

Commonwealth of Learning Executive MBA/MPA Management and Organisations

Course Introduction and Directions

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- Block 1 : Introduction to Management and Organisational Behaviour
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A1 Functions of Management
and

A2 New Public Management

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- Case 1 : Cultural Change at Nissan Motors
- Case 2 : Tohn Hancock Mutual Life Insurance Co. The Inflation
Strategy Task Force (a)
- Case 3 : In the Shadow of the City
- Case 4 : Chang Koh Metal Ptd. Ltd., In China
- Case 5 : Computer Services Team at AVIONICS
- Case 6 : Archimax Systems Ltd.
- Case 7 : Insubordination or Unclear Loyalties?
- Case 8 : Incident or the USS Whitney
- Case 9 : Bernd Sterzel at the IVth Medizinische Klinik (A)

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1 Introduction

This course is organised into 12 blocks addressing topics of management and organisational behaviour. The course begins with a micro focus, embarking from the individual level of analysis and then moving on to group behaviour in organisations. The blocks that follow explore more macro issues at the organisational level of analysis, including decision making, communication, structure, leadership, technology and globalisation, politics and power, culture and organisational change, conflict and negotiation.

2 Structure of the Course

Block One: Introduction to Management and Organisational Behaviour provides an overview of managerial challenges and changes in organisations today, as well as a discussion on organisational behaviour (OB). We discuss the importance of understanding members of organisations and the important role that they play in both the workplace and the success of the organisation.

Block Two: Individual Behaviour examines individual perception and attribution and the role of personality in a work environment. The block will also review individual needs and motivation theories and explain their importance today in managing. We will also discuss diversity in the workplace and the impact this has had on human relations management.

Block Three: Groups in Organisations discusses the effect of relationships in groups, and the distinctions between group and individual behaviour. A distinction will be made between groups and teams, and the effect that groups have on work design.

Block Four: Decision Making illustrates the importance of understanding models of decision making, and highlights some of the primary distinctions between individual and group decision making. As well, there is a discussion on matching people with decision-making status.

Block Five: Communication highlights the functions of communications within organisations and identifies both channels of and barriers to communication. The impact and management of cross-cultural communication is also examined.

Block Six: Organisational Structure identifies traditional structural characteristics, and focusses on the impact of structure on behaviour in organisations. We will examine the distinctions between mechanistic and organic structures, and review the nature of boundary less organisations.

Block Seven: Leadership considers various characteristics of leadership: traditional theories of leadership as well as the role of leadership in sharing a vision, and fostering a work environment that facilitates the realisation of planned objectives. In addition, we will examine various types of leadership opportunities across a number of different levels and functional areas within the organisation.

Block Eight: Globalisation and Technology in Organisations discusses the components of an organisation's external environment, and various managerial, strategic, and behavioural responses to environmental demands. This block will also review contingency theory, and discuss its application to organisations today.

Block Nine: Politics and Power considers politics in the workplace: the source of political behaviour and various approaches to managing and mitigating political behaviour. We will also define power and discuss diverse types of power, as well as review various influence tactics employed by people in the workplace.

Block Ten: Organisational Culture examines how culture is formed, and how we are able to understand and respond to culture. This block also addresses the various challenges in changing organisational culture; why it is difficult, and how we might affect (effect?) cultural change.

Block Eleven: Organisational Change examines various conceptual models of change, strategies of change and the challenges that emerge from successfully implementing change applications. We will also review work stress and various approaches to managing stress.

Block Twelve: Conflict and Negotiations reviews the various sources and types of conflict in organisations, and identifies diverse approaches to managing conflict effectively. This block also focusses on negotiation process and strategy, in an effort to enhance effective negotiating skills.

3 Course Aims and Objectives

Upon completion of this course, you should be able to:

- Describe and explain the primary influences of distinct individual perceptions, attributions, personalities, needs and sources of motivation.
- Make the distinction between group and individual behaviour, and identify the primary stages of group development, decision-making styles, and sources of effective group performance.
- Discuss the importance of effective communication in organisations, throughout the hierarchy, and cross-functionally.
- Understand the impact of structure on the behaviour within organisation, models of structural attributes, merits of departmentation, and structural 'fits' with organisations and industries.
- Recognise the importance of variables that are external to the organisation, and have some understanding of successful integration of these influences on behaviours and strategies within organisations
- Understand the pervasive influence of leadership, power and politics and organisational culture on shaping the behaviour and overall success of organisations.
- Recognise the merits and shortcomings of conflict, and apply managerial and negotiation skills that serve to manage conflict in organisations.

4 Tools for Learning in This Course

There are a number of ways for you to learn in this course. The Course Book presents a number of conceptual models, and you will have the opportunity to link theory to practice through self-assessment exercises, case analysis, and general study questions. In addition, you will be required to prepare a number of assignments that will enable you to make use of all the material in the Course Book. It is recommended that where possible, you relate the course content to your own work environment in an effort to better understand both the sources of behaviour and potential applications to sustain, change, or eliminate that behaviour.

5 Time Guideline for the Course

It is expected that you will spend approximately 120 hours to read this module, respond to the exercises, assessments and cases, and prepare your assignments. The chart presented below provides a guideline for time commitments on a per block basis.

Block	Reading	Activities	Assignments	Total Time
1. Introduction	1	1	1	3
2. Individual Behaviour	3	3	3	9
3. Groups	3	3	2	8
4. Decision Making	3	4	2	9
5. Communication	3	3	2	8
6. Organisational Structure	4	4	3	11
7. Leadership	3	4	3	10
8. Globalisation Technology	3	5	3	11
9. Politics and Power	3	5	3	11
10. Organisational Culture	3	6	4	13
11. Organisational Change	4	5	4	13
12. Conflict and Negotiation	4	6	4	14
TOTAL HOURS	37	49	34	120

The hours stated above are approximate, since no two students bring the same work experience and skills to the course work. Throughout the course, you can check your grasp of concepts with self-assessment questions and applications of conceptual models to other exercises. In addition, you are expected to read and analyse a number of case studies.

6 Course Assignments

Assignment One – Case Analysis

Students may select one case for analysis from the ‘optional submission’ cases (marked as such) in blocks three through twelve. Students will be expected to prepare an analysis that will identify the critical challenge or problem in the organisation, discuss the underlying root causes of the problem, prepare criteria against which to weigh alternative solutions, and present the recommendations and implementation plan. It is expected that students will communicate any relevant conceptual links in this analysis. An executive summary will also be submitted (this page is not numbered). The various components of the case format, as well as the weight given to each section is below. The paper is to be eight (8) pages maximum (double spaced, 12-point font, 1” margins).

VALUE: 30%

Written Case Format

REQUIRED SECTIONS	GUIDELINES
I. Executive Summary 10% (maximum 1 page double spaced. Does not count as part of -page limit)	<ul style="list-style-type: none">• one page in length, no typos• briefly identify major problem(s) facing the key person(s)• summarise recommended plan of action
<div style="border: 1px solid black; padding: 5px;"><i>Your executive summary is the key ‘selling feature’ for your report—busy executives may not read any further than the summary. Write it last. Emphasise clarity, brevity and persuasiveness.</i></div>	
II. Statement of the Problem 10% (3-5 sentences)	<ul style="list-style-type: none">• state the problem(s) facing the key person(s)• conclude with the decision facing the key person(s)
<div style="border: 1px solid black; padding: 5px;"><i>Imagine you have the undivided attention of the decision-maker as you wait for an elevator. You have only one minute to convince him or her you have a handle on this situation. Phrase the problem in the most succinct and compelling way possible.</i></div>	
III. Analysis of the causes of the problem 25% (approximately 3 pages)	<ul style="list-style-type: none">• provide a detailed analysis of the causes of the problems above, using theories and models from the text and readings• do not summarise or repeat the case. Assume the reader is completely familiar with the case• support conclusions and/or assumptions with reference to the text, readings or key points in the case
<div style="border: 1px solid black; padding: 5px;"><i>Theoretical material should link theory to case issues and should convince the decision-maker of the validity of your analysis.</i></div>	

...Case format requirements are continued on next page.

- IV. Decision criteria and alternative solutions**
(approximately two pages)
10%
- identify criteria against which you will evaluate solutions
 - include two or three alternate solutions
 - evaluate all solutions against identified criteria

Decision criteria should reflect the top priorities of the organisation in this particular case (e.g. improve quality, boost productivity, cost less than \$x; can be implemented in y months).

- V. Recommended solution, implementation and justification**
(approximately 3 pages)
35%
- solution and implementation should fit with problems and criteria identified above
 - identify what should be done, when, how and by whom, to implement your recommended solution
 - include a statement of downside risk and a contingency plan to address potential difficulties

Implementation should be detailed and realistic. Then, close on a strong note. State briefly and convincingly the best justification for your recommended course of action.

- Format**
10%
- type double-spaced, in 12-point font, with 1” margins all around
 - use headings and bullet points to maximise clarity
 - use additional 3 pages for exhibits

A business report—like a resumé—should contain NO mistakes of grammar, spelling or punctuation. Anything less than professional quality demonstrates lack of attention to detail.

Assignment Two: Organisational Analysis

The purpose of this exercise is to study an organisation and diagnose it as to the concepts and applications that we cover in this course. Doing such a diagnosis will enable you to see better how the course ideas apply in ‘real time’, and to understand the ‘fit’ among organisational dimensions that we will study. The paper will be no longer than 20 pages, including appendices (double spaced, 12 point font, with 1” margins).

Students may choose any organisation to which they have access, including the one in which you are currently employed. It can be any type of organisation, in any industry or sector. Imagine that you are a consultant hired by the president of the organisation to report and make recommendations for improving the motivation and performance of the human resources in the organisation. Do not get involved in marketing issues or finance issues. Concern yourself with organisational issues that impact employee behaviour.

You will need to consider the following when collecting your data:

- the external environment of the chosen organisation
- the structure of the organisation
- technology

- job design
- employee motivation
- decision making
- communication
- leadership and managerial style
- culture, power and politics

After collecting data through interviews, media reports (if they exist), and written documentation in the organisation (if you have access to such material), you must apply your understanding of what the data mean. From the various topics listed above, you may conclude that two or three of these areas in particular represent a source of inefficiency or ineffectiveness within the organisation. You must then make some recommendations that you feel will enhance performance and satisfaction within the organisation. It is expected that you will synthesise conceptual models and ideas into your analysis.

VALUE: 40%

Final Examination

VALUE: 30%

FORMAT: 3 Hours, closed book

BLOCKS COVERED: all

**Commonwealth of Learning Executive MBA/MPA
Management and Organisations**

Block 1

**Introduction to Management and Organisational
Behaviour**

Course author:

Kelly LeCouvie, PhD

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1 Block One Objectives

On having completed Block One, you should have a good understanding of:

- The primary managerial challenges and changes faced by managers
- How organisational behaviour is defined as a field of study
- Why an understanding of behaviour in organisations is critical for members in all types of workplaces

This study block presents a general discussion of management in organisations today, and provides some background on organisational behaviour. You will have an opportunity to express your understanding of critical managerial challenges within organisations today, and will also be provided with a case that illustrates some of these challenges. This module covers a diverse body of literature in an effort to provide you with some conceptual models and practical tools that will enhance your understanding of behaviours in the workplace, and hopefully help you make successful progress as an effective member of your organisation. So let's jump into this discussion with a debate about the most important asset in organisations today: *People!*

2 People versus Profits

Self-Assessment Exercise

After reading the two scenarios below, take some time to think about what your own position is on this issue, and write a brief rationale for that position. It will be interesting to see throughout the course of this module, whether that position changes.

