rotation program is completed, there may be no suitable positions available for the newly trained managers. Despite these drawbacks, if both managers and trainees understand the inherent difficulties, job rotation has positive aspects and should benefit trainees.

Creation of "Assistant-to" Positions

"Assistant-to" positions are often created to broaden the viewpoints of trainees through working closely with experienced managers.

"Assistant-to" positions are frequently created to broaden the viewpoints of trainees by allowing them to work closely with experienced managers who can give special attention to the development needs of trainees. Managers can, among other things, give selected assignments to test the

judgment of trainees. As in job rotation, this approach can be very effective when superiors are also qualified teachers who can guide and develop trainees until they are ready to assume full responsibilities as managers.

Temporary Promotions

Temporary appointment to acting manager is used to cover the responsibilities of the absent manager.

Individuals are frequently appointed as "acting" managers when, for example, the permanent manager is on vacation, is ill, or is making an extended business trip, or even when a position is vacant. Thus, temporary promotions are a developmental device as well as a convenience to the enterprise.

When the acting manager is given the authority to make decisions and to assume full responsibility, the experience can be valuable. On the other hand, if such a manager is merely a figurehead, makes no decisions, and really does not manage, the developmental benefit may be minimal.

Committees and Junior Boards

Committees and junior boards, also known as multiple management, give trainees the opportunity to interact with experienced managers.

Committees and junior boards, also known as multiple management, are sometimes used as developmental techniques. These give trainees the opportunity to interact with experienced managers. Furthermore, trainees, usually from the middle but sometimes from the lower level, become acquainted with a variety of issues that concern the whole organization. They learn about the relationships between different departments and the problems created by the interaction of these organizational units. Trainees may be given the opportunity to submit reports and proposals to the committee or the board and to demonstrate their analytical and conceptual abilities. On the other hand, trainees may be treated in a paternalistic way by senior executives and may not be given opportunities to participate, an omission that might frustrate and discourage them. The program would then be detrimental to their development.

Coaching

Coaching must be done in a climate of confidence and trust, with the aim of developing subordinates' strengths and overcoming their weaknesses.

On-the-job training is a never-ending process. A good example of on-the-job training is athletic coaching. To be effective, coaching, which is the responsibility of every line manager, must be done in a climate of confidence and trust between the superior and the trainees. Patience and wisdom are required of superiors, who must be able to delegate authority and give recognition and praise for jobs well done. Effective coaches will develop the strengths and potentials of subordinates and help them

overcome their weaknesses. Coaching requires time; but if done well, it will save time and money and will prevent costly mistakes by subordinates. Thus, in the long run, it will benefit all—the superior, the subordinates, and the enterprise.

Approaches to Manager Development: Internal and External Training[2]

As indicated in Figure 13-1, besides on-the-job training, there are many other approaches to manager development. These programs may be conducted within the company, or they may be offered externally by educational institutions and management associations.

Conference Programs

Conference programs expose managers or potential managers to the ideas of speakers who are experts in their field.

Conference programs may be used in internal or external training. They expose managers or potential managers to the ideas of speakers who are experts in their field. Within the company, employees may be instructed in the history of the firm and its purposes, policies, and relationships with customers, consumers, and other groups. External conferences may vary greatly, ranging from programs on specific managerial techniques to programs on broad topics, such as the relationship between business and society.

These programs can be valuable if they satisfy a training need and are thoughtfully planned. A careful selection of topics and speakers will increase the effectiveness of this training device. Furthermore, conferences can be made more useful by including discussions, as two-way communication allows participants to ask for clarification of topics that are particularly relevant to them.

University Management Programs

University management programs expose managers to theories, principles, and new developments in management.

Besides offering undergraduate and graduate degrees in business administration, many universities now conduct courses, workshops, conferences, and formal programs for training managers. These offerings may include evening courses, short seminars, live-in programs, a full graduate curriculum, or even programs tailored to the needs of individual companies. Some executive development centers even provide career development assistance with programs designed to fit typical training and development needs of first-line supervisors, middle managers, and top executives.

These university programs expose managers to theories, principles, and new developments in management. In addition, there is usually a valuable interchange of experience among managers who, in similar positions, face similar challenges.

International Perspective

How to Get into the Business School of Your Choice[3]

Even experienced managers may decide to go back to school. Disappointment may occur when applicants are told that they are denied admission or that they are "wait-listed." But such a notice should not discourage but stimulate the search for the reason for their unsuccessful application. Here are some ideas about what admissions officers may look for: Is there a gap in the employment record? What does a candidate offer in special skills or knowledge? Are the strengths of the candidate effectively articulated? What does the person want to do with the degree? Does the candidate show that he or she is different (e.g., speaking different languages, having had international experience)? Does the career path show a rapid promotion?

A generic application letter is usually not sufficient. The applicant should learn about the school and, if possible, visit the university and meet faculty members and students. An advanced degree or special courses may be the pathway to a successful career.

Readings, Television, Video Instruction, and Online Education

Another approach to development is planned reading of relevant and current management literature. This is essentially self-development. A manager may be aided by the training department, which often develops a reading list of valuable literature. This learning experience can be enhanced through discussion of articles and books with other managers and the superior.

Increasingly, management and other topics are featured in television instruction programs. For certain programs, college credits can be obtained. Moreover, videotapes on a variety of subjects are available for instruction and learning in the university or company classroom.

Investment in online education is growing. The providers of online education can be categorized into three groups: (1) schools, (2) universities, and (3) business and commercial training organizations.[4] Universities use the new technologies for graduate programs and extension courses. At the University of California, Los Angeles, most of the 3,000 undergraduate

www.education.com
www.ucla.edu
www.phoenix.edu
www.uchicago.edu
www.columbia.edu
www.stanford.edu
www.lse.ac.uk
www.cmu.edu
www.cardean.edu
www.blackboard.com
www.webct.com

courses are accompanied by Web sites containing lecture notes and supplementary material; even tests can be taken online. The University of Phoenix mixes distance learning with evening classes. Business schools such as the University of Chicago, Columbia University, Stanford University, the London School of Economics, and Carnegie Mellon University work with Cardean University to offer complete online courses. Firms such as Blackboard and WebCT have developed platforms for placing course material on the Web. Although online education can be helpful, skeptics question the profitability and effectiveness of the application of the new technologies.

International Perspective

Management Development at China Resources

www.usfca.edu
www.cre.com.hk

A rather innovative program for educating Chinese managers has been undertaken by the University of San Francisco (USF). China Resources, one of the largest Chinese trading companies, located in Hong Kong, China, and other places, recognized the need for developing its managers. Consequently, it reached an agreement with USF to offer a manager development program.

Regular MBA classes at USF are videotaped for showing in Hong Kong. The company's managers are required to cover the same material as students enrolled in the program at USF. These managers, who are admitted only after very careful screening, are encouraged to request, through fax, information or additional explanations of the concepts taught. USF instructors, in turn, answer these questions via fax. Local Chinese instructors are also available to help the manager-students understand the material. Periodically, a USF instructor visits the company's headquarters in Hong Kong to give special lectures, answer questions, and administer examinations. Preliminary results of this cost-effective approach are quite encouraging.

Business Simulation and Experiential Exercises

Business games and experiential exercises have been used for some time, but the introduction of computers has made these approaches to training and development even more popular. The computer, however, is only one of several tools; many of the exercises do not require any hardware at all.

www.towson.edu/~absel

The great variety of business simulations is best illustrated by the topics discussed at meetings of the Association for Business Simulation and Experiential Learning (ABSEL). The approaches range from behavioral exercises dealing, for example, with attitudes and values to simulations in

courses such as marketing, accounting, decision support systems, and business policy and strategic management.

E-Training[5]

www.mcdonalds.com
www.thrifty.com
www.circuitcity.com

With operations in many places, companies such as McDonald's, Thrifty Car Rental, and Circuit City offer Web-based training classes, which may be more cost-effective than traditional classroom training. McDonald's, for example, started its pilot Web training in 2001 with 3,000 employees in four languages in six countries. Various approaches are possible. One is the off-the-shelf content. Another approach is to create a virtual classroom with the teacher interacting with students. Synchronous e-learning with live instructions appears to be more effective than self-paced learning that requires self-discipline. Live instructions can be adapted to the needs of students at the particular time by integrating overhead transparencies, slides, and lecture notes. One approach is to blend off-the-shelf programs with live e-training.

www.ibm.com
www.irs:gov
www.nol.com.sg

E-learning has been successfully used in knowledge-intensive companies, such as IBM's Basic Blue e-learning approach. More recently, e-training is employed for teaching skills. The U.S. Internal Revenue Service uses Web-based training, and so does Neptune Orient Lines, the large transporter of containers. The container company has to train its global work force in various countries in Europe, Asia, South America, and other regions. Instead of sending trainers around the world, it uses live e-learning as a cost-effective alternative.

The trend of e-learning is just in its early stages. More research will have to be done to make it more effective and to find the proper balance between self-paced learning and instructor-led training.

Special Training Programs

Management development must take an open-system approach that responds to the needs and demands of the external environment. There is an increasing awareness of the need for training programs specifically designed for members of minority groups and for the physically handicapped. Many firms have made special efforts to train these people so that they may utilize their full potential while contributing to the aims of the enterprise.

Companies may also offer special programs on selected subjects. The topic of ethics may be discussed to give the work force guidelines on ethical

behavior. The subject of corporate culture may be addressed in a formal or informal manner. Japanese companies in particular are known for making special efforts to instill the company philosophy in employees to promote a desirable corporate culture.

Evaluation and Relevance of Training Programs

Determining the effectiveness of training programs requires measurements against standards and a systematic identification of training needs and objectives.

Determining the effectiveness of training programs is difficult. It requires measurements against standards and a systematic identification of training needs and objectives.

In general, development objectives include (1) an increase in knowledge, (2) development of attitudes conducive to good managing, (3) acquisition of skills, (4) improvement of management performance, and (5) achievement of enterprise objectives.

If training is to be effective, it is extremely important that the criteria used in the classroom situation resemble as closely as possible criteria relevant to the working environment. Manager development requires a situational approach in which training objectives, techniques, and methods are sufficiently congruent with the values, norms, and characteristics of the environment.

International Perspective

Making Management Education Relevant

In order to make business courses more meaningful, many schools invite guest speakers from industry to share their experiences. This creates close ties between business schools and enterprises. Executives become aware of the quality of each school's curriculum, and students may find it advantageous to know about the companies when they are looking for a job. Moreover, executives often serve on school advisory boards, and this makes the schools aware of the needs of the business community. This does not mean, however, that market-driven schools should adopt any management fad. Instead, management education must be broad enough to encompass the teaching of all key managerial activities in planning, organizing, staffing, leading, and controlling.

Managing Change[6]

The forces for change may come from the environment external to the firm, from within the organization, or from the individuals themselves.

The forces for change may come from the external environment, from within the organization, or from the individuals themselves.

Changes that Affect Manager and Organization Development

Several trends, some of them already occurring, will have implications for developing human resources. Here are illustrations:

- The increasing use of computers, especially microcomputers, requires that teachers as well as students become computer-literate.
- Education extends into the adult life. Lifelong learning becomes a necessity, and educational institutions and enterprises must recognize the special educational needs of adults.
- The proportion of knowledge workers will increase and the need for skill workers will decrease, which may require more training in knowledge, conceptual, and design skills.
- The shift from manufacturing to service industries requires retraining in preparation for new positions.
- The choice of educational opportunities will expand. For example, many companies already are conducting their own training programs.
- There may be greater cooperation and interdependence between the private and the public sector, at least in some countries, such as Canada.
- Internationalization will continue, so managers must learn to communicate with and to adapt to managers in other countries. Companies need to train with a global perspective.

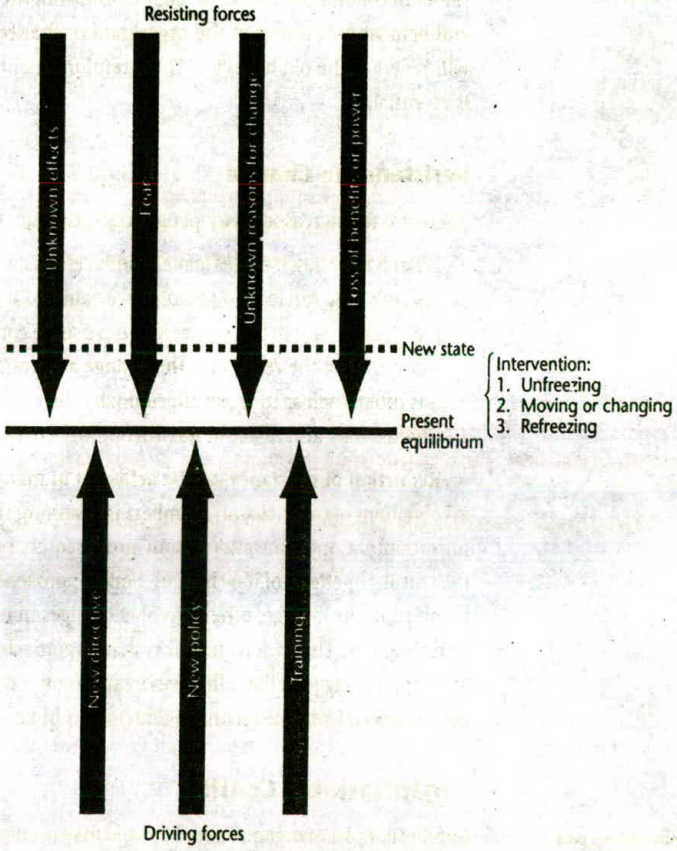
There are various ways to respond to these forces. One approach is simply to react to a crisis. Unfortunately, this is usually not the most effective response. Another approach is to deliberately plan the change. This may require new objectives or policies, organizational rearrangements, or a change in leadership style and organization culture.