“IT IS CRITICAL THAT PEOPLE BE PUT FIRST”

Intel does it. So do Microsoft, Motorola, W.L. Gore & Associates, Southwest Airlines, Hewlett-Packard, Lincoln Electric and Starbucks. What is it? These companies pursue “people-first” strategies.

There is an increasing amount of evidence that successful organizations put people first. Why? Astute managers have come to learn that their organization's employees are its only true competitive advantage. Competitors can match most organizations' products, processes, locations, distribution channels, and the like. What's far more difficult to copy is a workforce made up of highly knowledgeable and motivated people. The characteristic that differentiates successful companies from their less successful counterparts in almost every organization is the quality of the people they are able to get and keep.

What kinds of practice differentiate people-first organizations? We can list at least four:

- 1) they value cultural diversity, actively seeking a diverse workforce based on age, gender, and race;
- 2) they are family friendly, helping employees balance work and personal responsibilities through programs like flexible work schedules and on-site child-care facilities;
- 3) they invest in employee training, spending heavily to make sure employee skill levels are kept current (This not only ensures that employees can handle the latest technologies and processes for the organization but that employees will be marketable to other employers.);
- 4) they empower their employees; pushing authority and responsibility down to the lowest levels.

Organizations that put people first have a more dedicated and committed workforce. This, in turn, converts into higher employee productivity and satisfaction. These employees are willing to put forth the extra effort – to do whatever is necessary to see that their jobs are done properly and completely. People-first strategies also lead to organizations being able to recruit smarter, more conscientious and more loyal employees.

“IT IS CRITICAL THAT PROFITS BE PUT FIRST”

Putting “people first” is easy to say. And it’s currently politically correct. What manager, in his or her right mind, is going to admit publicly that employees take a back seat to cost cutting or profitability? It’s important, however, not to confuse talk with action.

Putting people first is not necessarily consistent with long-term competitiveness. Managers must recognise this fact and are increasingly acting on it. Today’s organizations are more typically pursuing a “labour-cost minimization” strategy rather than a people-first strategy. When you look beyond what managers say, you find most business firms place profits over people. To stay competitive in a global economy, they look for cost-cutting measures. They re-engineer processes and cut the size of their permanent workforce. And they substitute temporary workers for full-time permanent staff.

Organizations with problems typically look to staffing cuts as a first response. And organizations without problems are regularly reviewing their staffing needs to identify redundancies and overstaffing. Their goal is to keep themselves “lean and mean”. In today’s competitive environment, few organizations have the luxury to be able to provide workers with implied “permanent employment” or to offer anything more than minimal job security. For almost all organizations today, employees are a variable cost. Staffing levels are kept to a minimum and employees are continually added or deleted as needed.

Interestingly, the labour-cost-minimization strategy appears to be spreading worldwide. It began in Canada and the United States in the early 1990’s. Now it has become the model for companies in countries such as Japan, South Korea, and Thailand – places that historically protected their employees in good times and bad. Many firms in these countries have abandoned their permanent-employment, people-first policies. Why? Because such policies are inconsistent with aggressive, low-cost global competition.

Adapted from Robbins, S., Langton, N., in Organizational Behaviour, Prentice-Hall, 2001.

The above debate is ongoing in most organisations, where management must make decisions between efficiencies and effectiveness. Indeed, a bottom line focus must be balanced with the need to create an environment for employees that facilitates an acceptable bottom line! Commentators often distinguish between these two terms as ‘doing things right’ and ‘doing the right thing.’ Many of these are issues will be addressed throughout this module.

3 A Changing Workplace

A number of critical changes and challenges present themselves to diverse organisations today.

Exercise 1

Before reading further, close this book and take some time to think about what you perceive to be some of the key evolutionary changes (either within or external to organisations) that present some of the critical challenges faced by managers today. Let’s compare today’s work environment with that of ten years ago. Prepare a list of six to eight items, and include a rationale for your choices.

When Your List Is Complete:

There are numerous items that you might have identified from your own work experience and your knowledge of organisational issues. Let’s review some of the possibilities.

3.0.1 Globalisation

Certainly the emergence of a ‘borderless’ world has had a tremendous impact on the way organisations behave. They are no longer insulated from foreign competition, and this has forced organisations to examine cost efficiencies, structure, job design, human capital, and many other sources of effectiveness and competitiveness.

3.0.2 Technology

We have seen tremendous technological advances in the last decade, and this has had a significant impact on the way organisations behave. The Internet has enabled small, start-up companies to become global organisations (even from one’s home). We have access to much more information, and we can access it much more quickly. This has a number of effects on organisational behaviour: it has given organisations access to larger, more diverse markets; it enables organisations to market their products and services electronically (non-profit organisations for example are able to solicit contributions from their members without print and mailing expenses); it has helped many organisations reduce costs. But, it has intensified competition for many organisations; it has enabled consumers to become more sophisticated and therefore more demanding; it often requires significant capital investments (and the risk of obsolescence is high); and it can be a great source of stress for employees who must continually adapt to new technologies.

3.0.3 Mergers and acquisitions

The last number of years have been a time of merging and acquiring for many organisations, seeking to increase market share and profitability. But the complexity of these integrations has had a tremendous impact on employees in newly merged organisation; they often have great difficulty adjusting to potentially conflicted cultures. This has contributed to many failed mergers and acquisitions.

3.0.4 Workplace diversity

The workforce in today's new economy is much more diverse, as a result of changing demographics. This necessitates a better understanding of needs and values in the workforce, and careful planning in an effort to provide a work environment that is welcoming and comfortable for all employees.

3.0.5 Organisational structure

In response to increased competition, many organisations have focussed on cost efficiencies and increased effectiveness. Management has argued that the members must 'get closer to the customer' and focus almost exclusively on 'value-added' services in an effort to distinguish themselves from the competition. In order to accomplish these goals, organisations have become leaner and meaner, and ultimately much flatter. In some organisations, middle management has been reduced substantially compared with what it was ten years ago, and organisations design jobs around self-directed teams, who make decisions with greater autonomy now than in the past, when only management was sanctioned to make strategic decisions.

3.0.6 Work-life balance

There was a time when managers (who were mostly men) would not consider turning down a promotion. But today, many members in organisations do just that, because they place a much greater priority on personal time – time for themselves, travel time, time for their families. Organisations have responded in a number of ways: allowing flexible work hours, providing day care in an effort to allow parents to be close to their children, encouraging at home offices, and providing for extended vacations and paid sabbaticals. Employee loyalty is critical in establishing a productive and dedicated workforce, and if these needs are ignored, organisations risk losing these employees.

3.0.7 The rate of change

Some managers have identified the pace of change in today's environment as their number one management challenge. Historically, change appeared to be the exception, while stability in organisations was the norm. We could plan change and progress using historical performance as our guide. That is no longer possible, and in fact potentially dangerous. Our ability to rely on a sense of permanence has been eroded, and this necessitates flexibility, an astute understanding of our markets and our customers, and a

tolerance for ambiguity moving forward. Globalisation and technological advances have provided organisations with a guarantee that change is ubiquitous and cannot be ignored.

3.0.8 Increased competition

Competition has intensified for many organisations over the last decade, primarily as a result of the issues discussed above. Globalisation and technology have facilitated entry into some industries by some organisations, and organisations must compete within a much larger arena. This has resulted in some radical changes, some of which include strategic, structural, and operational. We will discuss organisational change in detail in Block Eleven.

3.0.9 Increased ethical and social responsibility

Consumers have access to more information now than ever before, and some would argue that they are more knowledgeable in general about the values and behaviour of the organisations in which they invest. Increased competition has provided consumers with more choices in terms of purchasing products or services. As such, many organisations face an increased need to behave ethically and demonstrate appropriate social behaviour. Unfortunately, not all organisations feel compelled to behave in ethical or moral ways. But they risk being exposed for their negligence, by a *whistleblower* from within the organisation who wishes to expose the wrongdoing.

3.1 Evolution in the Role of the Workforce

In the foregoing exercise, you might have come up with a number of other changes and challenges that organisations must manage today. Certainly much of what is discussed above implies that organisations must be prepared to create a work environment that fosters commitment from employees, expertise, creativity, and innovation. Organisations strive for this in an effort to design, produce, market and deliver a product or service that meets their consumers' needs and expectations—all while being socially responsible and profitable! This is a tall order. And it has been argued by many strategists that product or service differentiation is no longer a source of competitive advantage; the differentiation must exist in the workforce. Much value has been placed on people in the last several years – why? Because it is possible that they are the organisation's core competency. Business concepts and ideas, and the ability to identify and seize opportunities, are all dependent on people who are passionate about a shared vision and set of values.

This module speaks to many issues that are people-focussed. But before moving to some of those topics, we must first define organisational behaviour, and discuss the importance of this field of study.

4 Organisational Behaviour Defined

The field of organisational behaviour is very large, and is an area of study that merits our attention as members of organisations for many reasons. Organisational behaviour (often referred to as OB) focusses on the behaviour of people in organisations, and how their behaviour (both as individuals and groups) affects performance in these organisations. It also examines the effects of structure on these members and groups, and on the organisation as a whole. It is the objective of this discipline to help members of organisations better understand themselves and those with whom they interact. Specifically, we study organisational behaviour with a view to becoming effective participants and managers in the workplace. An enhanced understanding of a number of topics will help us realise this objective. Some of these topics include: individual perceptions, sources of motivation and individual needs, job satisfaction, group behaviour, diversity in the workplace, conflict management, leadership, politics and power, organisational change, and negotiation .

Organisational behaviour has been a distinct body of literature since the 1940s. Its roots are in anthropology, industrial and social psychology, and sociology. The application of organisational behaviour has expanded over the last six decades, and is an area of study upon which we rely to help us understand socio-emotional behaviour in a number of complex environments: for profit and not-for-profit organisations; public administration; education; health care management and international development. Many of you who have been employed by one or more of these organisations might be able to identify that often, really effective managers seem to be the exception rather than the rule. And it has been argued that this is often a result of poor interpersonal skills. Managers and other employees today face much uncertainty in the workplace, if for no other reason because of ubiquitous changes in an increasingly complex environment.

We know that finance, marketing, information technology, economics, accounting, are all disciplines that are important in organisations. And the success of these organisations is dependent upon skills across these disciplines. Yet we must consider that underlying and influencing *all* of these perspectives *are* the attitudes and behaviours of individuals in the organisation. And much of an organisation's success is dependent on the effective management of its employees.

The rest of the module will cover managerial and behavioural issues in the workplace, beginning with a micro level of analysis (the individual), and moving on to group behaviour, and then a more macro focus on the organisations, and organisational communities. Before moving to Block Two, please take some time to prepare an analysis of the case below.

5 Case Study 1.1

Let's review a case about some of the issues discussed above. Please read the case that begins on the next page, then prepare your answers to the questions that follow the case.

Ernst and Young is putting its managers under the microscope with a confidential employee poll.

Source: N. Southworth, "Managers Crucial to Curbing Turnover", The Globe and Mail, May 30, 2001. P. M1.

The professional services firm is hoping to cull candid information from its workers to help its managers become more effective and help curb turnover.

"People leave managers. They don't leave organizations," says Keith Bowman, the company's director of human resources.

"For the last five years, people have had an incredible number of work opportunities. They are more likely to look for other jobs and leave. The role of the manager is absolutely fundamental to keeping people from leaving."

Starting next month, Ernst and Young employees will be asked about their managers: "How well does the individual foster a positive work environment and help our people grow?"

Staff can respond electronically to one of several pre-selected ratings, from not well to extremely well. All response are anonymous.

This approach comes at a time when the working world is under seige by an employee retention crisis – one that observers say will only get more severe in the years to come as an impending labour shortage of almost one million workers is expected across all industries in Canada.