Techniques for Initiating Change

Field force theory An equilibrium is maintained by driving forces and restraining forces.

Organizations may be in a state of equilibrium, with forces pushing for change on the one hand and forces resisting change by attempting to maintain the status quo on the other. Kurt Lewin expressed this phenomenon in his **field force theory**, which suggests that an equilibrium is maintained by *driving* forces and *restraining* forces, as shown in Figure 13-3.[7] In initiating change, the tendency is to increase the driving forces. This may indeed produce some movement, but it usually also increases resistance by strengthening the restraining forces. Another approach, one that is usually more effective, is to reduce or eliminate the restraining forces and then

FIGURE 13.3 Moving an organizational equilibrium



move to a new level of equilibrium. In organizations, a change in policy is less resisted when those affected by it participate in the change.

The change process involves three steps: (1) unfreezing, (2) moving or changing, and (3) refreezing.[8] The first stage, unfreezing, creates the motivation for change. If people feel uncomfortable with the present situation, they may see the need for change. However, in some cases, an ethical question may arise regarding the legitimacy of deliberately creating discomfort that may initiate change.

The second stage is the change itself. This change may occur through assimilation of new information, exposure to new concepts, or development of a different perspective. The third stage, refreezing, stabilizes

the change. Change, to be effective, has to be congruent with a person's self-concept and values. If the change is incongruent with the attitudes and behaviors of others in the organization, chances are that the person will revert to the old behavior. Thus, reinforcement of the new behavior is essential.

Resistance to Change

There are many reasons why people resist change. Here are examples:

- What is not known causes fear and induces resistance. An organizational restructuring can leave a person uncertain about its effect on his or her job. People want to feel secure and have some control over the change.
- Not knowing the reason for the change also causes resistance. In fact, it is often unclear to those affected why the change is necessary at all.
- Change may also result in a reduction of benefits or a loss of power.

Reduction of resistance can be achieved in many different ways. The involvement of organization members in planning the change can reduce uncertainty. Communication about proposed changes also helps clarify the reasons or effects of the changes. Some approaches focus on the people involved in the change; others involve changes in organization structure or technology. The sociotechnical systems approach shown in Figure 1-3 in Chapter 1 suggests that effective organization requires consideration of both the social and the technical dimensions in an enterprise.

Organizational Conflict

Conflict is a part of organizational life and may occur within the individual, between individuals, between the individual and the group, and between groups.

Conflict is a part of organizational life and may occur within the individual, between individuals, between the individual and the group, and between groups. While conflict is generally perceived as dysfunctional, it can also be beneficial because it may cause an issue to be presented in different perspectives. As one top executive of a major company maintained, if there was no conflict on an issue, it could not have been sufficiently analyzed, and the final decision on the issue was usually postponed until all aspects were critically evaluated.

Sources of Conflict

There are many potential sources of conflict. Today's organizations are characterized by complex relationships and a high degree of task interdependence, so friction can easily occur. Moreover, the goals of the

parties are often incompatible, especially when the parties compete for limited resources. People also have different values and different perceptions of issues. A production manager may take the position that streamlining the product line and concentrating on a few products can make the organization more productive, while a sales manager may desire a broad product line that will satisfy diverse customer demands. An engineer may want to design the best product regardless of cost or market demand considerations.

Conflict can arise from other sources as well. There may be conflict between people in line and staff positions. A superior's autocratic leadership style may cause conflict. Differing educational backgrounds are potential sources of conflict. Perhaps most often mentioned is lack of communication. Many of these topics are discussed in various chapters of this book.

Managing Conflict

Conflict can be managed in different ways, some focusing on interpersonal relationships and others on structural changes.

Conflict can be managed in different ways, some focusing on interpersonal relationships and others on structural changes. Avoidance of the situation that causes the conflict is an example of an interpersonal approach. Another way of coping with conflict is through smoothing, emphasizing the areas of agreement and common goals and de-emphasizing disagreements. A third way is forcing, pushing one's own view on others; this will of course cause overt or covert resistance. A traditional way of coping with conflict is to compromise, agreeing in part with the other person's view or demand.

Attempts can also be made to change the behavior of individuals, a very difficult task indeed. At times, it may also be possible to reassign an individual to another organizational unit. In many situations, conflict is resolved by a person higher up in the organization who has sufficient authority to decide an issue. However, if the solution is perceived as being unfair, the loser may attempt to get even with the winner at a later time, thus perpetuating the conflict. In the problem-solving approach to organizational conflict, differences are openly confronted and the issues are analyzed as objectively as possible.

Another way of coping with conflict is to make structural changes. This means modifying and integrating the objectives of groups with different viewpoints. Moreover, the organization structure may have to be changed and authority–responsibility relationships clarified. New ways of coordinating activities may have to be found. Tasks and work locations can also be rearranged. In one workroom in a firm, for example, machines were placed in a way that prevented conflicting parties from interacting

with one another. Often one must not only decide on the necessary changes but also select the appropriate process. For this reason, the next section focuses on organization development.

Organization Development

As explained earlier, **organization development**, typically shortened to OD, is a systematic, integrated, and planned approach to improving enterprise effectiveness. It is designed to solve problems that decrease operating efficiency at all levels. Such problems may include lack of cooperation, excessive decentralization, and poor communication.

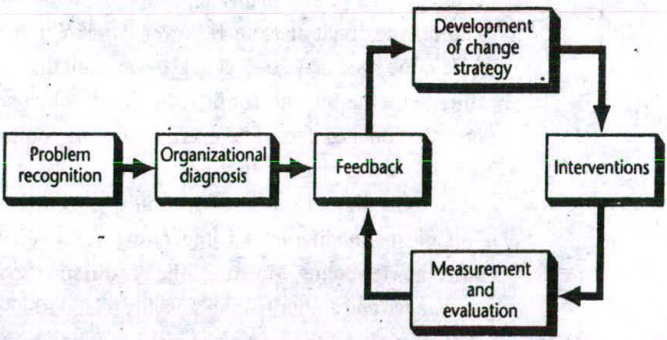
The techniques of OD may involve laboratory training (e.g., people communicating in a group situation), managerial-grid training, and survey feedback. Some OD practitioners also use team building, process consultation, job enrichment, organizational behavior modification, job design, stress management, career and life planning, and management by objectives as part of their approach.

The Organization Development Process

OD is a situational or contingency approach to improving enterprise effectiveness. Although various techniques are utilized, the process often involves the steps shown in Figure 13-4. An example can illustrate the application of the model.

Consider a firm that experiences certain problems: conflict between organizational units, low morale, customer complaints, and rising costs

FIGURE 13-4 A model of the organization development process



Adapted from H. M. F. Rush, *Organizational Development: A Reconnaissance* (New York: National Industrial Conference Board, Inc., 1973), p. 6. Used by permission.

(*problem recognition* in the model). The chief executive contacts an OD expert to discuss the situation. The two agree on the necessity of an *organizational diagnosis*. The consultant then collects information from several organizational units, using questionnaires, interviews, and observation. The data are analyzed and prepared for feedback.

The executive confers with other managers to set up a meeting with them. At the meeting, after some introductory comments, the consultant presents the findings under the headings "relations between departments," "enterprise goals," and "customer relations" (*feedback*). The group then ranks the problems in order of their importance. With the guidance of the consultant, the group discusses the difficulties, identifies the underlying causes, and explores possible solutions.

The role of the consultant is that of a coach facilitating the process. Short lectures and exercises on decision making, team building, and problem solving are integrated into the process. At times, subgroups are established to deal with specific issues. The emphasis is on openness and objectivity. The meeting ends with an agreement on a *change strategy*.

The specific *interventions* may include a change in the organization structure, a more effective procedure for handling customer complaints, and the establishment of a team charged with the responsibility of implementing a cost reduction program. Furthermore, the group agrees to meet again in three months to *measure and evaluate* the effectiveness of the OD efforts.

Although three phases complete the OD cycle, the effort does not end. Instead, OD becomes a continuous process—planned, systematic, and focused on change—that aims at making the enterprise more effective.



Successful Teamwork[9]

The position of the chief operating officer (COO) is often considered a stepping stone for the top position of the chief executive officer (CEO). But this may be changing in favor of teams that implement corporate strategy. Instead of having the COO implementing the strategy, teams may carry out this task. This would eliminate a level in the organizational hierarchy.

The chief characteristic of teams is a shared commitment to a common purpose. Team members share accountability not only to each other but also to the common aim. However, team skills have to be learned. Not all teams succeed; in fact, many fail.

What makes successful teams? Team members need to be trained in skills such as communication, including listening. They must learn about setting team objectives, staying focused, and making decisions that contribute not only to the team's goals but also to the aims of the total organization. Moreover, the reward system must be based on team performance and less on individual accomplishments. Teams also need to have access to important information (which some top managers may not want to share), thus a culture of openness is essential. Perhaps most important, team training is not an individual event or a one-time program, but a continuing process.

The Learning Organization

Learning organization An organization that can adapt to changes in the external environment through continuous renewal of its structure and practices.

A learning organization is one that can adapt to changes in the external environment through continuous renewal of its structure and practices. Peter Senge, who popularized the concepts of the learning organization with his book *The Fifth Discipline*,[10] suggests five techniques that help the organization to learn: (1) systems thinking, (2) personal mastery, (3) mental models, (4) a shared vision, and (5) team learning. The learning organization is generally associated with concepts such as sharing the vision of the enterprise, self-examining the prevailing assumptions and practices, considering radically new organization structures, creating learning teams, and establishing linkages with parties outside the enterprise for generating new ideas and perspectives.

David Garvin offers the following definition: "A learning organization is an organization skilled at creating, acquiring, and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights."[11] This means that organizations engage in systematic problem solving, experimenting, and continuously searching for new knowledge. There must also be tolerance for failure because experimentation may not succeed; the aim is of course to learn from past failures. The learning should not be restricted to one's own experience. One can learn a great deal from others, inside and outside the organization. Learning from other organizations is often achieved through benchmarking, which requires the search for the best practices not only within the same industry but also in other industries. What is learned needs to be shared through, for example, reports, plant tours, and education and training programs. Individuals or groups should be encouraged to share their specialized knowledge and disseminate it throughout the organization. Acquiring knowledge is not enough; knowledge has to be applied. Unless behavior

is changed, little is gained from the efforts of creating a learning organization. Therefore, progress and improvement need to be measured through questionnaires, surveys, interviews, and observation of behavior. Department stores may, for example, use shoppers to assess the service of their sales assistants. Assessors at the department store L.L. Bean shop by telephone to evaluate the service of its operators. A comprehensive learning audit may include a variety of measurements.

www.llbean.com

Summary

Manager development refers to the progress a manager makes in learning how to manage effectively. Frequently, it also pertains to development programs. Organization development, on the other hand, is a systematic, integrated, and planned approach to making the whole organization or an organizational unit effective.

Good results can be achieved through a systematic approach to manager development and training. On-the-job training includes planned progression, job rotation, creation of "assistant-to" positions, temporary promotions, use of committees and junior boards, and coaching. Manager development may include a variety of internal and external training programs.

There are many sources of conflict. Ways of managing conflict include avoiding the situation, smoothing, forcing, compromising, changing behavior, reassigning individuals, resolving the conflict at higher levels, and problem solving. Another approach is to make structural changes: modifying objectives, developing new methods of coordination, as well as rearranging authority–responsibility relationships, tasks, and work locations.

The typical organization development process includes the recognition of problems, diagnosis of an organization, feedback of information on the organization, development of a change strategy, interventions, and measurement and evaluation of the change efforts. The learning organization adapts quickly to changes in the environment through continuous learning.

KEY IDEAS AND CONCEPTS FOR REVIEW

Manager development
Managerial training
Organization development
Manager development process
On-the-job training
Internal and external training and development

Business simulation and experiential exercises
E-training
Field force theory
Sources of organizational conflict
Ways of managing organizational conflict
Organization development process
Learning organization

FOR DISCUSSION

1. It has been argued that firms have an obligation to train and develop all employees with managerial potential. Do you agree? Why or why not?
2. What are some typical failures in manager development and training? Can you explain these failures? What would you recommend to overcome the shortcomings?
3. Evaluate the advantages and limitations of different approaches to on-the-job training.
4. In the job that you now have or that you expect to have in the future, what kind of coaching and management development would be most beneficial to you?
5. What are the main characteristics of organization development? How does organization development differ from manager development? Do you think organization development might work in your organization? Explain why or why not.

EXERCISES/ACTION STEPS

1. Select an organization that you know and analyze its management development efforts.
2. What kinds of conflicts have you experienced in an organization with which you are familiar? What were the causes of the conflicts? What was done, if anything, about resolving these conflicts?