As a result, organisations are desperate to understand how to keep top talent from job-hunting.

Their desperation is well-founded, given that one in three workers will resign from his job in the next two years, according to a new survey by the Hay Group.

Ineffective managers are a major factor in the increasing rates of departure, says the research company, which interviewed over one million employees in 330 organizations around the world.

"Poor managers have a huge impact on employee turnover. Management's inability to adapt to the times will continue to contribute dramatically to sustaining high levels of turnover," says Ron Grey, managing director of The Hay Group, Canada.

"We have seen significant problems with senior managers who have not recognised the changing relationship with workers and continue to operate using historical methods," he says.

As the workplace becomes more team-based and virtual, the role of managers must also change, Mr. Bowman says.

"If you have the right people, you do not need to manage them. More work is team-based. More work is done from home. Managers should look for results and output, not whether their people are in the office at 9:00 a.m.

The Hay Group survey found the main reason workers left was that they felt their skills weren't being used. The second-most cited reasons was the inability of top managers to be effective leaders.

For instance, only 30-40% of workers surveyed said they felt their bosses were eager to help advance their careers.

Managers were also criticised for tolerating workers who under perform - creating a key source of dissatisfaction among their peers, Mr. Grey says. Over half of the employees surveyed said their

employers routinely accept poor performers who shirk responsibility. Many top workers respond by leaving.

To add insult to injury, Mr. Grey says, managers often don't understand why so many people are eager to leave and change jobs.

"Managers have a degree of blind loyalty that makes it difficult for them to understand the views of other employees," Mr. Grey says.

Workplace consultants urge managers to become better communicators, to treat employees as individuals and help foster career development.

KPMG's chief human resources officer, Lauren Burns, says many of the firm's employees leave because they are "cherry-picked" by their clients, not because of bad management. The company has started re-recruiting former employees who may want to return.

Still, Mr. Burns says, old style management techniques that rely on close supervision, hierarchy and paternalistic methods are the most common reasons organisations are given for high turnover.

"People feel trapped. They are unhappy with the working relationship they have with their managers and want to get out."

Case Study Questions

1. In your opinion, how does management style affect turnover?
 2. Is there something that you believe that managers can do to ensure that employees will remain with the organisation?
-

Commonwealth of Learning Executive MBA/MPA

C2 Management and Organisations

Block 2

Individual Behaviour

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1 Block Two Objectives

After completing Block Two of this course, you should be able to:

1. Define perception and attribution and understand their influence on behaviour.
2. Define personality and explain its 'Five' dimensions, as well as Locus of Control.
3. Define motivation and explain the distinction between content and process theories of work motivation.
4. Identify characteristics of a diverse workplace and discuss managerial implications of diversity .
5. Identify through self-assessment exercises, what 'type' you are, and whether you are a high Mach or a low Mach.
6. Answer the questions that accompany the case study in this study block.

2 Perception

Perception is formally defined very much like you might expect: it is 'The process by which people select, organise, interpret, retrieve and respond to information from the environment that surrounds them.'¹ It is each person's interpretation of reality. Because perceptions across individuals differ so much, the same workplace events, problems and challenges will naturally be perceived differently among members within the organisation. It is important to be aware of this potential 'perception variety' which suggests that not all people will receive and interpret actions and words the same way.

Two stages of the perceptual process include information attention and information organisation. If we attempted to devote our attention to all information available to us, we would become incapacitated and overwhelmed. So instead, we tend to *select*, either unconsciously or consciously, what information we will process. We might not consciously think about the process of cycling while we are on a bicycle. Yet we will consciously tune out surrounding noise in a restaurant to concentrate on our own conversation. We organise information as efficiently as we can, and we often use schemas and scripts to do this.

Schemas and scripts have been identified as possible means by which individuals come to understand behaviour within organisations, and a means by which they come to influence behaviour.

A *schema* is a knowledge structure that we use to organise and make sense of social and organisational information and structures; for example stereotypes are schemas, we have

¹ Schiffmann, H.R., 1990, Sensation and Perception: An Integrated Approach, 3rd. ed. Wiley: New York.

schemas about groups of people, specific professions, cultures etc. And while schemas offer us a system for categorizing information and understanding behaviour, they don't necessarily guide us into a specific action. This is where *scripts* are useful. Scripts guide one in understanding others' behaviours and help to guide one's own behaviour, or a sequence of behaviours and events. People tend to behave properly in an organisation because they know the right script - like people who 'know the ropes' can tell you what sequence of behaviours is appropriate, or necessary to manage a situation.

2.1 Perceptual Distortion

Individual histories, predispositions and other experiences can introduce distortion to our perceptions. Distortion affects both the selection and organisation processes and includes the phenomena known as stereotyping, the halo effect, projection and the self-fulfilling prophecy. These terms are defined below:

Stereotyping involves attributing behaviours or attitudes to a person based on that person's membership or association with a particular group or category. We often make assumptions about behaviour based on a person's occupation. For example, we might believe that accountants are linear thinkers, who focus on efficiency and precision; we might assume that artists are lateral thinkers, and tend not to be effective in matters of business. Stereotypes tend to be inaccurate, and therefore we must be aware of the danger in adopting them.

The Halo Effect exists when an individual allows one salient aspect of a person to dominate the individual's evaluation of that person. For example, an enthusiastic public speaker, who handles questions very well might be perceived to be intelligent, knowledgeable and friendly. A poor public speaker might be perceived to be ill-informed or incompetent. If we give prominence to one or two characteristics we risk making broad assumptions about one's overall character, intelligence and effectiveness in an organisation.

Projection exists when an individual attributes his/her own attitudes or feelings to another person. People often make the assumption that others are like themselves. A manager who believes that others respect the importance of confidentiality in the workplace might find that sharing information with some individuals was unwise. The chair of a meeting might assume that all participants place priority on the same issues, only to find out otherwise once a vote has been taken.

Self-fulfilling prophecy exists when an individual expects another person to act or behave in a certain way, and they tend to see these expectations realised, whether or not they actually do.

2.2 Attribution

Attribution involves a process that we often use to identify or reach conclusions on the causes of specific events. Typically we attribute either personal or situational factors to explain specific behaviour. If we see a co-worker performing a task very slowly, we might attribute this behaviour to laziness, or other personal causes. Alternatively, you might infer

that this particular task is very difficult, and therefore time-consuming, a situational attribution. Our tendency to attribute behaviour to personal or situational sources typically depends on three factors - *consensus*, *distinctiveness* and *consistency*:

Typically when we see a number of people behaving in the same way, we attribute it to situational factors. If one person in that group is behaving differently, we are likely to attribute it to personal factors. This attributional bias of behaving as a group is known as **consensus**. It is likely that individual acts which deviate from social expectations will provide us with more insight to their behaviour and motives. For example, our understanding of a co-worker's feelings about his boss might be better understood when we observe his behaviour in private, rather than his 'consensus behaviour.'

When one's behaviour is consistent across situations, we attribute personal factors to that behaviour. We may have a friend who is always calm, and never loses her temper. So when she loses her temper, we are likely to attribute this unique behaviour to a situation. This is known as **distinctiveness**. Because her behaviour is distinct from what we might expect from that person, we will likely attribute that behaviour to influencing variables in her environment, not to her personality.

Consistency is somewhat similar, but it is about behaviour over time rather than across situations. If someone behaves the same way across situations we attribute personal factors, but if they act distinctively in one particular event, we will likely attribute that behaviour to situational factors. For example, a co-worker might be consistently producing very high-quality work. Our experience with that person over the course of several years might confirm that. Then that same co-worker begins to produce much lower-quality work. It is likely that we will attribute the cause of this behavioural change as situational (perhaps the work load has grown substantially).

2.3 Why should we understand perception and attribution?

The discussion above articulates the reality of diverse perceptions and attributions in the workplace. Much of our interpretation of events and behaviours are judgmental. Therefore we must caution ourselves as managers, co-workers, volunteers, educators—in *any* position and work environment—to appraise or evaluate others as objectively as possible. Often, peoples' progress in the workplace is dependent on appraisals (not always from their immediate supervisor but also from others in the organisation). Our expressed perception of others' performance can potentially play a significant role in their progress, their rewards, their satisfaction levels, and their interaction and relationships with others.

3 Personality

Personality consists of a combination of traits that characterise one person. We all notice distinct personal styles of people dealing with their work environments; the way they react to challenges, situations, and others in the workplace. One thing that we must be aware of, is that there is no one best personality; people display a variety of personality characteristics,

and it is this variety that we depend upon for a diverse environment that fosters an appropriate 'fit' with specific roles.

There has been an ongoing debate, since the study of personal characteristics began, as to the source of one's behaviour—is it inherited, or is it shaped by one's environment? Three specific influences on personality have been identified: **CULTURAL VALUES** (e.g., Sri Lankan versus European), **SOCIAL VALUES**, which emerge from things like family life, one's religion and friends and colleagues that one associates with; **SITUATION FACTORS**, which can be specific opportunities, challenges or introductions, or perhaps incidences that affect or in some way shape one's values.

The discussion of personality types usually includes the **BIG FIVE** framework, which suggests that personality dimensions can be categorised into one of five categories:

Extraversion, which is defined as the extent to which a person is outgoing or shy. Extroverts typically feel comfortable in social situations, whereas introverts or shy people tend to avoid social situations.

Agreeableness, implies the degree to which a person is approachable or friendly. People who are defined as agreeable tend to be welcoming, warm people. Less agreeable people make a point of remaining distant from social situations.

Conscientiousness represents the degree to which a person is approachable, reliable, dependable and organised. People who tend to be low on this scale are unreliable, disorganised and easily distracted.

Emotional stability implies that people can understand and manage stress levels well. They tend to have high self-esteem and display self-confidence. People low on this scale show signs of nervousness, anxiety and insecurity.

Openness to experience is a dimension that characterises fascination and range of interests. People who are very open to experience are curious and creative, even artistic. People who are less open to experience tend to be conventional, and appreciate the status quo.

3.1 Type A and Type B Personalities

The personality distinction between Type A and Type B personalities is one about which you might be familiar, from previous undergraduate courses. Type A personalities tend to display specific characteristics: they are competitive, they appear to be pressed for time continually, and they strive to achieve more and more in less time. They also have difficulty displaying patience with leisure time, and prefer to quantify their accomplishments when possible.

Type B personalities, on the other hand, feel much less compelled to discuss or display their accomplishments, and do not feel a sense of urgency like a Type A. They are not inclined to display their superiority over others, and can relax without feeling the guilt that is attached to a Type A personality.

Which 'type' is best suited to a work environment? This is not a question that can be answered with any real accuracy. But given the distinctions in behaviour between the two types, often we see Type Bs moving to the top of the organisation rather than Type As. This is primarily because Type Bs are not willing to sacrifice quality for quantity, and often demonstrate creativity that is not found in Type As. On the other hand, Type As are often recognised as hard workers; they work long hours and make decisions quickly. Research has shown, however, that Type As tend to experience poorer physical health, particularly heart conditions, hypertension and coronary artery disease.

Self-Assessment Exercise

Take some time to complete the exercise below. Try to determine which type you are.

ARE YOU A TYPE A?

INSTRUCTIONS: Circle the number on the scale below that best characterises your behaviour for each trait.

Casual about appointments	1	2	3	4	5	6	7	8	Never late
Not competitive	1	2	3	4	5	6	7	8	Very competitive
Never feel rushed	1	2	3	4	5	6	7	8	Always feel rushed
Take things one at a time once	1	2	3	4	5	6	7	8	Try to do too many things at once
Slow doing things	1	2	3	4	5	6	7	8	Fast (eating, walking, etc.)
Express feelings	1	2	3	4	5	6	7	8	'Sit on' feelings
Many interests	1	2	3	4	5	6	7	8	Few interests outside work

Scoring key: Total your score on the 7 questions. Now multiply the total by 3. A total of 120 or more indicates that you are a hard-core Type A. Scores below 90 indicate that you are a hard-core Type B. The following gives you more specifics:

POINTS	PERSONALITY TYPE
120 or more	A1
106-119	A
100-105	A2
90-99	B1
Less than 90	B

Source: Adapted from R.W. Bortner, 'Short Rating Scale as a Potential Measure of Pattern A Behaviour,' Journal of Chronic Diseases, June, 1969, pp. 87-91

3.2 Personal Conceptions

Another meaningful group of types depends on personal conceptions, which represent the way we feel about our environment (social and physical), as well as our major beliefs and personal perspectives.

One measurement is **locus of control**, which reflects an individual's perception of whether events are within their control. **internals**, or persons with an internal locus of control, believe that they are in control of their own destiny. **externals**, or persons with an external locus of control believe that, for the most part, events and outcomes are beyond their control; their fate is determined by environmental forces.

Machiavellianism is another personal conception that is often referred to in the OB literature. This personality characteristic is named after Niccol Machievaelli, who in the 16th century wrote about the exploitation of power. Mach scales have been developed as an instrument that measures a person's Machiavellian orientation. This is a person (a machiavellian) who is selfish, and is motivated only in a way that will represent personal gain. They do not concern themselves with others, and do not hesitate to manipulate others should they perceive a need to do so. They are typically influenced by personal relationships with others and try to sway others when it suits their own interests. The scale measures low and high Mach behaviour, and is useful in helping managers predict behaviour of employees. A person who rates high on the scale will have a greater probability of success in face to face, versus indirect personal associations, and they prefer to work in less-structure, informal environments. They might be perceived as calm and detached from others, and emotional situations. A low Mach person depends on structure, and has a preference to consider the ethical considerations in making decisions.

What type makes the best employees? The answer is: 'It depends.' Certainly if the organisation measures performance and results only, without considering what means were used to justify the ends, then a high Mach might be the appropriate choice to achieve planned objectives. On the other hand, should the organisation consider ethical behaviour to be a significant component of a performance appraisal, there might be a preference to employ a person that rates as a low Mach.

Self-Assessment Exercise

For each statement, circle the number that most closely resembles your attitude.

Statement	Disagree			Agree	
	A Lot	A Little	Neutral	A Little	A Lot
1. The best way to handle people is to tell them what they want to hear.	1	2	3	4	5
2. When you ask someone to do something for you, it is best to give the real reason for wanting it rather than giving reasons that might carry more weight.	1	2	3	4	5

Statement	Disagree			Agree	
	A Lot	A Little	Neutral	A Little	A Lot
3. Anyone who completely trusts anyone else is asking for trouble.	1	2	3	4	5
4. It is hard to get ahead without cutting corners here and there.	1	2	3	4	5
5. It is safest to assume that all people have a vicious streak, and it will come out when they are given a chance.	1	2	3	4	5
6. One should take action only when it is morally right.	1	2	3	4	5
7. Most people are basically good and kind.	1	2	3	4	5
8. There is no excuse for lying to someone else.	1	2	3	4	5
9. Most people more easily forget the death of their father than the loss their property.	1	2	3	4	5
10. Generally speaking, people won't work hard unless they're forced to do so.	1	2	3	4	5

Scoring Key: To obtain your mach score, add the number you have checked on questions 1, 3, 4, 5, 9, and 10. For the other 4 questions, reverse the numbers you have checked: 5 becomes 1, 4 is 2, and 1 is 5. Total your 10 numbers to find your score. The higher your score, the more Machiavellian you are. Among a random sample of American adults, the national average was 25.

Source: R. Christie and F. L. Geiss, Studies in Machiavellianism (New York: Academic Press, 1970).

4 Motivation

Motivation is defined in this block as the force within a person that establishes the level, direction and persistence of effort expended at work. Level refers to the amount of effort or intensity we put into the job; direction refers to our choice of where to put our efforts (for example we might choose product quality over product quantity); and persistence refers to our stamina or how long we are able to maintain our effort.

Naturally, organisations seek out individuals who are motivated to perform well in the workplace. In addition, they hope to employ people who have the ability to motivate others with whom they work: subordinates, peers, and superiors. If organisations can motivate employees to become effective problem solvers, and to meet or exceed customer expectations, then a number of organisational goals and objectives can be realised. But

individuals are complex, diverse, and often difficult to predict. And no one theory of motivation can explain human motivation, particularly across diverse cultures. In this block we will address a number of theories of motivation that serve different purposes.

From a conceptual perspective, motivation is typically divided into *content* and *process* theories. **Content** theories are needs theories that identify a variety of needs that motivate individuals. **Process** theories examine the thought process that determines behaviour. So, for example, if we have a need for a sense of belonging in our work team, that would be identified through content theory, as a specific need. What process theories would do is identify how the establishment or absence of the feeling of belonging affects one's behaviour at work.

Needs theories are concerned with explaining *what* motivates people in terms of their individual needs. This block discusses four needs theories: Maslow's Hierarchy of Needs, Alderfer's ERG Theory, McClelland's Trichotomy of Needs and Herzberg's Two-Factor Theory.

4.1 Maslow's Hierarchy of Needs Theory

Abraham Maslow was a psychologist who studied human motivation, and concluded that individual needs can be arranged in a hierarchy, which is made up of five distinct levels. He argued that the most basic needs must be satisfied before seeking out higher order needs. He also argued that these needs are instinctive. The five levels of needs are described below:

Physiological needs are subsistence needs that individuals require in order to survive: food, shelter, oxygen, water. Organisations might satisfy this need by providing an income that enables employees to provide for their physiological needs.

Safety needs are those which serve to protect individuals from outside threats. Examples include shelter, security, a structured environment. An organisation can help satisfy this need by providing safe working conditions, job security, comfortable surroundings.

Belongingness is a social need that is met when people have affection, love, friendship. Organisations often help to meet this need through teamwork and various social opportunities within and outside the workplace.

Self-esteem focusses on the need for recognition and respect from others, acknowledgement of competence, independence. Often organisational members can fulfill this need with promotions or awards.

Self-actualisation needs are not as easily defined, but relate to developing one's full potential. People who are able to meet this need appreciate and accept themselves and others, and have very clear perceptions of reality.

Maslow argued that as soon as one level of needs is met, those needs will no longer motivate behaviour. It is an interesting theory, but not one that has received much empirical support. There may be needs other than those in Maslow's hierarchy that motivate people; spiritual needs for example. In addition, these needs vary in order and importance because of cultural

distinctions. In a collectivist culture higher order needs of self-esteem and self-actualisation may become less important. Some cultures are high on uncertainty and avoidance, making safety and security needs more important. Other cultures that have a masculine or feminine orientation can influence the importance of different needs (Francesco & Gold, 1998; Hofstede, 1980).

4.2 Alderfer's ERG Theory

Clayton Alderfer offered a 'collapsed' version of Maslow's hierarchy, and argued that more than one need may be activated at the same time. In addition, his theory suggests that higher needs (also instinctive) become more important as they are satisfied, rather than less important. ERG Theory suggests that needs are broken down into three classes:

Existence needs are satisfied by material conditions, and make up the first two levels in Maslow's hierarchy. They include needs such as food, shelter, safe working conditions.

Relatedness needs are dependent on social interaction, through communication and exchange of ideas with other members within the organisation. They are similar to Maslow's belongingness and self-esteem needs that include feedback from others.

Growth needs are intrinsic, and are focused on personal development, much like Maslow's self-actualisation needs and the esteem needs that are achievement related.

Alderfer's theory argues that should one not feel a higher order need fulfilled, then he or she will have an increased desire to satisfy a lower-level need. And this allowance for regression back to lower level needs offers a more flexible approach to understanding individual motivation than Maslow's hierarchy.

4.3 McClelland's Trichotomy of Needs or Acquired Needs Theory

In the 1940's David McClelland, a psychologist, created what is known as the TAT - Thematic Apperception Test, to measure human needs. These tests necessitated viewing and interpreting pictures: people were to look at the pictures and then develop stories about their meaning, i.e., what they saw in the picture.

McClelland identified three themes as a result of these TAT tests, and proposed a set of higher-order needs, including need for achievement (nAch), need for affiliation (nAff) and need for power (nPower). He argued that unlike the two theories discussed above, these three needs are learned, rather than instinctive.

Need for achievement (nAch) exists when individuals place priority on the quality of their work, and have a preference for situations that enable them to shape the outcome. They tend to set difficult but realistic goals, and are willing to take moderate or calculated risks. People with high nAch will work hard towards a goal primarily because it motivates them.

Need for affiliation (nAff) is a focus on establishing and maintaining relationships with others. Individuals with this need tend not to be competitive, preferring cooperation and conformity.

Need for power (nPower) is often evident among middle and upper-levels of management, because these individuals by definition must influence other members of the organisation. They may make use of their position of power for the good of the organisation, encouraging and facilitating others to become independent and performance-focused. On the other hand, they might be driven by a need to dominate others, and exercise their power impulsively, or in some discriminating way.

McClelland conducted cross-cultural studies with a focus on the need for achievement. He developed training programmes that included achievement-oriented behaviours in business games, as well as writing about achievement-oriented stories. McClelland found that participants (in these programmes) in the United States, Mexico and India were more successful in their environments than those without training, and concluded that these needs can indeed be learned. It is important to note, however, that their success depended on an environment that supported achievement-oriented behaviour. Further studies indicated that cultures that emphasised a collectivist focus (such as Mexico and India) contradicted the individualistic nature of achievement needs, and therefore the success was not sustainable (Misra and Kanungo, 1994).

4.4 Herzberg's Two-Factor Theory

Frederick Herzberg developed the two-factor theory conducting interviews with engineers and accountants, and having them describe when they were motivated and satisfied, and when they felt unmotivated and dissatisfied. He found there were two sets of factors, called 'motivators' and 'hygienes' that were somewhat unrelated, in terms of satisfaction. He separated dissatisfaction and satisfaction as two separate continuums.

Motivators are job content factors, and are associated with feelings of meaningful work, accomplishment, achievement, responsibility, growth and advancement opportunities, and the job itself. Content factors are necessary to create positive motivation. **Hygienes** are job context or extrinsic factors, representing sources of job dissatisfaction that are associated with physical arrangements in the workplace, supervisors and interpersonal relations. Motivators are factors which lead to worker satisfaction, while hygienes are factors which prevent dissatisfaction. Herzberg argued that job satisfaction and job dissatisfaction are separate dimensions - so if the company improves a hygiene factor, such as working conditions or pay, it might not cause people to be satisfied at work, but it might prevent them from becoming dissatisfied.

There are a number of managerial implications of this theory. Of important note is that the findings of this theory are not universal. In some countries, hygiene factors such as supervision and interpersonal relationships were perceived as motivators rather than hygiene factors. So while we learn from this theory that the elimination of de-motivators will not directly motivate employees, how we define motivators and hygiene factors will vary across diverse cultures.

Process Theories

Unlike content theories, which focus on *what* motivates people, process theories examine *how* and *why* people are motivated. We will review two of these theories: Equity Theory and Expectancy Theory.

4.5 Equity Theory

Equity theory suggests that if people perceive a level of inequity or unfairness when they compare their work situation to that of others, they will be motivated to do something about it, in order to create (at least in their minds) a better or more accurate sense of fairness. The theory distinguishes between *felt negative inequity* and *felt positive inequity*. Felt negative inequity emerges when an individual feels that he or she is receiving less (in the way of compensation, or recognition, or advancement) than others are, in proportion to work inputs. For example, if I work diligently for 10 hours per day, and my colleague takes two hour lunches and talks to his or her friends on the phone, I will experience felt negative inequity.