INTERNET RESEARCH

1. Search the Internet for "open university." What are the advantages and disadvantages of the Open University? Compare the Open University with the traditional university.
2. Search for "organization development" on the Internet. Discuss your findings with the class.

International Case

Jack Welch Leading Organizational Change at GE[12]

When Jack Welch, the chairman and CEO at General Electric (GE) retired in 2001, he could look back at a very successful career. He became CEO in 1981 at the age of 45. At that time, GE had a very complex organization structure with considerable bureaucratic rules.

One of his first changes was to initiate a strategy formulation process with the guideline that each of the businesses should be number 1 or 2 in their respective areas. If this was not the case,

managers had the options of fixing the problem, selling their particular business, or closing it. In an effort to streamline the organization, Welch removed the sector level and eliminated thousands of salaried and hourly employee positions. Because of these drastic measures, he earned the nickname "Neutron Jack." The reorganization increased the span of management (also called span of control) for many managers so that they would have 10 or even 15 subordinates.

The restructuring was followed by changing the organization culture and the managerial styles of GE's managers. One such program was the Work-Out. Groups of managers were assembled to share their views openly in three-day sessions. At the beginning of the meetings, the superior presented the challenges for his or her organizational unit. Then the superior had to leave, requesting the groups to find solutions to the problems. Facilitators helped these discussions. On the last day, the superior was presented with problem solutions. He or she then had three choices: to accept the proposal, not to accept it, or to collect more information. This process put great pressure on the superior to make decisions.

Another program to improve effectiveness and efficiency was Best Practices. The aim was to learn from other companies how they obtained customer satisfaction, how they related to their suppliers, and in what ways they developed new products. This helped the GE people to focus on the processes in their operations that would improve the company's performance.

Jack Welch was personally involved in developing managers at GE's training center in Crotonville. Leaders, Welch suggested, are not only those who achieve results but also those who share the values of the company. Managers who shared the company values but did not achieve results got another opportunity to improve performance, while managers who achieved results but did not share the values received coaching aimed at changing their value orientation. There was little hope for managers who did not achieve results nor shared the company's values.

The stretch initiative at GE emphasized "dream targets" with little consideration of how to achieve them. This approach is similar to the setting of creative objectives used in some management-by-objectives programs by other companies. These dream targets did not replace the traditional objective-setting approach but supplemented it.

To improve quality, the Six Sigma approach, which was used by Motorola, was introduced at GE. The Six Sigma program suggests a quality level of not more than 3.4 defects for a million operations. Managers were required to participate in the program, and their bonuses were related to the achievement of the quality level. With the strong conviction of relating performance to rewards, an appraisal system was also introduced that ranked employees in five categories ranging from the top 10 percent to the bottom 10 percent. The top 25 percent received stock options as their reward.

While some managers were in favor of the organizational transformation because they felt greater freedom and were rewarded for good performance and value sharing, others saw flaws in the system.

Questions

1. Do you think it is ethical to engage in restructuring and delayering that result in massive reduction of positions?
2. How would you feel if you were the boss in the Work-Out session being asked to leave the meeting while your subordinates discuss problems and suggest solutions to which you have to say "yes," "no," or "require further study"?
3. Why would other companies agree to their best practices being studied?
4. What do you think of evaluating the performance of managers not only on the achievement of results but also on the degree to which they share the organizational values?
5. How would you feel about setting unrealistic (stretch) objectives?
6. Should managers be ranked within their organizational unit? What would you suggest if one such unit is far superior to another unit with most of its managers being generally good managers and yet you still have to identify the bottom 10 percent?
7. Overall, how would you evaluate GE's approach to organizational change? What are the advantages and possible problems?

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Part -4 closing

Global Staffing

This part closing is about global staffing. First, as in the two previous part closings of this book, the managerial practices in Japan, the United States, and China are discussed. In this part closing, staffing is highlighted. Second, the international focus is on the German/European model for training and development. Finally, the global car industry case focuses on the chief executives of car makers.

Staffing Practices in Japan, the United States, and China[1]

Staffing requires identifying human resource needs and filling the organization structure, and keeping it filled, with competent people. It is in the management of human resources—besides the decision-making process—that the Japanese and Chinese approaches to managing differ greatly from that of U.S. companies, as shown in Table C4-1.

Staffing in Japan

In Japan, people are hired out of school. For a young man, choosing a company is one of the most important decisions he makes, besides selecting a spouse and a university. After a person joins a company, there is hardly any opportunity to find employment in another firm. Within the company, promotion is rather slow, and the career paths of most young people during the first few years of working are similar. Still, employees develop a strong identification with the company, which in turn takes care of them. Employees repay with their loyalty.

Although the frequency of performance appraisal differs between companies, it is not unusual to evaluate the performance of employees once or twice a year. In addition, their progress is monitored on an informal basis. Working together with others in an office, without walls separating subordinates and superiors, means that there is little doubt about how well individuals are performing. A more comprehensive performance review is conducted a few years after an employee enters a firm. With a long-term evaluation, the probability of the influence of luck or misfortune is reduced. What is evaluated are the overall, long-range success and decision capability of the individual. This practice results in linking rewards (such as promotions) to effective long-

TABLE C4.1 Comparison of Japanese, U.S., and Chinese staffing

Japanese	American	Chinese*
• Young people hired out of school; hardly any mobility of people among companies	• People hired out of school and from other companies; job-hopping common	• Most people hired from school, fewer from other companies
• Slow promotion through the ranks	• Rapid advancement highly desired and demanded	• Slow promotion, but regular salary increases
• Loyalty to the company	• Loyalty to the profession	• Lack of loyalty to both company and profession
• Performance appraisal once or twice a year common	• Comprehensive performance evaluation usually once a year	• Performance review usually once a year
• Appraisal of long-term performance	• Appraisal of short-term results	• Five-year plan; otherwise, short-term targets
• Promotions based on long-term performance and other criteria	• Promotions based primarily on individual, often relatively short-term performance	• Promotions supposed to be based on performance, ability, and education, but family ties and good relations with superiors are important
• Training and development considered a long-term investment	• Training and development undertaken with hesitation because of rapid turnover	• Training programs available; state examination administered for managers
• Lifetime employment common in companies but changing	• Job insecurity prevailing	• Job security; virtually lifetime employment is changing

* As practiced by state-owned enterprises.

term performance. Still, the differences in pay increases between young employees after entering a firm are rather small, and rewards are essentially based on group and company performance rather than on individual contributions.

Because employees are an integral part of the corporate community, promotion practices must be considered by all as being fair and equitable. In Japan, the criteria for promotion are usually a combination of seniority and merit. The evaluation of younger employees, up to about age 35, is usually based on seniority, while beyond that age merit and performance become the basis for evaluation. Also, educational background plays a role in promotion decisions. Japanese companies invest heavily in the training and development of their employees, and the practice of job rotation throughout employees' working life leads to a broad career path with exposure to many different enterprise activities.

Perhaps the most pervasive impact on managerial practices comes from lifetime employment. Japanese companies make every effort to ensure stable employment until retirement age. At times of economic slowdown, companies usually dismiss part-time or seasonal employees, who are not considered members of the permanent work force. Also, instead of being laid off,

permanent employees are often transferred to organizational units that are in need of additional help. But the practice of lifelong employment seems to become less common.[2] In an interview, Japanese executives suggested that lifelong employment is very costly to a company, resulting in a top-heavy organization structure, and therefore will have to be slowly modified.

Staffing in the United States

The management of human resources in the United States is quite different from that in Japan. American firms also recruit from schools, but they hire employees from other companies too. The notoriously high turnover rate among employees with a newly earned MBA degree is one of the consequences of the latter practice. Rapid advancement is expected; and if it is not forthcoming, an employee may change companies. Professionals, such as engineers or accountants, often identify more with their profession than with their company, and job-hopping is not unusual.

A common practice in American companies is to appraise the performance of new employees rather soon after they join the company. If the performance does not meet the company's expectations, employment may be terminated. But even for those who have been with a company for many years, performance is evaluated at least once a year and, in many cases, reviewed periodically during the year. In general, the focus of performance appraisal is on short-term results and individual contributions to the company aims. Moreover, differentials in pay increases are often based on individual performance. These differences in pay may be substantial, especially at upper levels of management. Promotions in U.S. companies are based primarily on individual performance.

Although progressive companies provide for continuous development, training is often undertaken with hesitation because of the costs and the concern that the trained person may switch to another firm. Thus, employees are often trained in specialized functions, and this results in a rather narrow career path within the firm. Finally, in many American companies, employees feel that they may be laid off during economically hard times, which naturally contributes to job insecurity.

Staffing in China

The staffing practices in China (pertaining primarily to state-owned enterprises) have aspects similar to those in Japan. As in Japan, employees are hired from school. They are expected to stay with the enterprise for a long time. More recently, personnel have also been hired from other organizations, but people are usually assigned to their positions by higher authorities. As in Japan, promotion is slow through the ranks, but there are regular salary increases.

Lacking in China are dedication and loyalty to both the company (as seen in Japan) and the profession (as in the United States). Performance reviews are done usually once a year, which is similar to practices in Japan and the United States. Promotions are supposed to be based primarily on performance, education, and potential ability. However, family ties and good relations with the superior greatly influence advancement within an organization. In the past, training programs

were available only to the chosen few. Recently, however, training has been provided for more managers by educational television and professional night schools.[3] Moreover, some managers now have to pass an examination sponsored by the State Economic Commission. The jobs of employees are secure; job security implies lifetime employment (known as "iron rice bowl") regardless of performance.



Training and Development for the Global Market: The German/European Model

Germany has been slow in accepting the idea that management is learnable and teachable. Because managerial education provided by universities is insufficient, companies have developed their own programs or made cooperative arrangements with schools. One such cooperative arrangement is the apprenticeship system.

Internal and External Training Combined: The Apprenticeship System

An apprentice obtains practical experience by working in the company and learns theoretical concepts that can be applied on the job by attending a vocational school.[4] University of Chicago professor Gary Becker said that the German approach to vocational training may be useful for reducing the number of high school dropouts in the United States.[5] He suggested that some young people would prefer to be in a training–employment program rather than continue their studies in high school. Owing to their lack of interest in academic subjects, some students simply drop out of school.

Although they are not managerial training programs as such, the in-company apprenticeship programs play a vital role in preparing future managers for their job. These programs, supplemented by additional education, provide the foundation for the development of first-line supervisors in Germany.

Young people who choose the three-year apprenticeship training work three to four days a week and spend one or two days a week in the vocational school. The government sets the standards for over 400 occupations. For example, an apprentice auto mechanic may be required to learn some basic skills, such as how to use a file, lathe, and drill, while working in the company. These activities may be supervised by a trainer (each supervising 10 to 15 young people), a manager, and a director. The apprentices' work usually does not contribute to the short-term profit of the firm. Typically, these apprentices engage in projects that are then carefully evaluated for accuracy, surface preparation, proper and precise angles, and so on. Advanced auto mechanic training requires working on more complex car components, such as automatic transmissions or engines.

In addition to having apprentices attend vocational training courses, many large firms offer in-house classroom training. Thus, apprentices not only learn about the products or services of

the firm but also may be taught foreign languages, which are important for technicians or managers sent to other countries. Social activities are not neglected either during the apprenticeship training. For example, apprentices have opportunities to participate in company-sponsored hiking tours, competitive sports such as soccer or track-and-field events, and other recreational activities. In a sense, apprenticeship training is really a continuation of basic schooling with an emphasis on job skills. This is reflected in the fact that, at the end of the training, apprentices take an examination administered by the public vocational school. In addition, they must meet company requirements. It is interesting to note that Daimler-Benz's chief executive officer (CEO), Jürgen Schrempp, started his career as an auto mechanic apprentice.[6]

Although the wages for the apprentices are relatively low, the training is quite costly to the company, especially since a trainee may leave the company after completing the program. Hewlett-Packard in Germany hired about 80 apprentices each year at a cost of about $5,000 per apprentice. Most apprentices stay with their company and so the long-term investment pays off for the firm. Without apprenticeship programs, German firms would not have been so successful in producing the quality products and services that they sell around the world.

The German airline Lufthansa has an advertisement showing apprentices inspecting an airplane engine. The message is that investment in the training of technicians results in higher product and service quality. About half a million German firms train 1.8 million teenagers, or 6 percent of the work force, and about 70 percent of Germany's high school students choose vocational education.[7]

One benefit of the apprenticeship system is that teaching skilled workers and trained technicians the theoretical foundation of their work creates professionals who will continually make efforts to improve productivity.

The Vocational Academy

While apprenticeship training emphasizes technical knowledge and skills, it usually does not teach managerial skills. When the need for teaching managerial skills and integrating theory with practice became recognized, a new program, the Vocational Academy (Berufsakademie), was devised to address this need. Because of its success, a more detailed discussion is in order.

In 1974, the German state of Baden-Wuerttemberg, together with firms such as Daimler-Benz and Bosch, started the Vocational Academy (also called the Stuttgarter Educational Model, named after the city of Stuttgart). This managerial training model, which focuses on technology, social sciences, and business, rather than on academic subjects, has been considered an important alternative to university studies. The academy has the following characteristics:[8]

- Theoretical and vocational studies are closely integrated. The educational process consists of two sets of learning modules, one for theory and the other for practice.
- Students must have a vocational contract with an enterprise or a social institution to be admitted to the academy.