Felt positive inequity exists when we feel that, compared with others, we are actually getting more. When feelings of **either** negative or positive inequity exist, there are a number of actions we might take to remedy this sense of inequity:

- change work inputs (work less hard)
- change the outcomes (rewards)—(ask for a wage increase)
- quit the job
- change comparison points (so compare yourself with another worker)
- psychologically distort the comparisons (perhaps rationalise that the situation is temporary)
- do something to change the inputs or outputs of the comparison person (try to give them more work)

Studies have demonstrated that, when individuals perceive that compensation and reward systems are equitable, they have greater levels of job satisfaction and are willing to commit to organisational objectives. Like the content theories discussed above, perceptions vary across cultures. In a more collectivist culture, such as those in many Asian countries, people demonstrate a greater need for equality than equity.

4.6 Expectancy Theory

Victor Vroom is the researcher associated with Expectancy Theory. He examined the sources of motivation for individuals who want to contribute to the organisation, and their desire to work. The theory says that work motivation is determined by individual beliefs regarding

effort-performance relationships and work outcomes. For example, I might think that, by working very hard for a few months, I will get the promotion I've been wanting.

There are three components to Expectancy Theory:

Expectancy is my sense of the probability that I can actually do the work (am I competent enough, do I have enough time, do I have enough help?). Our expectancy lies somewhere between 0 and 1. If I know unequivocally, that I can do the job, my expectancy will be equal to 1. If I know for certain that I cannot do the job, my expectancy will be equal to 0.

Instrumentality is also a probability, so is expressed as a number between 0 and 1. Instrumentality refers to our perception of the probability that doing this work will actually lead to, or result in the desired outcome. If I make these sacrifices (for example less time with my family, miss a number of choir practices) what are my chances of getting the promotion? If I am certain that I will get it (given those sacrifices), instrumentality will equal 1. If I am certain that I will not, instrumentality will be equal to 0.

Valence is the value that we attach to the actual outcome. Unlike expectancy or instrumentality, valence is a number between -1, and +1. Negative one is a very undesirable outcome and +1 is very desirable. So how important is the promotion to begin with? If it means something to you, but you are not willing to give up everything you might need to, in order to gain the promotion the valence might be equal to 1. Alternatively, you might have no interest in the outcome, in which case the valence would be equal to -1.

And Vroom suggested, through an equation, that each of these components is related to one another. $M = E \times I \times V$. Motivation is equal to expectancy (can I do it) times instrumentality (will it get me what I want), and valence (how badly do I want it?).

What does this mean for you as a manager? It is useful for you to have a good sense and an understanding of your employees' needs, as individuals. Each individual is different, and is motivated by various factors. If you are trying to manage people with a view to accomplishing specific objectives, and are willing to compensate them in ways that do not represent their normal set of rewards, then you need to know whether they believe they can do it. In addition, it is important to be aware of whether they think that the reward will materialise, and that the reward is important or appealing in some way.

5 Diversity

5.1 What Is Diversity and Why Is It Important ?

Diversity is an important concept for all members to understand and appreciate, particularly given the growing diversity in the workplace, and the globalisation of organisations. It examines differences with respect to age, gender, race, educational backgrounds, ethnicity, and disabilities of workers. As members of an organisation, you need to be aware that while there are legal and ethical reasons for effectively managing diversity, there are also a number of potential economic benefits of a diverse workforce. Organisations have experienced

reduced costs, resource acquisition, marketing and problem-solving advantages as well as increased flexibility through diversity. The changing demographics of the workforce and internationalisation of business is having an effect on the formulation of diversity policies within many organisations today.

We know now that there are a number of advantages to heterogeneous groups of individuals. Ideas that emerge from a diverse group tend to help increase problem-solving ability through a broader range of perspectives on the issues. In addition, a diverse workforce tends to better understand the needs of a diverse customer base. Thirdly, organisations that are known and recognised for their diversity policies tend to attract a higher quality and more diverse workforce (Rice, 1994; Advancing Women in Business, 1998).

There are a number of characteristics of a multicultural organisation that are worth noting. These organisations tend to create workgroup cohesiveness, mitigate conflict and turnover and foster coherent action on major organisational goals (Cox & Blake, 1991; Mervitch & Reigle, 1979). Some features of such organisations are as follows:

- They actively seek to capitalise on the advantages of diversity, rather than attempting to stifle or ignore the diversity, and to minimise the barriers that can develop as a result of people having different backgrounds, attitudes, values, behaviour styles, and concerns.
- Organisational resources (jobs, income, access to information) are distributed equitably and are not determined or affected by cultural characteristics such as race and gender.
- The ability to influence decisions and the way there are carried out is shared widely, not differentially by cultural characteristics.
- Minority group members are fully integrated in the informal networks of the organisation.
- The organisational culture is pluralistic in that it recognises and appreciates diversity and all cultural groups respect and learn from each other. The culture acknowledges both the need for 'being the same' in some ways to work together effectively and the need for 'being different' in some ways to recognise individual and group interests, concerns and backgrounds.
- Institutional policies, practices and procedures are flexible and responsive to the needs of all employees
- There is an absence of prejudice and discrimination
- Majority and minority members are equally identified with the organisational goals.
- There is a minimum of intergroup conflict among diverse groups.

Creating and sustaining a work environment that accomplishes all of these things is very challenging. There are a number of obstacles to overcome, and the units in this module addressed many of these organisational and managerial challenges. While meeting the

cultural diversity criteria stated above has been slow, there is some evidence that organisations are making real progress.

Case Study 2.1

Chang Koh Metal Ptd. Ltd., in China

Please read case study 2.1. 'Chang Koh Metal Ptd. Ltd.' in Block 13 of your study materials and answer the questions below.

Questions

1. Comment on the fixed salary system that Andrew adopted from his former employer. Why was this system not effective for motivating the plant workers?
2. Do you think that scrapping the fixed salary system and replacing it with the piece-rate system was a good idea? What are some of the strengths and weaknesses of the piece-rate system?
3. Why was Andrew unsuccessful in his efforts to improve product quality? Do you think that a system of demerit points and wage deductions of the quality control workers would have been effective? Will more supervisors in the quality control department and shipping products to Singapore for final inspection solve the problem? What do you think would be an effective way to improve product quality?
4. Were cross-cultural differences a factor in the effectiveness of the salary systems?
5. Are there any conditions under which the piece-rate system might have been more effective?
6. What are some of the alternative ways to use pay to motivate workers in the plant? Are there alternatives to the piece-rate system and how effective are they likely to be? What does this case say about money as a motivator?
7. What should Andrew do now?

Source: Case and questions adapted from Johns, G. and Saks, A. (2001) Organizational Behaviour, Harper Collins Publishers Inc. USA.

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Commonwealth of Learning Executive MBA/MPA
C2 Management and Organisations

Block 3
Groups in Organisations

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1 Block Three Objectives

After completing Block Three, you should have a good understanding of:

1. How to recognise and understand effective groups
2. The stages of group development
3. The Punctuated Equilibrium Model
4. Roles of group members
5. How to run an effective group meeting
6. The distinction between groups and teams
7. Group composition
8. Groupthink

2 Introduction: Working in Groups

Block One discussed a number of trends that imply the need for organisations to demonstrate flexibility and adaptability in a rapidly changing environment. And one of the priorities that has emerged in many organisations is a need to understand and remain close to the customer in an effort to remain competitive. In response to this need, many organisations have moved towards more teamwork. We have seen middle management and supervisory levels replaced with self-directed teams across many organisational settings. A number of benefits of groups have been identified:

- they satisfy important membership needs
- they can provide a wide range of activities for individual members
- they can provide support through periods of crisis or stress
- groups tend to make use of good problem-solving tools
- groups tend to make better decisions than individuals do
- group decisions tend to be willingly carried out
- they can control and discipline individual members in ways that are often difficult with impersonal disciplinary systems
- as organisations grow large, small groups seem to be useful mechanisms for benefitting from the positive effects of small versus large

Source: based on H.J. Leavitt, "Suppose We Took Groups Seriously," in E.L. Cass and F.G. Zimmer (eds), Man and Work in Society (New York: Van Nostrand Reinhold. 1975), pp.67-77.

This block will define groups and discuss types of groups and group behaviour. It is important to understand the nature of groups and the integral role they play within organisations in order to improve both group and team performance.

3 Groups Defined and Group Benefits

A group is defined as two or more people working together to achieve common goals. Groups are formed for a number of reasons, and are a ubiquitous part of our work and non-work activities. Typically group size in the workplace ranges from three to twenty people. We benefit in a number of ways from joining groups:

Security: people who are part of a group generally feel more secure about their behaviour. They have fewer doubts, and are more resistant to threats when they are part of a group.

Status: inclusion in a group is viewed as important by others and it provides recognition and status for its members.

Self-Esteem: people often feel more confident and have increased self-worth as a result of participation in a group.

Affiliation: Groups can fulfill social needs. People enjoy the interaction that comes with group membership, and often it is their primary source of satisfaction for their affiliation needs.

Power: the 'power in numbers' philosophy supports this finding, that groups can often achieve more.

Goal Achievement: Often, in order to achieve specific goals various talents must be pooled together. It not only facilitates completion of a job but increases the quality of the output.

Source: Robbins, S. and Langton, N. Organizational Behaviour, (2nd ed.) Prentice Hall, 2001.

4 Types of Groups

4.2 Formal versus Informal Groups

Formal groups have an official designation as a group, and it is the objective of this group to perform a specific organisational purpose. They can be permanent or temporary work groups. Permanent work groups perform their task on an ongoing basis—the Research & Development area for example, may be made up of a permanent work group that conducts R&D for the organisation. Another example may be a formal group within the organisation that manages all social events for its members.

Temporary formal work groups are often formed to address a specific issue or problem, and these groups typically disband once they have accomplished their objectives.

Temporary work groups tend to be cross-functional. Because there is a limited time to complete this task, it is likely that decisions will be made faster with a cross-functional team, where representatives from various functional areas or departments are in one place together simultaneously. Often temporary change teams are formed in order to effect planned change within an organisation. Perhaps the supply chain management area of an organisation would like to reduce costs by 10% over the next year. A cross-functional team might be formed for a period of 4-6 months in order to redesign processes related to that function.

Informal groups are not formally designated as groups by the organisation. Rather they emerge from frequent contact and are based on personal relationships or common interests. Often informal groups develop within formal groups, and can exert considerable power over decision making. Members within the organisation might form a chess club, based on mutual interest in that game.

5 Stages of Group Development

As you may be aware from your own experience, membership and participation in groups can be challenging, stressful, unpredictable and sometimes conflict-ridden. Groups tend to go through stages of development over time (which look different across groups), and this section will discuss the five-stage model of group development.¹ The five stages are characterised as follows:

5.0.1 Forming

This is the stage at which we are treading a bit carefully, asking questions, and collecting information. We tend to be on our best behaviour during this initial stage, and may feel the superficiality of behaviours around us. Groups typically do not move to the next stage until individuals feel that they are part of the group. They have, at the end of this stage, some understanding of group purpose, expectations and behaviour.

5.0.2 Storming

In the storming stage, the group experiences tension, and conflict emerges over objectives and goals of the group, as well as issues of leadership and competition. It is not unusual for coalitions to form within the group, and in order to move to the next stage, members must clarify expectations and roles and develop some understanding (and acceptance) of individual needs within the group. In order to successfully emerge from this stage, effective leadership is required; leadership that communicates the safety of the group and demonstrates the need for a unified vision. Storming is a normal development stage for most groups.

5.0.3 Norming

This is also referred to as the initial integration stage; after clarification of roles and expectations in the storming stage, the group establishes itself as a working unit, and individuals tend to work much more in sync with each other. But the best is yet to come!

5.0.4 Performing

This fourth stage is also referred to as the total integration stage, and at the performing stage, the group is handling and analysing problems in a way that integrates each participant's contribution synergistically. Group members know and understand each other, and make use of this knowledge (and their experience with the group) to realise planned objectives.

5.0.5. Adjourning

For groups that have a temporary task to perform, this stage helps to prepare them for disbandment. The group's primary focus is on closure, and ideally, the members will reflect on their achievements and performance positively.

An understanding of the five stages of group development is useful in that it facilitates problem-solving; it often helps members and group leaders manage through development and crisis. It is important to note that this model does not apply to all groups, and often groups move back and forth between the stages of development throughout their group experience.

6 The Punctuated Equilibrium Model

This model suggests that when groups are working toward a specific deadline, that the behaviour of the group develops in a curious sequence. The group research conducted by Connie Gersick uncovered a sequence that indicates an equilibrium or stability within the group, punctuated by a critical first meeting, a midpoint change in group activity, and then a rush to complete the task toward the end of the project.²

During the first half of a project, a great deal of the content of group interaction is based on routines, known as schema guided automatic processing. The main functional value of routines is efficiency. Some tasks are accomplished more effectively when they have become habitual. Group routines are maintained for a number of reasons: 1) social impact factors (the size of the group often makes change difficult), 'entrainment', which is calibration to a particular kind of response pattern, and cost of change (including political costs).

Gersick's research suggests that every group, throughout a project life, goes through a transition, where the group drops old patterns, and adopts a new perspective on their work, which helps facilitate dramatic progress. In the first half of the project, group members' pacing patterns are more idiosyncratic, and there tends to be a reluctance to compromise with group mates. The midpoint of a project marks a time of change for

most groups: it launches them into a different activity level. After the midpoint, groups typically are more likely to have a majority agreement. Often toward the end of the project, there is an additional burst of energy to complete the project.

Think about your own group experiences. Did you sense the kind of inertia that Gersick describes early on in your project? Was there a point at which the group engaged in a markedly different pace of activity when time and deadline issues emerged as critical?

7 Group Roles

Individual group members tend to play distinct roles in an effort to facilitate group progress. Typically a member says or does something with a view to accomplishing one of three things: completion of a task (task role), managing relationships within the group (maintenance role), or satisfying some personal need (individual or self-oriented role).³ Descriptions of these role types follow.

7.0.1 Task Roles

Persons in such roles focus on the task or work being done. A group member in this role tends to focus on human and economic resources and various sources of information that are required to accomplish or complete the work itself. In terms of human resources, members of the group may play different task roles: coordinating work loads, problem solver, creating strategies to complete the work, for example.

7.0.2 Maintenance Roles

This is one of the most critical roles in a group, and is often the role of one or two people, but not because the group has chosen them; it is just their nature to facilitate communication and activity. This person tries to ensure that harmony is created and maintained in the group, and that every member of the group has a fair chance to participate. This role is often called a gatekeeping role—someone who maintains a ‘check’ on the temperature of the group. Without this role, groups often become so task-oriented that they don’t realise whether or not all the ideas have been put on the table for discussion; they are tunnel visioned.

7.0.3 Individual Roles

These are like the cancerous cells in a body: they are dysfunctional and destructive, each serving to infect the cells around it. People in individual roles do not consider the needs of the group beyond their own. They typically interrupt others, are ‘know-it-all’s’, or do not listen effectively to understand the contribution that others are making.

8 Effective Group Meetings

If the meetings held in your work environment occur often but seem inefficient, you may feel frustrated by the unproductive quality of the time you spend in them. There are a number of preparatory and group management tools that might be of value to you:⁴

Prepare a meeting agenda: An agenda defines what you hope to accomplish at the meeting. It should state the meeting's purpose; who will be in attendance; what, if any, preparation is required of each participant; a detailed list of items to be covered; the specific time and location of the meeting; and a specific finishing time.

Distribute the agenda in advance: participants should have the agenda sufficiently in advance so they can adequately prepare for the meeting.

Consult with participants before the meeting: an unprepared participant can't contribute to his or her full potential. It is your responsibility to ensure that members are prepared, so check with them ahead of time.

Get participants to go over the agenda: The first thing to do at the meeting is to have participants review the agenda, make any changes, then approve the final agenda.

Establish specific parameters: meetings should begin on time and have a specific time for completion. It is your responsibility to specify these time parameters and to hold to them.

Maintain focussed discussion: it is your responsibility to give direction to the discussion; to keep it focussed on the issues, and to minimise interruptions, disruptions, and irrelevant comments.

Encourage and support participation of all members: to maximise the effectiveness of problem-oriented meetings, each participant must be encouraged to contribute. Quiet or reserved personalities need to be drawn out so their ideas can be heard.

Maintain a balanced style: the effective group leader pushes when necessary and is passive when need be.

Encourage the clash of ideas: you need to encourage different points of view, critical thinking, and constructive disagreement.

Discourage the clash of personalities: An effective meeting is characterised by the critical assessment of ideas, not attacks on people. When running a meeting, you must quickly intercede to stop personal attacks or other forms of verbal insults.

Be an effective listener: you need to listen with intensity, empathy and objectivity, and do whatever is necessary to get the full intended meaning from each participant's comments.

Bring proper closure: you should close a meeting by summarizing the group's accomplishments; clarifying what actions, if any, need to follow the meeting; and

allocating follow-up assignments. If any decisions are made, you also need to determine who will be responsible for communicating and implementing them.

9 Teams versus Groups – What's The Difference?

The primary distinction between a work group and a work team, is that the sum of the parts in a work team is greater than the whole; there are distinct synergistic effects of individual efforts. Therefore it has been argued that a team is something more than a group. There are a number of specific distinctions between a group and a team:⁵

Shared leadership: teams have shared leadership roles, whereas groups usually have a strong, focussed leader.

Accountability: teams have individual and mutual accountability, whereas groups are based mostly on individual accountability.

Purpose: teams work toward a specific purpose, whereas a group's purpose is usually identical to the organisation's mission.

Work products: teams deliver collective work products, whereas groups have individual work products.

Communication: teams encourage open-ended discussion and active problem-solving meetings, whereas groups attempt to run meetings that are efficient.

Effectiveness: teams measure performance by direct assessment of their collective work products, whereas groups measure effectiveness indirectly by their influence on others.

Work style: teams discuss, decide, and delegate but do the work together, whereas groups discuss, decide and delegate, and then do the work individually.

9.1 The Rise of Self-Managed Work Teams

Complex issues face decision-makers, and organisations are turning their attention to group and team problem solving. Successful self-managed work teams, however, require a number of conditions, including commitment from management, mutual trust between employees and managers, a commitment to training, choosing operations appropriate to team problem-solving, and union participation. These are discussed in more detail below.

9.0.1 Commitment from management

Commitment from top management is necessary, but not sufficient for work teams to function effectively. Part of this commitment includes leadership styles, the need for top management to commit the resources, both human and economic, that teams need to function and get the work done. Often what appears to be commitment from management is not evident through a project's life. Initial 'espoused commitment' is apparent, but in reality, often this commitment is not sustained, or is understood by many teams to be superficial at best.

9.0.2 Mutual trust between employees and managers

Trust is not something that emerges automatically, and real trust takes time. Certainly one way to foster trust as a manager in a work environment is to demonstrate integrity. When you suggest that you will take responsibility to complete a task, it must be completed. In addition, trust depends on sharing of information and ideas. This helps to deflect power and political struggles, and suggests that you respect and trust others.

9.0.3 Training

It's great to create teams, give them autonomy, and tell them to come up with a plan, but if they don't know **how** to do these things, that will be an enormous and unrealistic challenge. People do not always instinctively know how to behave in a group or team. How does one introduce ideas, behave, contradict others, offer better alternatives, deal with shyness, overcome stress, etc? People do not just go into a group, after years or even months of working as individuals, and immediately start contributing effectively. It is the responsibility of management within the organisation to provide appropriate training with respect to team dynamics, functioning and effectiveness, so that one will understand enough to believe in a new process.

9.0.4 Realistic objectives

Team members should understand what is realistic in terms of a work load, and in terms of overall objectives. It's great to set aggressive timelines and project deliverables, but it's worse when those established deliverables cannot be met because team members were not realistic about their ability to 'get all that done'!

9.0.5 Strong links between strategy and implementation

Conceptually, teams can come up with wonderful strategic directions and plans; this is the fun part of the job. However, when the plan is cascaded down to members that are expected to implement this plan, it sometimes begins to unravel. Implementation requires enormous support. What sometimes happens, is that the people that are implementing various change applications find some components of the 'vision' idealistic and/or unachievable. It is important to ensure through the planning process, that the organisation has the appropriate resources to successfully implement planned objectives.

10 Group Composition

When you have had an opportunity to form your own groups or teams, why have you chosen specific people to work with? There are a number of criteria that we may employ in choosing group members or teammates. However, often we will choose others that we have worked with before and people with whom we share similar views. These people are attractive to us, because our shared perspectives facilitate decision making and creates group cohesiveness quickly.

In **homogeneous groups** members tend to be similar to one another, and therefore find it easy to work together. While this is an attractive feature for group members, it threatens performance of the group when skills, experiences, perceptions, problem-solving abilities are too similar. The complexity of tasks often necessitates a creative, innovative, multiple perspective approach to problem-solving that might be facilitated with diverse perspectives.

In **heterogeneous groups**, group cohesion generally does not emerge as readily. When group members differ in age, personalities, education, gender, experience, functional specialisation, assimilation among diverse positions is difficult. As a result, decisions are often more time-consuming, and conflict-ridden. Yet some of the research indicates that it is often conflict that stimulates creativity and idea generation, which leads to improved decision making. The results are mixed for groups that are culturally heterogeneous; racial or national differences tend to have more difficulty working with each other because of cultural norms. These groups tend to report less cohesiveness and less satisfaction with the group. But the difficulties and challenges faced by the groups because of cultural diversity tend to dissipate over time.⁶

Advantages and Disadvantages of Diversity⁷

Advantages	Disadvantages
Multiple perspectives	Ambiguity
Greater openness to new ideas	Complexity
Multiple interpretations	Confusion
Increased creativity	Miscommunication
Increased flexibility	Difficulty in reaching agreement
Increased problem-solving skills	Difficulty agreeing on specific actions

11 Groupthink

You might recall a time when you were part of a group, and wanted to express your opinion that was inconsistent with other group members, but you decided against it. You might have been a victim of **groupthink**. Groupthink is a phenomenon which can lead to faulty group decisions. It usually occurs in highly cohesive groups and arises when team members try to avoid being too critical in judging other team members' ideas. It is certainly more pleasant for us when we can agree with our group-mates. See if you can recognise some of the symptoms of groupthink.⁸

Illusion of invulnerability: group members become overconfident among themselves, allowing them to take extraordinary risks.

Assumption of morality: group members believe highly in the moral rightness of the group's objectives and do not feel the need to debate the ethics of their actions.

Rationalised resistance: group members rationalise any resistance to the assumptions they have made. No matter how strongly the evidence may contradict their basic assumptions, members behave so as to reinforce those assumptions continually.

Peer pressure: members apply direct pressures on those who momentarily express doubts about any of the group's shared views or who question the validity of arguments supporting the alternative favoured by the majority.

Minimised doubts: those members who have doubts or hold differing points of view seek to avoid deviating from what appears to be group consensus by keeping silent about misgivings and even minimizing to themselves the importance of their doubts.