- The academy and the enterprises have equal authority in determining the educational goals.
- The first step in the program is achieved after two years, when students must take a state-recognized vocation-qualifying examination.
- The complete educational process spans three years, or six semesters. The students must take a second examination, and upon passing it they receive a degree that is similar to a university degree in engineering.

Ten years after the inception of the academy, surveys indicated that professional opportunities were considerably higher for its graduates than for those who did not receive this training. Applications for admission to the academy far exceed available places, with as many as 20 young people competing for one educational slot. While the Vocational Academy programs originated in the cities of Stuttgart and Mannheim, they are now established in eight cities, with approximately 3,000 enterprises participating, offering 22 curriculums.[9]

One can conclude that the Stuttgarter Educational Model, integrating theory and practical experience, fills an important business education gap not filled by traditional universities and apprenticeship programs. This relatively new cooperative model, involving the academy, industry, and government, has shown encouraging results. It may stimulate companies in other countries to search for alternative training methods for developing managers and increasing productivity.

The New European Manager

So far, the discussion has centered on training and development for lower- and middle-level managers; now the focus shifts to training for upper-level management. Managers in many European firms have been criticized for insufficient knowledge and skills necessary for managing globally. Specifically, demands on today's global managers include the ability to think globally, an understanding of the mentalities of managers in other countries, managerial experience abroad, and proficiency in speaking at least two foreign languages.

The European Community 1992 program (now the European Union) underscores the need for developing globally minded managers. A research study of 11 European firms by the international consulting group Korn/Ferry found that many managers did not meet the European demands of the future, although respondents in the study recognized the need for international managerial experience. Not only do European managers need to gain experience abroad, but multinational corporations also should realize that they need to recruit and train non-European managers for their foreign operations. The following examples illustrate the exception rather than the rule under which companies operate. The Deutsche Bank has a development program for foreign managers, who spend at least one year at its Frankfurt headquarters. Bosch, a manufacturer of a variety of products ranging from refrigerators to auto accessories, invites foreigners, Spaniards in particular, to Germany for training. It also requires its German trainees to spend at least six months abroad. While these international opportunities are attractive for young managers, there is concern, especially among older managers, that being away from headquarters may inhibit their career advancement.

According to Korn/Ferry, the following characteristics are very important for the ideal European manager:[10]

- Having a university or college education
- Having work experience abroad
- Understands economics
- Being a generalist
- Being proficient in English and French as foreign languages

The research study found that German, French, and Italian managers had little work experience abroad. German and Italian managers lacked general managerial experience, while German and British managers were not proficient in the French language. In team orientation and global thinking, the Germans and Italians ranked low. The Germans also ranked low in communication and motivation abilities. With respect to the question pertaining to "the willingness to contribute above average," English and French managers ranked low; while in decision making, Italian managers got a low rating. Although these are generalizations, they indicate that many European managers are not sufficiently prepared for the competitive environment that will be created by the European Union.

Business Schools in Europe

While German universities have not been adequately preparing managers for the global environment, there are many MBA schools throughout the rest of Europe, including the following:[11]

- Rotterdam School of Management (RSM) in the Netherlands
- International Institute for Management Development (IMD) in Lausanne, Switzerland
- Graduate School of Business Administration (GSBA) in Zurich, Switzerland
- Institute Superieur des Affaires (ISA) in Jouy-en-Josas, France
- Manchester Business School in England
- Scuola Di Direzione Aziendale Dell' Universita Luigi Bocconi (SDA Bocconi) in Milan, Italy
- Institut Europeen d'Administration des Affaires (INSEAD) in Fontainebleau, France
- Nijenrode School of Business in Breukelen, the Netherlands
- Escuela Superior De Administracion Y Direccion De Empresas (ESADE) in Barcelona, Spain
- London Business School in England

The 21st century is marked by fierce global competition in which only the most productive organizations will survive. This competitive environment necessitates a second look at human resource training and development. Managers should evaluate the suitability of cooperative training by industry and educational institutions as practiced in Germany. The model of the new European manager may inspire more effective and relevant approaches for training future executives.

Global Car Industry Case

Meet the CEOs of Car Makers

Organizational strategies are to a great extent determined by CEOs. It is therefore important, in the car industry, to learn about the career paths and the managerial approaches of the top executives of major car manufacturers.

Honda's CEOs: Soichiro Honda, Nobuhiko Kawamoto, and Hiroyuki Yoshino[12]

Relatively little is known about the late Soichiro Honda, the soft-spoken CEO of Honda Motor Company. He did not write an autobiography and rarely granted interviews. He was not part of the "in-group" of Japanese car makers either. Nor was he a friend of Japan's Ministry of International Trade and Industry (MITI) or government bureaucrats. Instead, he was one who was fascinated with motor vehicles and had an intense interest in the needs of his automotive customers. When consumers wanted motorcycles after World War II, MITI's officials were not cooperative in helping Honda to exploit the demand. When he wanted to produce cars, MITI officials argued that Japan needed fewer, not more, car manufacturers.

Honda began car production with a very small model. Later, the model range was extended to the Accord and to the fairly luxurious Acura. In 1991, Honda expanded its model line with the introduction of the wagon Accord EX, which is the family version of its best-selling Accord in America.

Even after Mr. Honda had retired, his tenure influenced the direction of the company for years to come. His leadership was quite different from that of other car makers' CEOs. His desire to explore new things was reflected in the company philosophy. When he began producing Honda motorcycles for the U.S. market, few thought that he would succeed. His strategy was not based on extensive market research, but on intuition. His obsession with quality and the desire to please customers led to the development of the successful car line, including the best-selling Honda Accord. But the U.S. success was not mirrored in the Japanese market, where Honda ranked third, selling fewer than one-fourth as many cars as Toyota did. Mr. Honda's other passion concerned safety. He insisted that his workers take their tasks seriously to protect their customers from injuries that could result from poor workmanship. Indeed, he created a Japanese foundation for car safety.

Another aspect of Honda's philosophy was his dealing with people. He made no distinction between blue-collar and white-collar workers, or between the rich and the poor people he came into contact with. His attitude toward people was reflected in the policies of Honda's Ohio plant, where workers, managers, and even the president ate in the same cafeteria.

In 1991, Mr. Honda passed away. The new president and CEO, Nobuhiko Kawamoto, also an engineer as Mr. Honda was, refocused Honda's strategy by emphasizing people-pleasing designs

In the early 1990s, Honda was in trouble: it had no trucks to offer, no minivans, nor an appealing sport utility vehicle. Still, the company did not lay off any of the permanent employees. Although great cars were developed, they had limited public appeal. Its motorcycle business, especially through the growing sales in Indonesia, Thailand, and China, kept the business going. Honda was too engineer-oriented and not sufficiently customer-oriented. Kawamoto changed that by developing sport utility and recreational vehicles (RVs). Instead of designing completely new RVs, Honda used the Civic and Accord platforms for the new vehicles at relatively low development costs. In 1996, Honda had a lineup of vehicles, including the RVs, that were generally smaller than those of the competitors, with a great appeal to younger buyers.

Speed became a strategic weapon. Mr. Kawamoto discontinued the practice of consensus management, which he felt was too time-consuming. Honda reduced the development time for new models from the design stage to the production stage to 18 months. To maintain quality, it uses total quality management concepts.

Hiroyuki Yoshino, the current president and CEO of Honda, now Japan's second largest car maker (overtaking Nissan), sets extremely high goals for the company. He aims to achieve annual sales of one million cars (850,000 were sold in 2001) without a merger or acquisition. Honda is one of the few car makers that wants to do it alone, a strategy that is different from that of its competitors such as General Motors, Ford, and DaimlerChrysler. Why is Yoshino, who was trained as an aeronautical engineer, so confident? For one, his product line includes hot products such as the sport utility vehicles, the minivans, and the subcompact cars. Another strength of Honda is the use of "smart" robots and the sharing of car parts among models, allowing quick adjustments to changing consumer tastes and vehicle demands. Mr. Yoshino knows the very profitable U.S. market well, where he was for four years president of Honda's U.S. subsidiary. His challenge now is to make inroads into the European and the Chinese markets.

Daimler-Benz's CEOs: Edzard Reuter and Jürgen Schrempp[13]

Edzard Reuter, Daimler-Benz's CEO, studied mathematics, physics, and law. Before joining Daimler, he held various managerial positions in a variety of companies, the last one being at Bertelsmann, a publishing firm.

When Reuter joined Daimler, he worked at first in finance. Later, he was responsible for corporate planning. After serving as a deputy member of the board for a few years, he became a full member in 1976. A year later, he also took charge of the technical planning department. During that time, important decisions were made in reorganizing product lines and production, especially in the automobile sector. In 1980, he assumed responsibility for the finance and business management section, and in 1987 he became chairman of the Daimler-Benz board of management.

Besides being the chairman, Reuter was a member of many other institutions. For example, he was the chairman of the Supervisory Board of AEG AG (a company that could be compared to General Electric in the United States) and Berliner Bank AG. He was also a member of the Supervisory Board of Karlsruher Lebensversicherung AG and Alliance AG Holding (both insurance

companies). But his interests went beyond business, as shown by his being a member of several boards of foundations that promote the arts.

Under Reuter's leadership, the company made several strategic moves, including a drastic reorganization. The Daimler-Benz Holding Company oversaw and coordinated three groups: Mercedes-Benz, AEG, and Aerospace (DASA). The keystones of the new strategy were microelectronics and systems techniques. Still, the car sector remained the core business. On the other hand, the defense-related divisions had to be curtailed with the end of the cold war between the Soviet bloc and the West. Reuter envisioned Daimler-Benz as a global company through the use of new technologies, new materials, and the latest information and systems knowledge. However, his strategy was not successful, and he was replaced by Jürgen Schrempp.

Jürgen Schrempp started as an auto mechanic apprentice at Daimler-Benz before he continued his studies. In 1967, he returned to the company and was later appointed as head of the South African operation. In 1995, he became the company's CEO. Shortly after becoming chairman, he asked 20 senior managers what they thought Daimler's share price was. Only 2 guessed about right. After this experience, all managers became aware of the importance of shareholders' value. Schrempp focused on "the profit zone" rather than on the "integrated technology concern" advocated by Reuter. Schrempp's career path included not only having responsibility for the Mercedes-Benz operation in South Africa but also in North America. He also headed the troublesome aerospace subsidiary DASA before being elevated to the Daimler-Benz CEO position.

In the reorganization of DASA, Mr. Schrempp eliminated 8,800 jobs. Some people have compared Schrempp to Jack Welch, who had to make some tough decisions while turning General Electric around. But such drastic actions are incongruent with German culture and managerial practices, and the labor union may not go along with Schrempp's cost-cutting approach in the future.

Schrempp was voted Manager of the Year 1998 by the *Manager Magazin* for his achievement of improving Daimler's financial performance after he took over the helm in 1995. But the performance of its Freightliner operation in the United States and the merger with Chrysler leave a black mark on his reign. Still, Schrempp has no plans to sell Chrysler, as he said: "The strategic line of thinking that took us into the merger is the same as it was."[14] At the annual shareholders meeting in spring 2002, he pointed out that the Mercedes-Benz passenger cars as well as the smart car division are doing well in the first part of 2002. Even the Chrysler Group, which registered huge losses in the past, showed small positive operating results, while the Commercial Vehicle Division suffered from the difficult market situation.

Questions

1. Which of the above leadership styles is most appealing to you? Why?
2. What background (technical/production, marketing, finance, or any other) is most suitable for the CEO of a major car company? May the suitability vary with the demands at a particular time?

3. If you were on the selection committees at Honda and Daimler-Benz, what characteristics would you have looked for in choosing the new CEO for each of the two companies?
4. How do Mr. Honda and his successor compare?
5. While Reuter at Daimler-Benz focused on technology and stakeholders, Schrempp's concern is shareholders' value. How do you think managers, employees, unions, and the community will react to Schrempp's managerial approach, which appears to be more American than German?
6. How did Schrempp's career path prepare him for the CEO job at DaimlerChrysler? What were some of his major decisions?