Illusion of unanimity: if someone doesn't speak, it's assumed that he or she is in full accord. In other words, abstention becomes viewed as a 'yes' vote.

12 Questions for Review

1. Distinguish between formal and informal groups. Why is it important for managers to understand informal groups?
2. How do groups differ from teams, and under what circumstances might one be more effective than the other?
3. Do you believe that diversity in groups is necessary? Why?
4. What might you do to ensure that members in your group do not become victims of groupthink?

Case Study 3.1

Levi Strauss & Co.'s Flirtation with Teams

The Levi Strauss & Co. is the largest clothing manufacturer in the United States. It has a long history of being profitable, good to its workers, and charitable to its factory towns. Compared with other companies in the apparel industry, Levi Strauss is known for generous wages and good working conditions. According to CEO Robert Haas, Levi's treatment of its workers and concern for their welfare is far greater than in other companies in the industry.

When other American apparel firms moved their manufacturing offshore, Levi Strauss & Co. maintained a large American manufacturing base and was often ranked as one of the best companies to work for. In fact, in 1997 the company received an award from the United Nations for improving global workplace standards.

Up until 1992, Levi's employees worked on their own operating machines in which they performed a single, specific, and repetitive task, such as sewing zippers or belt loops on jeans. Pay was based on a piece-rate system, in which workers were paid a set amount for each piece of work completed. A worker's productivity and pay was highly dependent on levels of skill, speed and stamina.

By 1992, however, Levi Strauss & Co. began to feel the pressure of overseas, low-cost competitors, and realized the need to increase productivity and reduce costs in order to remain competitive and keep their North American plants open. The company decided that the best solution was teamwork. In a memo sent to workers, Levi's operations vice-president wrote, "This change will lead to help employees become more productive". Teamwork was felt to be a humane, safe, and profitable solution that would be consistent with the company's philosophy.

Gone was the old system of performing a single task all the time and the piece-rate system that went with it. Now groups of 10 to 50 workers shared the tasks and would be paid for the total number of trousers that the group completed. The team system was expected to lower the monotony of piece-work by enabling workers to do different tasks and to therefore lower repetitive-stress injuries.

Although employees were given brief seminars and training on team building and problem solving, it was not long before problems began to arise. Top performers complained about their less skilled and slower teammates that caused a decline in their wages. Meanwhile, the wages of lower skilled workers increased. Threats, insults, and group infighting became a regular part of daily work as faster workers tried to rid their group of slower workers. To make matters worse, top performers responded to their lower wages by reducing their productivity. Not surprisingly, employee morale began to deteriorate.

Another problem was that whenever a group member was absent or slow, the rest of the team had to make up for it. This exacerbated the infighting among team members and resulted in excessive peer pressure. In one instance, an enraged worker had to be restrained from throwing a chair at a team member who constantly harassed her about working too slow, and in another incident, a worker threatened to kill a member of her team. An off-duty sheriff's deputy had to be placed at the plant's front entrance.

Because the groups had limited supervision, they had to resolve group problems on their own, and they also divided up the work of absent members themselves. In some plants, team members would chase each other out of the bathroom and nurse's station. Slower teammates were often criticized, needled, and resented by their group. Some could not take the resentment and simply quit. In one group, a member was voted off her team because she planned to have hand surgery.

And although workers were now part of a team system, management was not given guidance on how to implement the system. As a result, each manager had his or her own idea of how the team system should work, including team size, structure, pay formulas, and shop-floor layouts. One former production manager described the situation as worse than chaos and more like hell!

To make matters worse, the team system did not improve the situation for Levi's. Labour and overhead costs increased by up to 25% during the first years of the team system.

Efficiency, based on the quantity of pants produced per hour worked, dropped to 77% of pre-team levels. Although productivity began to improve, it was only at 93% of piece-work levels. Even in some of the company's best plants, production fell and remained at lower levels since the introduction of teams. And although one of the reasons for adopting the team system was to lower the high costs of injuries that resulted from workers pushing themselves to achieve piece-rate

goals, these costs continued to rise in many plants even after the team approach was implemented.

Profit margins also began to decline as competitors began offering private-label jeans at two-thirds the price of Levi's, and Levi's market share of men's denim jeans in the United States fell from 48% in 1990 to 26% in 1997. As costs continued to increase, plant managers were warned that they would face an uncertain future unless they cut costs by 28% by the end of the year.

Teams did, however, result in some improvements. For example, the average turnaround time of receiving an order and shipping it was reduced from nine to seven weeks. As well, because the teams were responsible for producing completed pairs of pants, there was less work in process at the end of each day compared with the piece-rate system, where each worker did only one part of the job. And according to CEO Robert Haas, teams allowed workers to manage themselves and to find better and safer ways of working.

Nonetheless, the system did not help Levi's achieve its objectives. In February, 1997, CEO Robert Haas announced that the company would cut its salaried workforce by 20% in the next 12 months. The following November, the company closed 11 factories in the United States and laid off 6,395 workers. In an unusual response to being laid off, one worker described it as a "relief" from the burden and stress that had become part of her job.

In February 1999, as sales of Levi's jeans continued to fall, the company let go another 5,900 or 30% of its workforce of 19,900 in the United States and Canada and announced it would close 11 of its remaining 22 plants in North America. According to company officials, plant closings might have been sooner and job losses greater if they had not adopted the team system.

Commenting on the team approach, a now retired former manufacturing manager said, "We created a lot of anxiety and pain and suffering in our people, and for what?" According to a production manager who has taken early retirement, "It's just not the same company anymore. The perceived value of the individual and the concern for people is just not there." A veteran worker who has gone back to the old system of doing a single task and is now paid in part for what she produces said, "I hate teams. Levi's is not the place it used to be."

While officials said they plan to stick with the team approach in the remaining American plants, managers say that the team approach is on its way out as they search for other ways to increase productivity, like the old way of doing things.

In recent years, Levi Strauss & Co. has begun to contract out much of its work and now manufactures 45% of its jeans for the American market outside North America, compared with 15% in 1991, and none before that. Although it remains one of the last major American-based apparel companies with a substantial amount of company-owned production in North America, it now contracts manufacturing in 50 countries worldwide. According to John Ermatinger, president of the company's American division, "Shifting a significant portion of our manufacturing for the American and Canadian markets to contractors throughout the world will give the company greater flexibility to allocate resources and capital to its brands."

Questions

1. Discuss stages of group development and the implications of them for the development of the teams of Levi Strauss.

2. Discuss some of the norms that emerged in the teams. What was their function and how did they influence the behaviour of group members?
3. The teams were supposed to be self-managing teams. Critique this idea based on what you know about the principles of self-managed teams.
4. Do you think it was a good idea for Levi Strauss & Co. to implement a team system? Was it the best solution to deal with increased global competition? Why wasn't the team approach at Levi Strauss more effective, and with your knowledge of groups, what might you do differently if you had to implement a team system at Levi Strauss?
5. What does the Levi Strauss experience tell us about the use of teams and their effectiveness?

Source: G. Johns and A. Saks, (2001), Organizational Behaviour (5th ed.), Addison Wesley Longman, Toronto, Canada: pp. 234-236

Case Study 3.2

Computer Services Team At Avionics

Please read case study 3.2. 'Computer Services Team at Avionics' in Block 13 of your study materials and analyse this case using the written case format provided in the introduction unit. Your paper should be no longer than 8 pages.

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Commonwealth of Learning Executive MBA/MPA

C2 Management and Organisations

Block 4

Decision-making in Organisations

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1 Block Four Objectives

After completing Block Four, you should be able to:

- Define decision-making and the variables that characterise decision-making
- Distinguish between decision-making environments and types of decision-making
- Describe three decision-making models
- Distinguish between group and individual decision-making, citing pros and cons of each
- Describe various techniques for improving decision-making

Before the discussions on decision-making begin, take some time to understand your own decision-making style. The short case scenarios below will facilitate this determination.

Case assessment

Read the following cases, and indicate the style that most closely describes the action you would take:

Case 4.1: The Finance Case

You are the head of a staff unit reporting to the vice president of finance. The vice president has asked you to provide a report on the firm's current portfolio to include recommendations for changes in the selection criteria currently employed. Doubts have been raised about the efficiency of the existing system in the current market conditions, and there is considerable dissatisfaction with prevailing rates of return.

You plan to write the report, but at the moment you are quite perplexed about the approach to take. Your own specialty is the bond market, and it is clear to you that detailed knowledge of the equity market, which you lack, would greatly enhance the value of the report. Fortunately, four members of your staff are specialists in different segments of the equity market. Together they possess a vast amount of knowledge about the intricacies of investment. However, they seldom agree on the best way to achieve anything when it comes to investment philosophy and strategy.

You have six weeks before the report is due. You have already begun to familiarize yourself with the firm's current portfolio and have been provided by management with a specific set of constraints that any portfolio must satisfy. Your immediate problem is to come up with some alternatives to the firm's present practices and select the most promising for detailed analysis in your report.

1. How would you deal with this situation?

With a checkmark, indicate the style that most clearly describes the action you would take.

- ___ **AI** You solve the problem or make a decision yourself, using whatever facts you have at hand.
- ___ **AII** You obtain any necessary information from those who report to you and then reach a decision alone. You may or may not tell them about the nature of the situation you face. You seek only relevant facts from them, not their advice or counsel.
- ___ **CI** You consult one-on-one with those who report to you, describing the problem and asking for each person's advice and recommendations. The final decision, however, is yours alone.
- ___ **CII** You consult with those who report to you in a meeting, describing the problem and requesting their collective advice and recommendations. The final decision, however, is yours alone and may or may not reflect your subordinates' influence.
- ___ **GII** You share the problem with your subordinates as a group. Your goal is to help the group concur on a decision. Your ideas are not given any greater weight than those of others.

2. Why would you use this style?

Case 4.2: The Pharmaceutical Company

You are executive vice president for a small pharmaceutical manufacturer. You have the opportunity to bid on a contract for the Defense Department pertaining to biological warfare. The contract is outside the mainstream of your business; however, it could make economic sense because you do have unused capacity in one of your plants, and the manufacturing processes are not dissimilar.

You have written a document to accompany the bid and now have the problem of determining the dollar value of the quotation that you think will win the job for your company. If the bid is too high, you will undoubtedly lose to one of your competitors; if it is too low you would stand to lose money on the program.

There are many factors to be considered in making this decision: the cost of the new raw materials and the additional administrative burden of relationships with a new client, not to speak of factors that are likely to influence the bids of your competitors, such as how much they need this particular contract. You have been busy assembling the necessary data to make this decision, but there remain several "unknowns", one of which involves the manager of the plant in which the products will be manufactured. Of all your subordinates, only she is in the position to estimate the costs of adapting the present equipment to its new purpose, and her cooperation and support will be necessary in ensuring that the specifics on the contract will be met. However, in

an initial discussion with her when you first learned of the possibility of the contract, she seemed adamantly opposed to the idea. Although she has been an effective and dedicated plant manager over the past several years, her previous experience has not particularly equipped her to evaluate the overall merits of projects such as this one. From the nature of her arguments, you inferred that her opposition was ideological rather than economic. You recall in this context that she is involved in the local nuclear freeze movement.

1. How would you go about determining the amount of the bid?

With a checkmark, indicate the style that most clearly describes the action you would take.

___ **AI** You solve the problem or make a decision yourself, using whatever facts you have at hand.

___ **AII** You obtain any necessary information from those who report to you and then reach a decision alone. You may or may not tell them about the nature of the situation you face. You seek only relevant facts from them, not their advice or counsel.

___ **CI** You consult one-on-one with those who report to you, describing the problem and asking for each person's advice and recommendations. The final decision, however, is yours alone.