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12. The information was drawn from a variety of sources, including Joel Kotkin, "Mr. Iacocca, Meet Mr. Honda," *Inc.*, November 1986, pp. 37–39; Karen Lowry Miller and James B. Treece, "Honda's Nightmare: Maybe You Can't Go Home Again," *Business Week*, December 24, 1990, p. 36; Keita Asari, "Soichiro Honda on Himself and His Machines," *Economic Eye*, September 1985, pp. 27–32; Alex Taylor III, "The Man Who Put Honda Back on Track," *Fortune*, September 9, 1996, pp. 92–100; "Q&A: Honda

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13. The information was drawn from a variety of sources, including "Neutron Jürgen?" *The Economist*, March 16, 1996, p. 72; *www.manager-magazin.de/koepfe/mdj/0,2828,167372,00.html* for Schrempp's career; "Juergen E. Schrempp at the Annual Shareholder Meeting: First Quarter Reinforces 2002 Performance Target," *Worldwide News*, April 10, 2002, *www.daimlerchrysler.co.jp/index_e.html?/news/2002/020410_e.html*, accessed June 10, 2002.
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Part - 5

Leading

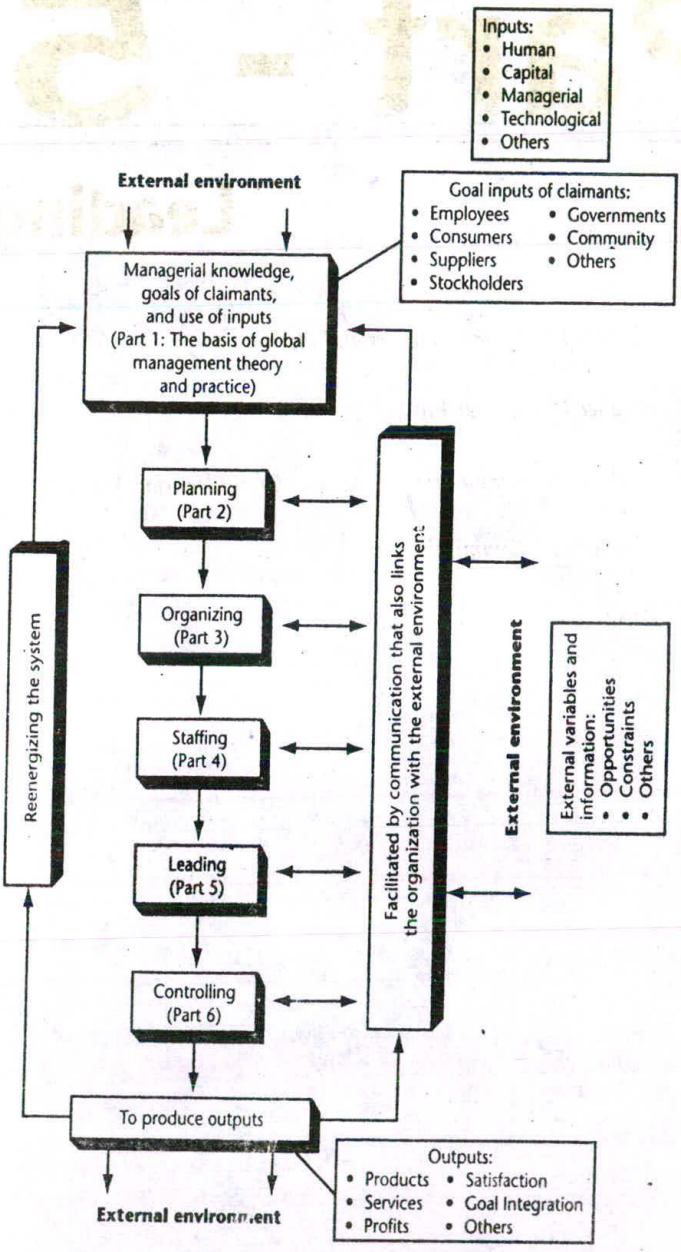
Chapter 14 Human Factors and Motivation

Chapter 15 Leadership

Chapter 16 Committees, Teams, and Group Decision Making

Chapter 17 Communication

Part 5 Closing Global Leading



Systems approach to management

Chapter 14

Human Factors and Motivation

CHAPTER OBJECTIVES

After studying this chapter, you should be able to:

1. Define the nature of leading and leadership.
2. Describe the basic human factors that affect managing.
3. Explain the meaning of motivation.
4. Describe the various theories of motivation and their strengths and weaknesses.
5. Analyze motivational techniques, with emphasis on the role of money, participation, the quality of working life, and job enrichment.
6. Present a systems and situational approach to motivation.

Management and leadership are often thought of as the same thing. Although it is true that the most effective manager will almost certainly be an effective leader and that leading is an essential function of managers, there is more to managing than just leading. As indicated in previous chapters, managing involves doing careful planning, setting up an organization structure that will aid people in achieving goals, and staffing the organization structure with people who are as competent as possible. The measurement and correction of people's activities through controlling is also an important function of management, as Part 6 will show. However, all these managerial functions accomplish little if managers do not know how to lead people or understand the human factors in their operations in such a way as to produce desired results.

Leading The process of influencing people so that they will contribute to organizational and group goals.

The managerial function of **leading** is defined as the process of influencing people so that they will contribute to organizational and group goals. As the discussion of this function will show, it is in this area that the behavioral sciences make their major contribution to managing. In its analysis of the pertinent knowledge in leading, Part 5 of this book will focus on the human factors, motivation, leadership, and communication.

Managing requires the creation and maintenance of an environment in which individuals work together toward the accomplishment of common objectives.

In this chapter, discussion centers on a variety of human factors. Managing requires the creation and maintenance of an environment in which individuals work together in groups toward the accomplishment of common objectives. This chapter emphasizes the importance of knowing and taking advantage of human and motivating factors, but that does not mean managers should become amateur psychiatrists. The manager's job is not to manipulate people but, rather, to recognize what motivates people.

Human Factors in Managing

It is obvious that, while enterprise objectives may differ somewhat between organizations, employees also have needs and objectives that are especially important to them. Through the function of leading, managers help people see that they can satisfy their own needs and utilize their potential while contributing to the aims of an enterprise. Managers should thus have an understanding of the roles assumed by people and the individuality and personalities of people.

Multiplicity of Roles

Individuals are much more than a productive factor in management's plans. They are members of social systems of many organizations; they are consumers of goods and services, and thus they vitally influence demand; and they are members of families, schools, churches, trade associations, and political parties. In these different roles, they establish laws that govern managers, ethics that guide behavior, and a tradition of human dignity that is a major characteristic of our society. In short, managers and the people they lead are interacting members of a broad social system.

No Average Person

People act in different roles, but they are also different themselves. There is no average person. Yet, in organized enterprises, the assumption is often made that there is. Firms develop rules, procedures, work schedules, safety standards, and position descriptions—all with the implicit assumption that people are essentially alike. Of course, this assumption is necessary to a great extent in organized efforts, but it is equally important to acknowledge that individuals are unique—they have different needs, different ambitions, different attitudes, different desires for responsibility, different levels of knowledge and skills, and different potentials.

Unless managers understand the complexity and individuality of people, they may misapply the generalizations about motivation, leadership, and communication. Principles and concepts, although generally true, have to be adjusted to fit specific situations. In an enterprise, not all the needs of individuals can be completely satisfied, but managers do have considerable latitude in making individual arrangements. Although position requirements are usually derived from enterprise and organization plans, this fact does not necessarily exclude the possibility of arranging the job to fit the person in a specific situation.

The Importance of Personal Dignity

Concept of individual dignity People must be treated with respect, no matter what their position in the organization.

Managing involves achieving enterprise objectives. Achieving results is important, but the means must never violate the dignity of people. The **concept of individual dignity** means that people must be treated with respect, no matter what their position in the organization. The president, vice president, manager, first-line supervisor, and worker all contribute to the aims of the enterprise. Each is unique, with different abilities and aspirations, but all are human beings and all deserve to be treated as such.[1]

Consideration of the Whole Person

We cannot talk about the nature of people unless we consider the whole person, not just separate and distinct characteristics such as knowledge, attitude, skills, or personality traits. A person has them all to different degrees. Moreover, these characteristics interact with one another, and their predominance in specific situations changes quickly and unpredictably. The human being is a total person influenced by external factors. People cannot divest themselves of the impact of these forces when they come to work. Managers must recognize these facts and be prepared to deal with them.



Disillusioned Middle Managers

The recent trend of downsizing organizations and the merger of enterprises has had a traumatic effect on middle managers in many organizations. In the drive to improve efficiency, many middle-level manager jobs have been eliminated. The drastic reduction in personnel in many U.S. enterprises has had unexpected consequences. For example, it was assumed that the working life of the remaining managers would be enriched by more meaningful jobs. The reality is that many managers now feel that they are overworked and that their contributions go unappreciated.

The restructuring of organizations has resulted in great job insecurity and low morale. Managers are often reluctant to share information because they want to protect their jobs. Moreover, they hesitate to speak freely in meetings because they do not want to risk crossing their boss. Middle managers feel that they do not get sufficient information from top managers, who often do not provide vision and leadership for the enterprise.

Whatever the situation, the bitterness and alienation of many lower-level managers affect morale and productivity. If companies want to be competitive, employees must be committed to enterprise goals. To elicit this dedication requires corporate concern for the individual, recognition of his or her dignity as a human being, and reasonable job security with an opportunity for personal growth and development.

Motivation

Human motives are based on needs, whether consciously or subconsciously felt. Some are primary needs, such as the physiological needs for water, air, food, sleep, and shelter. Other needs may be regarded as secondary, such as self-esteem, status, affiliation with others, affection, giving,

accomplishment, and self-assertion. Naturally, these needs vary in intensity and over time between individuals.

Motivation A general term applying to the entire class of drives, desires, needs, wishes, and similar forces.

Motivation is a general term applying to the entire class of drives, desires, needs, wishes, and similar forces. To say that managers motivate their subordinates is to say that they do things which they hope will satisfy these drives and desires and induce the subordinates to act in a desired manner.

International Perspective

Self-motivation

Managers are responsible for providing an environment conducive to performance. But individuals themselves are responsible for self-motivation. One approach is through strategic career management (which was discussed in Chapter 12). George Odiorne, a management professor, scholar, and experienced consultant, made specific recommendations for motivating yourself. Here are some:

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- Set a goal for yourself and do not lose sight of it. Lee Iacocca (former president of Chrysler) set the goal of becoming vice president at Ford Motor Company by age 35, and for 15 years this aim motivated him and guided his behavior.
- Supplement your long-term objectives with short-term goals and specific actions. It has been said that to get something done is to begin.
- Learn a challenging new task each year. Learning to become a manager does not stop with a bachelor's or master's degree in business. A degree is the real beginning, not the end, of learning. Learning and applying microcomputer technology might be considered a challenging task.
- Make your job a different one. Set improvement objectives for your position. With some imagination, you probably can considerably increase your productivity.
- Develop an area of expertise. Build on your strengths or develop one of your weaknesses into strength. You might want to be known as the best accountant or the best engineer in your specific area of competence.
- Give yourself feedback and reward yourself. Setting verifiable goals provides you with a standard against which you can measure your performance. Why not have a special dinner to celebrate your accomplishments?

An Early Behavioral Model: McGregor's Theory X and Theory Y

One view about the nature of people has been expressed by Douglas McGregor in his Theory X and Theory Y.[2] Managing, McGregor suggests,

McGregor's Theory X and Theory Y Two sets of assumptions about the nature of people.

must start with the basic question of how managers see themselves in relation to others. This viewpoint requires some thought on the perception of human nature. Theories X and Y are two sets of assumptions about the nature of people. McGregor chose these terms because he wanted neutral terminology without any connotation of being "good" or "bad."

Theory X Assumptions

The "traditional" assumptions about the nature of people, according to McGregor, are included in Theory X as follows:

- Average human beings have an inherent dislike of work and will avoid it if they can.
- Because of this human characteristic of disliking work, most people must be coerced, controlled, directed, and threatened with punishment to get them to put forth adequate effort toward the achievement of organizational objectives.
- Average human beings prefer to be directed, wish to avoid responsibility, have relatively little ambition, and want security above all.

Theory Y Assumptions

McGregor sees the assumptions under Theory Y as follows:

- The expenditure of physical and mental effort in work is as natural as play or rest.
- External control and the threat of punishment are not the only means for producing effort toward organizational objectives. People will exercise self-direction and self-control in the service of objectives to which they are committed.
- The degree of commitment to objectives is in proportion to the size of the rewards associated with their achievement.
- Average human beings learn, under proper conditions, not only to accept responsibility but also to seek it.
- The capacity to exercise a relatively high degree of imagination, ingenuity, and creativity in the solution of organizational problems is widely, not narrowly, distributed in the population.
- Under the conditions of modern industrial life, the intellectual potentialities of the average human being are only partially utilized.

These two sets of assumptions obviously are fundamentally different. Theory X is pessimistic, static, and rigid. Control is primarily external, imposed on the subordinate by the superior. In contrast, Theory Y is

optimistic, dynamic, and flexible, with an emphasis on self-direction and the integration of individual needs with organizational demands. There is little doubt that each set of assumptions will affect the way managers carry out their managerial functions and activities.

Clarification of the Theories

McGregor was apparently concerned that Theory X and Theory Y might be misinterpreted. The following points will clarify some of the areas of misunderstanding and keep the assumptions in proper perspective. First, theories X and Y assumptions are just that: they are assumptions only. They are not prescriptions or suggestions for managerial strategies. Rather, these assumptions must be tested against reality. Furthermore, they are intuitive deductions and are not based on research. Second, theories X and Y do not imply "hard" or "soft" management. The "hard" approach may produce resistance and antagonism. The "soft" approach may result in laissez-faire management and is not congruent with Theory Y. The effective manager recognizes the dignity and capabilities, as well as the limitations, of people and adjusts behavior as demanded by the situation. Third, theories X and Y are not to be viewed as being on a continuous scale with X and Y on opposite extremes. They are not a matter of degree; rather, they are completely different views of people.

Fourth, the discussion of Theory Y is not a case for consensus management, nor is it an argument against the use of authority. Under Theory Y, authority is seen as only one of the many ways a manager exerts leadership. Fifth, the variety of tasks and situations requires different approaches to management. At times, authority and structure may be effective for certain tasks, as found in the research by John J. Morse and Jay W. Lorsch.[3] They suggest that different approaches are effective in different situations. Thus, the productive enterprise is one that fits the task requirements to the people and the particular situation. We shall describe in the following section various theories of motivation.

Maslow's Hierarchy of Needs Theory

Maslow's needs theory When one set of needs is satisfied, this kind of need ceases to be a motivator.

One of the most widely mentioned theories of motivation is the hierarchy of needs theory put forth by psychologist Abraham Maslow.[4] Maslow saw human needs in the form of a hierarchy, ascending from the lowest to the highest; and he concluded that, when one set of needs is satisfied, this kind of need ceases to be a motivator.

The Needs Hierarchy

The basic human needs placed by Maslow in an ascending order of importance and shown in Figure 14-1 are these:

1. *Physiological needs.* These are the basic needs for sustaining human life itself, such as food, water, warmth, shelter, and sleep. Maslow took the position that, until these needs are satisfied to the degree necessary to maintain life, other needs will not motivate people.
2. *Security, or safety, needs.* People want to be free of physical danger and of the fear of losing a job, property, food, or shelter.
3. *Affiliation, or acceptance, needs.* Since people are social beings, they need to belong, to be accepted by others.
4. *Esteem needs.* According to Maslow, once people begin to satisfy their need to belong, they tend to want to be held in esteem both by themselves and by others. This kind of need produces such satisfactions as power, prestige, status, and self-confidence.
5. *Need for self-actualization.* Maslow regards this as the highest need in his hierarchy. It is the desire to become what one is capable of becoming—to maximize one's potential and to accomplish something.

Questioning the Needs Hierarchy

Maslow's concept of a hierarchy of needs has been subjected to considerable research. Edward Lawler and J. Lloyd Suttle collected data on 187 managers in two different organizations over a period of 6 to 12 months.[5] They found little evidence to support Maslow's theory that human needs form a hierarchy. They did note, however, that there are two levels of needs—biological and other needs—and that the other needs would emerge only

FIGURE 14-1 Maslow's hierarchy of needs



when biological needs are reasonably satisfied. They found further that at the higher level the strength of needs varies with the individual: in some individuals social needs predominate, while in others self-actualization needs are strongest.

In another study of Maslow's needs hierarchy involving a group of managers over a period of five years, Douglas T. Hall and Khalil Nougaim did not find strong evidence of a hierarchy.[6] They found that, as managers advance in an organization, their physiological and safety needs tend to decrease in importance, while their needs for affiliation, esteem, and self-actualization tend to increase. They insisted, however, that the upward movement of need prominence results from upward career changes and not from the satisfaction of lower-order needs.

Alderfer's ERG Theory

Alderfer's ERG theory People are motivated by existence needs, relatedness needs, and growth needs.

The ERG theory by Clayton Alderfer is similar to Maslow's hierarchy of needs. However, the ERG theory has only three categories: existence needs (similar to Maslow's basic needs), relatedness needs (pertaining to satisfactorily relating to others), and growth needs (referring to self-development, creativity, growth, and competence).[7] Thus, ERG refers to those three categories of existence, relatedness, and growth. Alderfer suggests that one may be motivated by needs on several levels at the same time. For example, one may go to work to make a living (existence needs satisfaction), and at the same time one may be motivated by good relations with coworkers. Also, according to Alderfer, when people experience frustration on one level, they may focus on the needs at a lower-level needs category.

Herzberg's Motivation–Hygiene Theory

Herzberg's two-factor theory Dissatisfiers, also called maintenance, hygiene, or job-context factors, are not motivators, while satisfiers are motivators and are related to job content.

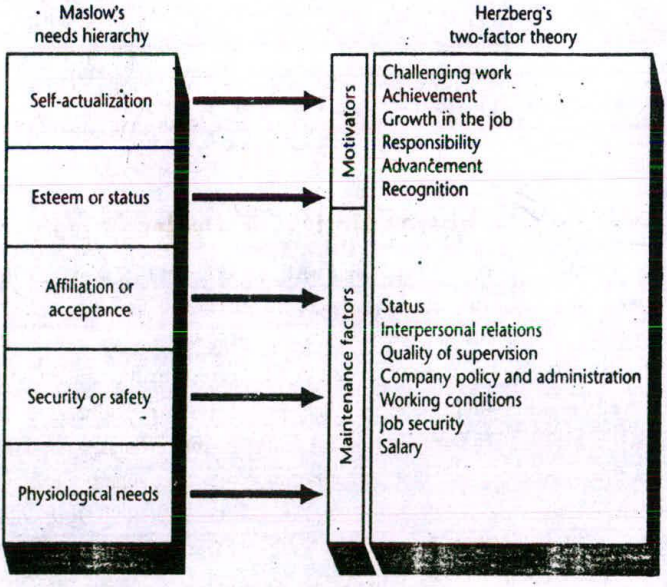
Maslow's needs approach has been considerably modified by Frederick Herzberg and his associates.[8] Their research purports to find a **two-factor theory** of motivation. In one group of needs are such things as company policy and administration, supervision, working conditions, interpersonal relations, salary, status, job security, and personal life. These were found by Herzberg to be only *dissatisfiers* and not motivators. In other words, if they exist in a work environment in high quantity and quality, they yield no dissatisfaction. Their existence does not motivate in the sense of yielding satisfaction; their lack of existence would, however, result in dissatisfaction. Herzberg calls them *maintenance, hygiene, or job-context factors.*

In the second group, Herzberg lists certain *satisfiers*—and therefore motivators—all related to *job content*. They include achievement, recognition, challenging work, advancement, and growth in the job. Their existence will yield feelings of satisfaction or no satisfaction (not dissatisfaction). As Figure 14-2 indicates, the satisfiers and dissatisfiers identified by Herzberg are similar to the factors suggested by Maslow.

The first group of factors (the dissatisfiers) will not motivate people in an organization; yet they must be present, or dissatisfaction will arise. The second group, or the job-content factors, were found to be the real motivators because they have the potential of yielding a sense of satisfaction. Clearly, if this theory of motivation is sound, managers must give considerable attention to upgrading job content.

The Herzberg research has not gone unchallenged. Some researchers have questioned Herzberg's investigation methods, which they said tended to prejudice the results. For example, the well-known tendency of people to attribute good results to their own efforts and to blame others for poor results is thought to have prejudiced Herzberg's findings. Other researchers, not following his methods, have arrived at conclusions that do not support the theory.

FIGURE 14-2 Comparison of Maslow's and Herzberg's theories of motivation



The Expectancy Theory of Motivation

Vroom's expectancy theory People will be motivated to do things to reach a goal if they believe in the worth of that goal and if they can see that what they do will help them in achieving it.

Another approach, one that many believe goes far in explaining how people are motivated, is the expectancy theory. One of the leaders in advancing and explaining this theory is the psychologist Victor H. Vroom. He holds that people will be motivated to do things to reach a goal if they believe in the worth of that goal and if they can see that what they do will help them in achieving it.[9] In a sense, this is a modern expression of what the German priest Martin Luther observed centuries ago when he said, "Everything that is done in the world is done by hope."

In greater detail, Vroom's theory is that people's motivation toward doing anything will be determined by the value they place on the outcome of their effort (whether positive or negative) multiplied by the confidence they have that their effort will materially aid in achieving a goal. In his own terms, Vroom's theory may be stated as

$$\text{Force} = \text{Valence} \times \text{Expectancy}$$

where *force* is the strength of a person's motivation, *valence* is the strength of an individual's preference for an outcome, and *expectancy* is the probability that a particular action will lead to a desired outcome. When a person is indifferent about achieving a certain goal, a valence of zero occurs; there is a negative valence when the person would rather not achieve the goal. The result of either would be, of course, no motivation. Likewise, a person would have no motivation to achieve a goal if the expectancy were zero or negative. The force exerted to do something will depend on *both* valence and expectancy. Moreover, a motive to accomplish some action might be determined by a desire to accomplish something else. For example, a person might be willing to work hard to produce a product for a valence in the form of pay. Or a manager might be willing to work hard to achieve company goals in marketing or production for a promotion or pay valence.

The Vroom Theory and Practice

One of the great attractions of the Vroom theory is that it recognizes the importance of individual needs and motivations. It thus avoids some of the simplistic features of the Maslow and Herzberg approaches. It does seem more realistic. It fits the concept of harmony of objectives: individuals have personal goals that are different from organizational goals, but these can be harmonized. Furthermore, Vroom's theory is completely consistent with the system of managing by objectives.

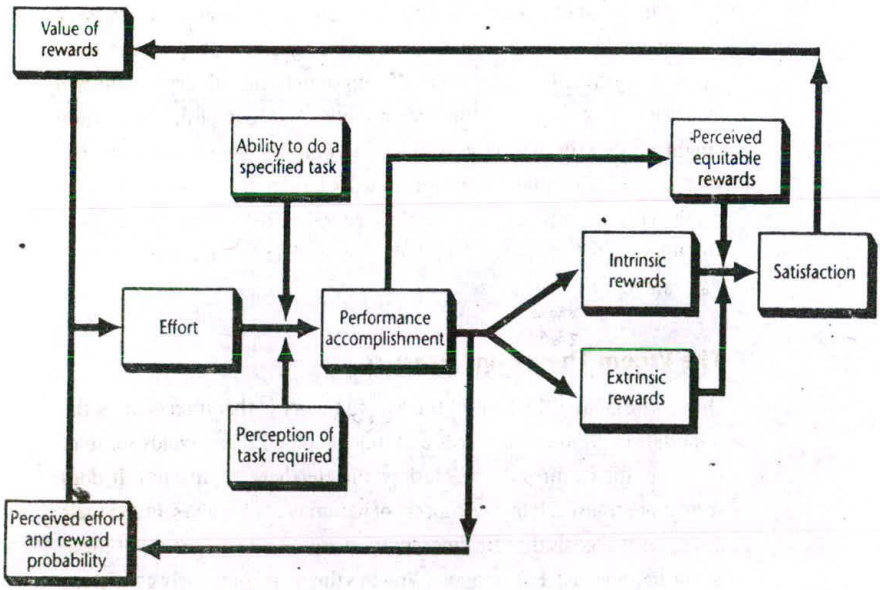
The strength of Vroom's theory is also its weakness. His assumption that perceptions of value vary between individuals at different times and in different places appears to fit real life more accurately. It is consistent also with the idea that a manager's job is to *design* an environment for performance, necessarily taking into account the differences in various situations. On the other hand, the theory is difficult to apply in practice. Despite its difficulty in application, the logical accuracy of Vroom's theory indicates that motivation is much more complex than the approaches of Maslow and Herzberg seem to imply.

The Porter and Lawler Motivation Model

Lyman W. Porter and Edward E. Lawler derived a substantially more complete model of motivation, built in large part on expectancy theory. In their study, they applied this model primarily to managers.[10] It is summarized in Figure 14-3.

As this model indicates, the amount of effort (the strength of motivation and energy exerted) depends on the value of a reward plus the amount of energy a person believes is required and the probability of receiving the

FIGURE 14-3 Porter and Lawler's motivation model



Adapted from L. W. Porter and E. E. Lawler, *Managerial Attitudes and Performance* (Homewood, IL: Richard D. Irwin, Inc., 1968), p. 165.

reward. The perceived effort and probability of actually getting a reward are in turn influenced by the experience of actual performance. Clearly, if people know they can do a job or if they have done it, they have a better appreciation of the effort required and know better the probability of getting a reward.

Actual performance in a job (the doing of tasks or the meeting of goals) is determined principally by effort expended. But it is also greatly influenced by an individual's ability (knowledge and skills) to do the job and by his or her perception of what the required task is (the extent to which the person understands the goals, required activities, and other elements of a task). Performance, in turn, is seen as leading to intrinsic rewards (such as a sense of accomplishment or self-actualization) and extrinsic rewards (such as working conditions and status). These rewards, tempered by what the individual sees as equitable, lead to satisfaction. But performance also influences sensed equitable rewards. Understandably, what the individual sees as a fair reward for effort will necessarily affect the satisfaction derived. Likewise, the actual value of rewards will be influenced by satisfaction.

Implications for Practice

The Porter and Lawler model of motivation, while more complex than other theories of motivation, is almost certainly a more adequate portrayal of the system of motivation. To the practicing manager, this model means that motivation is not a simple cause and effect matter. It means, too, that managers should carefully assess their reward structures. Through careful planning, managing by objectives, and clearly defining duties and responsibilities through a good organization structure, the effort–performance–reward–satisfaction system can be integrated into an entire system of managing.

Equity Theory

Equity theory Motivation is influenced by an individual's subjective judgment about the fairness of the reward he or she gets, relative to the inputs, compared with the rewards of others.

An important factor in motivation is whether individuals perceive the reward structure as being fair. One way of addressing this issue is through the use of equity theory, which refers to an individual's subjective judgment about the fairness of the reward he or she gets, relative to the inputs (which include many factors, such as effort, experience, and education), in comparison with the rewards of others. J. Stacy Adams has received a great deal of credit for the formulation of the equity (or inequity) theory.[11] The essential aspect of the theory may be expressed as follows:

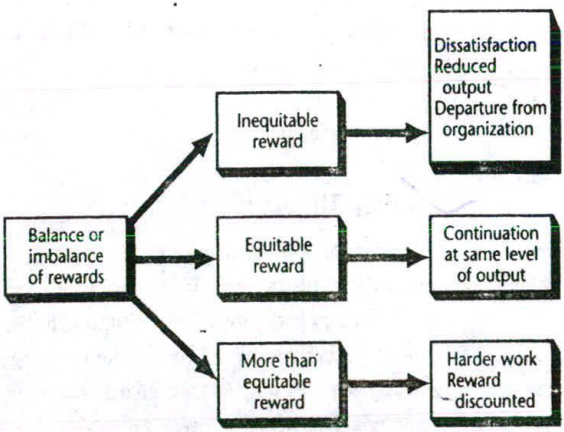
$$\frac{\text{Outcomes by a person}}{\text{Inputs by a person}} = \frac{\text{Outcomes by another person}}{\text{Inputs by another person}}$$

There should be a balance of the outcomes/inputs relationship for one person in comparison with that for another person.

If people feel that they are inequitably rewarded, they may be dissatisfied, they may reduce the quantity or quality of output, or they may even leave the organization. If people perceive the rewards as equitable, they probably will continue at the same level of output. If people think the rewards are greater than what is considered equitable, they may work harder. It is also possible that some may discount the rewards. These three situations are illustrated in Figure 14-4.

One of the problems is that people may overestimate their own contributions and the rewards others receive. Certain inequities may be tolerated for some time by employees.[12] But prolonged feelings of inequity may result in strong reactions to an apparently minor occurrence. For example, an employee being reprimanded for being a few minutes late may get angry and decide to quit the job, not so much because of the reprimand but because of long-standing feelings that the rewards for his or her contributions are inequitable in comparison with others' rewards. Likewise, a person may be very satisfied with a weekly salary of $500 until he or she finds out that another person doing similar work gets $10 more.

FIGURE 14-4 Equity theory



Goal Setting Theory of Motivation[13]

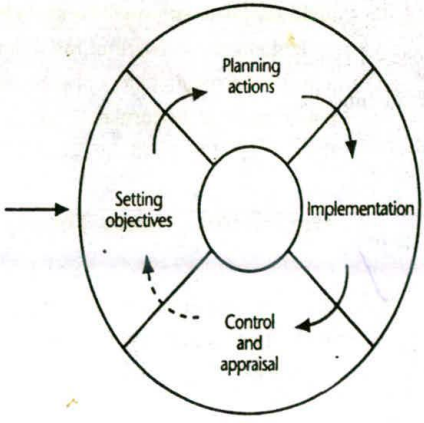
In Chapter 4, the systems approach to management by objectives (MBO) was introduced. The model shown in Figure 4-4 in that chapter shows a comprehensive view of MBO. Research has shown that, to be effective, many key managerial activities have to be integrated into a comprehensive system. Still, an important part of this system pertains to the steps required, of setting objectives, planning actions, implementation, and control and appraisal, as shown in Figure 14-5. You will recall that the terms *objectives* and *goals* are often used interchangeably in the management literature.

For objectives to be meaningful, they must be clear, attainable, and verifiable.

The proposition is that, for objectives to be meaningful, they must be clear, attainable, and verifiable. Indeed, clear goals, if accepted, are motivating. People want to know what is expected of them. However, several conditions must be met, including that the objectives must be verifiable, which means that at the end of the period one must be able to measure whether the objectives have been achieved and to what extent. Objectives such as "getting the best grades possible in school" are not verifiable, but graduating with a 3.8 grade point average is. The objectives must be challenging, yet they must also be reasonable. Completely unrealistic objectives that cannot be achieved are demotivating rather than motivating, which is an important aim of MBO.

To gain commitment to achieving the goals, true participation in setting them is essential. In the proper environment, individuals should be encouraged to set them by themselves. The superior, of course, should review and approve them. Chances are that, in the proper environment, people tend to set goals higher than their superior would set them.

FIGURE 14-5 Objective setting for motivation



For additional conditions for effective goal setting that improve motivation, see the checklist in Table 4-2 in Chapter 4.

Skinner's Reinforcement Theory

Positive reinforcement or behavior modification Individuals can be motivated by proper design of their work environment and by praise for their performance, while punishment for poor performance produces negative results.

The psychologist B. F. Skinner of Harvard developed an interesting, but controversial, technique for motivation. This approach, called **positive reinforcement** or **behavior modification**,[14] holds that individuals can be motivated by proper design of their work environment and by praise for their performance and that punishment for poor performance produces negative results.

Skinner and his followers do far more than praise good performance. They analyze the work situation to determine what causes workers to act the way they do, and then they initiate changes to eliminate troublesome areas and obstructions to performance. Specific goals are then set with workers' participation and assistance, prompt and regular feedback of results is made available, and performance improvements are rewarded with recognition and praise. Even when performance does not equal goals, ways are found to help people and to praise them for the good things they do. It has also been found highly useful and motivating to give people full information on a company's problems, especially those in which they are involved.

This technique sounds almost too simple to work, and many behavioral scientists and managers are skeptical about its effectiveness. However, a number of prominent companies have found the approach beneficial.

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Emery Air Freight Corporation, for example, observed that this approach saved the company a substantial amount of money by merely inducing employees to take great pains to ensure that containers were properly and fully filled with small packages before shipment.

Perhaps the strength of the Skinner approach is that it is so closely akin to the requirements of good managing. It emphasizes removal of obstructions to performance, careful planning and organizing, control through feedback, and the expansion of communication.

McClelland's Needs Theory of Motivation

David C. McClelland has contributed to the understanding of motivation by identifying three types of basic motivating needs.[15] He classifies them as the need for power, need for affiliation, and need for achievement. Considerable research has been done on methods of testing people with

McClelland's needs theory The basic motivating needs are the need for power, the need for affiliation, and the need for achievement.

respect to these three types of needs, and McClelland and his associates have done substantial research, especially on the need for achievement.

All three drives—power, affiliation, and achievement—are of particular relevance to management, since all must be recognized to make an organized enterprise work well.

Need for Power

McClelland and other researchers have found that people with a high need for power have a great concern with exercising influence and control. Such individuals generally are seeking positions of leadership; they are frequently good conversationalists, though often argumentative; they are forceful, outspoken, hardheaded, and demanding; and they enjoy teaching and public speaking.

Need for Affiliation

People with a high need for affiliation usually derive pleasure from being loved and tend to avoid the pain of being rejected by a social group. As individuals, they are likely to be concerned with maintaining pleasant social relationships, to enjoy a sense of intimacy and understanding, to be ready to console and help others in trouble, and to enjoy friendly interaction with others.

Need for Achievement[16]

People with a high need for achievement have an intense desire for success and an equally intense fear of failure. They want to be challenged, and they set moderately difficult (but not impossible) goals for themselves. They take a realistic approach to risk; they are not likely to be gamblers but, rather, prefer to analyze and assess problems, assume personal responsibility for getting a job done, and like specific and prompt feedback on how they are doing. They tend to be restless, like to work long hours, do not worry unduly about failure if it does occur, and tend to like to run their own shows.

How McClelland's Approach Applies to Managers

In research studies by McClelland and others, entrepreneurs—people who start and develop a business or some other enterprise—showed very high need-for-achievement and fairly high need-for-power drives but were quite

low in their need for affiliation. Managers generally showed high on achievement and power and low on affiliation, but not as high or as low as entrepreneurs.

McClelland found the pattern of achievement motivation clearest in people in small companies, with the president normally having very high achievement motivation. In large companies, what is quite interesting is that he found chief executives to be only average in achievement motivation and often stronger in power and affiliation drives. Managers in the upper-middle level of management in such companies rated higher than their presidents in achievement motivation. Perhaps, as McClelland indicated, these scores are understandable. The chief executive has "arrived," while those below are striving to advance.

The question is often raised as to whether all managers should rate high on achievement motivation. People who do rate high tend to advance faster than those who do not. But because so much of managing requires other characteristics besides achievement drive, every company should probably have many managers who, while possessing fairly strong achievement motivation, also have a high need for affiliation. This latter need is important for working with people and for coordinating the efforts of individuals working in groups.

Special Motivational Techniques

After looking at the theories of motivation, one may well ask what they mean to managers. What motivational techniques can managers use? While motivation is so complex and individualized that there can be no single best answer, some of the major motivational techniques can be identified.

Money[17]

Money is often more than monetary value; it can also mean status or power, or other things.

Money can never be overlooked as a motivator. Whether in the form of wages, piecework (getting paid for units produced at a certain quality level) or any other incentive pay, bonuses, stock options, company-paid insurance, or any of the other things that may be given to people for performance, money is important. And as some writers have pointed out, money is often more than monetary value; it can also mean status or power, or other things.

Economists and most managers have tended to place money high on the scale of motivators, while behavioral scientists tend to place it low.

Probably neither view is right. But if money is to be the kind of motivator that it can and should be, managers must remember several things.

First, money, as money, is likely to be more important to people who are raising a family, for example, than to people who have "arrived" in the sense that their financial needs are not so urgent. Money is an urgent means of achieving a minimum standard of living, although this minimum has a way of getting higher as people become more affluent. An individual who was once satisfied with a small house and a low-priced car may now be able to derive the same satisfaction only from a large and comfortable house and a fairly luxurious automobile. And yet it is impossible to generalize in even these terms. For some people money will always be of the utmost importance, while for others it may never be.

International Perspective

The Other Side of the Coin

The lure of money and power can lead to inappropriate and illegal actions. Ivan F. Boesky was accused of insider trading that resulted in huge personal profits—and a $100 million fine. The scandal, one of the worst on Wall Street since the 1920s, shook public confidence with the fear that stock trading may be rigged.[18] While money is often used for motivating, it also addresses itself to human greed, which dulls the conscience and may result in unethical and illegal behavior.

Second, it is probably quite true that in most kinds of businesses and other enterprises, money is used as a means of keeping an organization adequately staffed and not primarily as a motivator. Enterprises usually make wages and salaries competitive within their industry and their geographic area to attract and hold people.

Third, money as a motivator tends to be dulled somewhat by the practice of making the salaries of the various managers in a company reasonably similar. In other words, organizations often take great care to ensure that people on comparable levels are given the same, or nearly the same, compensation. This is understandable, since people usually evaluate their compensation in light of what their equals are receiving.

Fourth, if money is to be an effective motivator, people in various positions, even though at a similar level, must be given salaries and bonuses that reflect their individual performance. Even if a company is committed to the practice of comparable wages and salaries, a well-managed firm need never be bound to the same practice with respect to bonuses. In fact, it appears that, unless bonuses for managers are based to a major extent on individual performance, an enterprise is not buying much motivation

with them. The way to ensure that money has meaning, as a reward for accomplishment and as a means of giving people pleasure from accomplishment, is to base compensation as much as possible on performance.

It is almost certainly true that money can motivate only when the prospective payment is large relative to a person's income. The trouble with many wage and salary increases, and even bonus payments, is that they are not large enough to motivate the receiver. They may keep the individual from being dissatisfied and from looking for another job, but they are not likely to be a strong motivator, unless they are large enough to be felt.

Traditionally, pay and promotion in Japan are based on seniority. However, in some Japanese companies, merit pay has been introduced. The reason is that some young Japanese professionals are leaving secure positions for exciting work in Internet companies. In order to keep employees, companies use merit pay based on performance.

Other Rewards Considerations

Intrinsic rewards may include a feeling of accomplishment and self-actualization.

Extrinsic rewards include benefits, recognition, status symbols, and money.

Implicit in most motivation theories are intrinsic and extrinsic rewards. *Intrinsic rewards* may include a feeling of accomplishment, or even self-actualization. *Extrinsic rewards* include benefits, recognition, status symbols, and of course money. Some compensation plans may not provide a strong incentive, such as the hourly, weekly, or even annual salary. On the other hand, *incentive plans* may be based on piecework, sales commission, merit pay, bonus plans, profit or gain (e.g., productivity gain) sharing, and stock options. In Chapter 12 on performance appraisal, we illustrated the incentive plan at the Lincoln Electric Company. Some companies offer "cafeteria" compensation plans tailored to the needs and preferences of the individual employee.

Pay may be based on individual, group, and organizational performance.

The pay may be based on individual, group, and organizational performance. When the pay is based solely on *individual performance*, people may compete against each other, which may make teamwork and cooperation difficult. On the other hand, if *group performance* is the sole criterion for merit pay, some individuals may not contribute their fair share of effort. Considering *organizational performance* as a criterion of bonuses is based on the notion that employees contributed to outstanding performance and therefore should be rewarded. To realize the benefits of individual, group, and organizational reward systems, some companies use a combination of plans.

Participation

There is increased awareness and use of a technique that has been given strong support by motivation theory and research, and that is participation. Only rarely are people not motivated by being consulted on action affecting them—by being "in on the act." In addition, most people at the center of an operation have knowledge both of problems and of solutions to them. As a consequence, the right kind of participation yields both motivation and knowledge valuable for enterprise success.

Participation is also a means of recognition. It appeals to the need for affiliation and acceptance. Above all, it gives people a sense of accomplishment. But encouraging participation should not mean that managers weaken their position. Although they encourage participation of subordinates on matters with which the latter can help, and although they listen carefully, they must themselves decide on matters requiring *their* decision.

Quality of Working Life

www.qwl.com

One of the most interesting approaches to motivation is the quality of working life (QWL) program, which is a systems approach to job design and a promising development in the broad area of job enrichment, combined with a grounding in the sociotechnical systems approach to management (see Chapter 1). QWL is not only a very broad approach to job enrichment but also an interdisciplinary field of inquiry and action combining industrial and organizational psychology and sociology, industrial engineering, organization theory and development, motivational and leadership theory, and industrial relations. Although QWL rose to prominence only in the 1970s, there are now hundreds of case studies and practical programs and a number of QWL centers, primarily in the United States, Great Britain, and Scandinavia.

QWL has received enthusiastic support from a number of sources. Managers have regarded it as a promising means of dealing with stagnating productivity, especially in the United States and Europe. Workers and union representatives have also seen it as a means of improving working conditions and productivity and as a means of justifying higher pay. Government agencies have been attracted to QWL as a means of increasing productivity and reducing inflation and as a way of obtaining industrial democracy and minimizing labor disputes.

International Perspective

QWL in Action

In the development of a QWL program, certain steps are normally undertaken. Usually, a labor–management steering committee is set up, ordinarily with a QWL specialist or staff, which is charged with finding ways of enhancing the dignity, attractiveness, and productivity of jobs through job enrichment and redesign. The participation of workers and their unions (if an operation is unionized) in the effort is thought to be very important, not only because of the exercise of industrial democracy but also because of the great practical advantage it offers: people on a job are the ones who are best able to identify what would enrich the job for them and make it possible for them to be more productive. This typical QWL technique tends to solve the problem encountered in many job enrichment programs in which workers are not asked what would make the job more interesting for them.

Out of the deliberations of this committee, a number of changes may be suggested in the design of jobs and in the entire working environment. The recommendations of the committee may extend to such matters as reorganization of the enterprise, means of improving communication, problems that may never have surfaced before and their solutions, changes in work arrangements through technical modifications such as the redesign of an assembly line, better quality control, and other things that might improve organizational health and productivity.

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It is no wonder that QWL, with such possible important yields, has been spreading fast, especially in larger companies. Nor is it a surprise that leaders in adopting QWL programs should be such well-managed companies as General Motors, Procter & Gamble, American Aluminum (ALCOA), and AT&T.

Job Enrichment

Research on and analysis of motivation point to the importance of making jobs challenging and meaningful. This applies to the jobs of managers as well as to those of nonmanagers. Job enrichment is related to Herzberg's theory of motivation, in which factors such as challenge, achievement, recognition, and responsibility are seen as the real motivators. Even though his theory has not gone unchallenged, it has led to widespread interest worldwide in developing ways to enrich job content, particularly for nonmanagerial employees.

Job enrichment should be distinguished from job enlargement (but some authors do not make this distinction). **Job enlargement** attempts

Job enlargement Enlarging the scope of the job by adding similar tasks without enhancing responsibility.

Job enrichment Building into jobs a higher sense of challenge and achievement.

to make a job more varied by removing the dullness associated with performing repetitive operations. It means enlarging the scope of the job by adding similar tasks without enhancing responsibility. For example, a production line worker may install not only the bumper on a car but also the front hood. Critics would say that this is simply adding one dull job to another, since it does not increase the worker's responsibility. In **job enrichment**, the attempt is to build into jobs a higher sense of challenge and achievement. Jobs may be enriched by variety. But they also may be enriched by (1) giving workers more freedom in deciding about such things as work methods, sequence, and pace or the acceptance or rejection of materials; (2) encouraging participation of subordinates and interaction between workers; (3) giving workers a feeling of personal responsibility for their tasks; (4) taking steps to make sure that workers can see how their tasks contribute to a finished product and to the welfare of the enterprise; (5) giving people feedback on their job performance, preferably before their supervisors get it; and (6) involving workers in the analysis and change of physical aspects of the work environment, such as the layout of the office or plant, temperature, lighting, and cleanliness.

Limitations of Job Enrichment

Even the strongest supporters of job enrichment readily admit that there are limitations in its application. One of these is technology. With specialized machinery and assembly line techniques, it may not be possible to make all jobs very meaningful. Another limitation is costs. General Motors tried six-person and three-person teams in the assembly of motor homes but found that this approach was too difficult, slow, and costly. On the other hand, two Swedish auto manufacturers, Saab and Volvo, have used the team approach and have found costs to be only slightly higher, and they believe that this increase is more than offset by reduction in absenteeism and turnover.

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There is also some question as to whether workers really want job enrichment, especially of the kind that changes the basic content of their jobs. Various surveys of worker attitudes, even the attitudes of assembly line workers, have shown that a high percentage of workers are not dissatisfied with their jobs and that few want "more interesting" jobs. What these workers seem to want above all is job security and pay. Moreover, workers are concerned that changing the nature of tasks to increase productivity may mean a loss of jobs.

The limitations of job enrichment apply mainly to low-skill jobs. The jobs of highly skilled workers, professionals, and managers already contain varying degrees of challenge and accomplishment. Perhaps they could still be enriched considerably more than they are. But this can probably be done best by management techniques such as managing by objectives, utilizing more policy guidance with delegation of authority, introducing more status symbols in the form of titles and office facilities, and tying bonus and other rewards more closely to performance.

Making Job Enrichment Effective

Several approaches can be used to make job enrichment appeal to higher-level motivations. First, organizations need a better understanding of what people want. As a number of motivation researchers have pointed out, wants vary with people and situations. Research has shown that workers with few skills want such factors as job security, pay, benefits, less restrictive rules, and more sympathetic and understanding supervisors. As people move up the ladder in an enterprise, they find that other factors become increasingly important. But little job enrichment research has been done on high-level professionals and managers.

Second, if productivity improvement is the main goal of enrichment, the program must show how workers will benefit. In one company with fleets of unsupervised two-person service trucks, a program of giving these employees 25 percent of the cost savings from increased productivity, while still making it clear that the company would profit from their efforts, resulted in a startling rise in output and a much greater interest in these jobs.

Third, people like to be involved, to be consulted, and to be given an opportunity to offer suggestions. They like to be considered as people. In one aerospace missile plant, increased morale and productivity, as well as greatly reduced turnover and absenteeism, resulted from the simple technique of having all employees' names on placards at their workstations and having each program group—from parts production and assembly to inspection—work in an area in which machines and equipment were painted a different color for each group.

Fourth, people like to feel that their managers are truly concerned with their welfare. Workers like to know what they are doing and why. They like feedback on their performance. They like to be appreciated and recognized for their work.

A Systems and Contingency Approach to Motivation

Motivation must be considered from a systems and contingency point of view.

The foregoing analysis of theory, research, and application demonstrates that motivation must be considered from a systems and contingency point of view. Given the complexity of motivating people with individual personalities and in different situations, the risk of failure exists when any single motivator, or group of motivators, is applied without taking into account these variables. Human behavior is not a simple matter but must be looked upon as a complex system of variables and interactions of which certain motivating factors are an important element.

Summary

Leading is the process of influencing people so that they will contribute to organizational and group goals. People assume different roles, and there is no average person. While working toward goals, a manager must take into account the dignity of the whole person.

Motivation is not a simple concept; rather, it pertains to various drives, desires, needs, wishes, and other forces. Managers motivate by providing an environment that induces organization members to contribute.

There are different views and assumptions about human nature. McGregor called his sets of assumptions about people Theory X and Theory Y. Maslow's theory holds that human needs form a hierarchy ranging from the lowest-order needs (physiological needs) to the highest-order need (the need for self-actualization). Alderfer's ERG theory, which has only three categories (Maslow has five), suggests that a person may be motivated in more than one category at the same time. According to Herzberg's two-factor theory, there are two sets of motivating factors. In one set are the dissatisfiers, which are related to the job context (circumstances, conditions). The absence of these factors results in dissatisfaction. In the other set are the satisfiers, or motivators, which are related to the content of the job.

Vroom's expectancy theory of motivation suggests that people are motivated to reach a goal if they think that the goal is worthwhile and they can see that their activities will help them achieve the goal. The Porter and Lawler model has many variables. Essentially, performance is a function of ability, the perception of the task required, and effort. Effort is influenced by the value of rewards and the perceived effort–reward probability. Performance accomplishment, in turn, is related to rewards and satisfaction.

Equity theory refers to an individual's subjective judgment about the fairness of the reward received for inputs in comparison with the rewards of others. Skinner's reinforcement theory suggests that people are motivated by praise for desirable behavior; people should participate in setting their goals and should receive regular feedback with recognition and praise. Goals can motivate if they are attainable, verifiable, and understood and accepted by the people who have to achieve them. McClelland's theory is based on the need for power, the need for affiliation, and the need for achievement.

Special motivational techniques include using money and other rewards considerations, encouraging participation, and improving the quality of working life. Job enrichment aims at making jobs challenging and meaningful. Although there have been some successes at job enrichment, certain limitations must not be overlooked.

The complexity of motivation requires a contingency approach that takes into account environmental factors.

KEY IDEAS AND CONCEPTS FOR REVIEW

Leading
Human factors in managing
Individual dignity
Motivation
McGregor's Theory X and Theory Y
Maslow's needs hierarchy
Alderfer's ERG theory
Herzberg's motivation–hygiene theory
Vroom's expectancy theory
Porter and Lawler's motivation model
Equity theory
Goal setting theory of motivation
Positive reinforcement or behavior modification
McClelland's needs theory
Money and other rewards considerations
Quality of working life
Job enrichment
Systems and contingency approach to motivation

FOR DISCUSSION

1. What is motivation? How does effective managing take advantage of, and contribute to, motivation?
2. What are Theory X and Theory Y assumptions? State your reasons for agreeing or disagreeing with these assumptions. What are some misunderstandings of these theories?
3. Why has the Maslow theory of needs been criticized? To what extent is it valid?
4. Compare and contrast the Maslow and Herzberg theories of motivation. On what grounds has the Herzberg theory been criticized? Why would you suspect that Herzberg's approach has been very popular with practicing managers?

5. Explain Vroom's expectancy theory of motivation. How is it different from the Porter and Lawler approach? Which appeals to you as being more accurate? Which is more useful in practice?
6. Explain McClelland's theory of motivation. How does it fit into a systems approach?
7. "You cannot motivate managers. They are self-propelled. You just get out of their way if you really want performance." Comment.
8. To what extent, and how, is money an effective motivator?
9. What motivates you in striving toward excellence in your work at school? Are these motivating forces shown in any of the models discussed in this chapter?

EXERCISES/ACTION STEPS

1. The instructor may take a survey in class and ask students to respond to two questions: (1) "Can you describe in detail when you felt exceptionally good about your job?" and (2) "Can you describe in detail when you felt exceptionally bad about your job?" Students should write their answers on a sheet of paper. Then each individual should be encouraged to share his or her good and bad work experiences with the class. The instructor can classify these responses according to Herzberg's two-factor theory and point out the weakness in this research design.
2. Collect information on an organization that you know and identify the reasons why people contribute to the goals of the enterprise.

INTERNET RESEARCH

1. Surf the Internet for the term "motivation." You will get many "hits." Select one for class discussion.
2. Use a popular search engine and type the first and last name of any authors discussed in this chapter. Do you find information that goes beyond what has been discussed in this chapter? If so, what is it?

International Case

Managing the Hewlett-Packard Way: Will It Continue?[19]

William R. Hewlett and David Packard are two organizational leaders who demonstrated a unique managerial style. They began their operation in a one-car garage in 1939 with $538 and eventually built a very successful company that now produces more than 10,000 products, such as computers, peripheral equipment, test and measuring instruments, and handheld calculators. Perhaps even better known than its products is the distinct managerial style preached and practiced at Hewlett-Packard (HP). It is known as the HP Way.

What is the HP Way? I feel that in general terms it is the policies and actions that flow from the belief that men and women want to do a good job, a creative job, and that if they are provided the proper environment they will do so.

Bill Hewlett, HP co-founder[20]

The values of the founders, who withdrew from active management in 1978, still permeate the organization. The HP Way emphasizes honesty, a strong belief in the value of people, and customer satisfaction. The managerial style also emphasizes an open-door policy, which promotes team effort. Informality in personal relationships is illustrated by the use of first names. Management by objectives is supplemented by what is known as managing by wandering around. By strolling through the organization, top managers keep in touch with what is really going on in the company.

This informal organizational climate does not mean that the organization structure has not changed. Indeed, the organizational changes in the 1980s in response to environmental forces were quite painful. However, these changes resulted in extraordinary company growth in that decade.

In the 21st century, however, the fortune began to change. In the new competitive environment, HP felt it necessary to merge with another computer giant, Compaq. The merger architect, Carly Fiorina, was strongly opposed by Walter Hewlett, the son of William Hewlett. After a close vote, the merger was approved, but not without a challenge by Mr. Hewlett. Still, the merger, which was opposed by the majority of HP's employees, went through. Now the challenge begins for Ms. Fiorina not only to reestablish the morale of the HP people but also to merge the HP culture with that of Compaq. Critics predict the HP Way cannot be continued.

Questions

1. Is the HP way of managing creating a climate in which employees are motivated to contribute to the aims of the organization? What is unique about the HP Way?
2. Would the HP managerial style work in any organization? Why or why not? What are the conditions for such a style to work?
3. Do you think it is possible to maintain the HP Way after the merger with Compaq, the court battle, and the damaged morale at HP? Why or why not?

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