___ **CII** You consult with those who report to you in a meeting, describing the problem and requesting their collective advice and recommendations. The final decision, however, is yours alone and may or may not reflect your subordinates' influence.

___ **GII** You share the problem with your subordinates as a group. Your goal is to help the group concur on a decision. Your ideas are not given any greater weight than those of others.

2. Why would you use this style?

Case 4.3: The Oil Pipeline

You are general supervisor in charge of a large gang laying an oil pipeline. It is now necessary to estimate your expected rate of progress to schedule material deliveries to the next field site.

You know the nature of the terrain you will be travelling and have in your records the historical data needed to compute the mean and variance in the rate of speed over that type of terrain. Given these two variables, it is a simple matter to calculate the earliest and latest times at which materials and support facilities will be needed at the next site. It is important that your estimate be reasonably accurate. Underestimates result in idle supervisors and workers, and overestimates result in tying up materials for a period of time before they are to be used.

Progress has been good, and your five supervisors and other members of the gang stand to receive substantial bonuses if the project is completed ahead of schedule.

1. How would you go about scheduling material deliveries?

With a checkmark, indicate the style that most clearly describes the action you would take.

- ___ **AI** You solve the problem or make a decision yourself, using whatever facts you have at hand.
- ___ **AII** You obtain any necessary information from those who report to you and then reach a decision alone. You may or may not tell them about the nature of the situation you face. You seek only relevant facts from them, not their advice or counsel.
- ___ **CI** You consult one-on-one with those who report to you, describing the problem and asking for each person's advice and recommendations. The final decision, however, is yours alone.
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- ___ **GII** You share the problem with your subordinates as a group. Your goal is to help the group concur on a decision. Your ideas are not given any greater weight than those of others.

Source: Joyce Osland, David Kolb and Irwin Rubin, Organizational Behavior: An Experiential Approach (7th ed.) 2001. Prentice Hall, Upper Saddle River, New Jersey: pp.328-330.

2. **Why** would you use this style?

These cases illustrate the challenges and difficulties in making decisions in the workplace. Much depends on your ability to make appropriate decisions, and poor decision-making can result in negative outcomes that range from inconsequential to devastating. Nevertheless, your success within your organisation (and potentially the success of others) is very much dependent on your ability to demonstrate sound decision-making that results in meeting or exceeding planned objectives.

Victor Vroom, Phillip Yetton and Arthur Jago developed a framework for decision makers that suggests that we must choose a decision-making method that best fits the problem being solved.¹ The individual, consultative and group decision options were provided to you in the short cases above.

2 Decision-making Defined

Decision-making is the process of developing a commitment to some course of action.² There are three things that help to characterise decision-making: it necessitates making a *choice* among two or more alternatives; it is a *process* that typically involves more than just what was decided (often we gain value in understanding how the decision was

arrived at); and thirdly, the ‘commitment’ mentioned above usually necessitates a commitment of *resources* - economic, human, time.

Another way to understand decision-making is to view it as a process of problem solving.³ A problem exists when there is a perceived gap between an existing and desired state. As a sales manager, you might see your quarterly sales fall short of the department quota (existing state). You would like to make a decision that ensures that your department meets the quota for the next quarter (desired state), which might require making choices about resource allocation (hiring personnel, increased marketing activity, training, etc.)

3 Decision-making Environments

While we would prefer to make decisions in an optimal environment, that is not possible in most circumstances. In fact, there are a number of different decision environments that we are faced with in organisations. Typically, we make decisions in organisations (or personally for that matter), that fall under one of three different categories:⁴

3.0.1 Certainty

This is an environment where we can depend on the outcome, because we have all of the information we need. For example, you have talked to three people in the organisation that you have considered for a job, and you must nominate one person. They are equally qualified, but only one of them is interested in the job – so it is with high certainty that you recommend this person, knowing the likely outcome.

3.0.2 Risk

In an environment of risk, you still have information, just not as much. Yet you have enough information to assign a probability to the outcome – in other words, you can determine the degree of likelihood of the outcome. So for example, you have recent financial statements for the last three years, up to and including last months, that show a gross margin on your revenues of between 30 and 32 percent. You can predict with a high probability in your projections, that it will remain as such, if all else remains constant in terms of influencing variables.

3.0.3 Uncertain Environments

These are the most difficult. Under these circumstances, you have very little information, and prediction is virtually impossible. You are not able to rely on any data you have in a meaningful way, and therefore sometimes these decisions are made using your own intuition, your employees understanding and analysis of the possible outcomes. Perhaps you are trying to determine whether to launch a new product. It is a product that has no similar competitor, and it is expensive to produce. You think, based on the limited market research you have conducted, that it stands a good chance, but it’s really your gut that’s telling you that. One environment that the literature discusses is ‘organised anarchy’,

which is characterised by rapidly changing conditions, either external to the organisation, internal to the organisation, or both (changing in terms of personnel, technology, legislation, for example). These days, many work environments are described this way – where it is difficult to establish any hierarchy or protocol.

4 Types of Decisions

Given the various decision environments within which we must manage, there are three primary types of decisions that we are able to make:⁵

Programmed decisions: programmed decisions are made for very routine problems. Let's assume you supervise an assembly line at GM and an employee calls in sick. You have likely made the decision of how to replace his/her position many times before and therefore do not have to give it a lot of thought.

Nonprogrammed decisions: these are the type of decisions that you have not typically made in the past. You need to demonstrate some creativity in your data gathering in order to make the most logical, effective decision you can. Often nonprogrammed decisions are decisions made at a middle or upper management level. For example, you might be running a division that is growing very quickly, and you need to implement more professionalised, standardised policies and procedures. You might decide to bring in some consultants, to hire a COO, or GM, or do yourself. Whatever the outcome, it is dependent on data collection and analysis that is not part of your routine.

Associative choices: associative choices are slightly different than decisions, in that the outcome of associative choices is not ideal. Associative choices are made in 'organised anarchy' environments, where the pace of change has been rapid. The intention is not to solve the problem, because circumstances do not allow for that. Rather, associative choices are made to improve the work environment; the problems are not solved.

5 Decision-making Models

5.1 Rational Decision-making

In theory, we should always make decisions that are rational. There are a number of considerations and actions that facilitate rational decision-making, yet in reality not all of our decisions are purely rational. Before we discuss why this is, let's first examine the rational decision-making model. This model argues that the decision maker will make optimal choices by adhering to a number of steps that help to ensure rationality. This model is designed with a view to facilitating value-maximizing choices.³ It entails a sequential progression through seven steps:⁶

1. Identify the problem.

2. Establish decision criteria, and allocate weights to the criteria.
3. Search for relevant information.
4. Develop alternative solutions to the problem.
5. Evaluate alternative solutions.
6. Choose the best solution.
7. Implement and monitor chosen solution.

When we define a problem, it emerges from our ability to recognise the gap between the existing and desired state. This necessitates a degree of objectivity. The reason for a preference for objectivity is so that we can proceed through the remaining steps of this model in a way that enables us to gather as much data as possible, and to entertain as many alternative solutions as we can. For example, if we identify a shortfall in revenues, we can identify the desired state as an increase in revenues. If we were to at this point to identify the low revenue problem instead as an under-achieving sales force, it would prompt us to proceed through the rest of the steps with a focus on improving the sales force. While this might indeed help solve the problem, it would eliminate collection of data that did not focus on the sales force. There may be other sources of the problem, and our objective is to consider and evaluate as wide a range of causes as possible. Therefore, it is in our best interest (and that of the organisation) if we try to define the problem objectively (without an implied cause or an implied solution).

Criteria must be established so that we have a yardstick of measurement against which to gauge progress and success. When we define criteria, we should also consider how these criteria might be measured. For example, if the problem is low revenues, then the criteria should include a quantifiable increase in revenues (10% for example), as well as a time frame in which to accomplish this objective. That way, we can determine specifically, whether an alternative is viable or not. Weighting of criteria helps us prioritise our selection. Is it more important to achieve the targeted sales target, or achieve an immediate increase in sales? We can establish a weighted criteria scale that will help quantify decision-making. So for example, we might have four criteria, two of which are given a weighting of 25%, the third 35%, and the fourth 15%. This weighting facilitates and quantifies our decisions, and often eliminates the need for debate further down the steps of the model.

Searching for relevant information necessitates objective data collection. Revenues are down, so it is in our best interest to collect any data that might indicate a reason for this. We might collect data on our sales force (number, training, expertise, experience, record per sales person to date, marketing and public relations activities, product quality, consumer tastes, patterns that indicate shifting consumer preferences, etc - you can see that the data might be very wide-spanning).

From the data collected, we can draw some conclusions about potential relevant alternatives. At this point, we need not appraise or evaluate these alternatives; we simply

want to list those alternatives that are plausible, given the data collected. After we have arrived at a number of alternatives, we must rate each alternative against the established criteria. This helps to establish some priority and plausibility of each alternative.

We must then make some determination on the most viable alternative (the one that meets the most criteria, and therefore has the highest total score). If we are presenting this analysis to others (as is often the case) we must spend some time establishing justification for our choice, that our intended audience will find compelling.

It is important to note that this model contains a number of assumptions:⁵

- **The problem is clear and specific:** the model assumes that problems are clear and unambiguous. It also assumes that the decision maker has complete information.
- **Known options:** this assumes that the decision maker is able to identify the criteria and viable alternatives. In addition, it is assumed that the decision maker can understand the possible consequences of each alternative.
- **Clear preference:** it is assumed that criteria and alternatives can be ranked and weighted to reflect their importance.
- **Stability:** the model assumes that decision criteria are constant and that the weights given to the criteria are stable over time.
- **minimal time and cost constraints:** this assumption enables the decision maker to obtain full information about the criteria and alternatives.
- **Maximum payoff:** it is assumed that the rational decision maker will choose the alternative that yields the highest perceived value.

5.2 Bounded Rationality

Herbert Simon won a Nobel Prize for his theory of bounded rationality, which argues that people do make decisions with restricted information, and therefore the decisions tend to be less than ideal.⁶ Bounded rationality is based on four primary assumptions:⁷

- Decision makers tend to ‘satisfice’: select the first alternative that is satisfactory.
- Often decision makers establish a problem statement or understanding of a problem without full or even adequate information.
- Decisions are often made without a comprehensive evaluation of alternatives.
- Decision makers rely on **heuristics**, or judgment shortcuts, to simplify the decision-making process.

5.2.1 Judgmental Heuristics

Heuristics are defined as the simplification of strategies, or using ‘rules of thumb’ to

make decisions. A variety of heuristics exists:

Availability heuristic: the availability heuristic exists when we use experiences to shape our current and future decisions. If we have hired someone from a specific university before and had a good experience, we may continue to do so (rightly or wrongly) on the basis of that limited experience.

Representativeness heuristic: This is sort of like the halo effect – in that we base our understanding and confidence of a specific decision based on very limited information. If we read an article in a magazine that one university has a top-rated business school, we might make our selection from that university.

Anchoring and adjustment heuristic: This involves identifying a ‘yardstick’ of measurement, based again, on limited information. If we have always paid MBAs a specific starting salary, we may offer this amount again. This is not always appropriate for a number of reasons; perhaps one person has many more years work experience than another.

Confirmation trap: in this instance, we are specifically seeking the information and statistics that will confirm that we are making an appropriate decision. For example: we want to hire an MBA from a specific university, so we collect information that points to that decision as being the most logical and grounded. We might be ignoring other information that is available, simply because it does not support our decision.

Hindsight trap: this refers to the ‘I should have seen that coming’ syndrome. Perhaps you hired the MBA from the specific university and she does not work out; you suggest that it was really an obvious misfit, based on the qualifications of the job description, and the academic training that person had as a student.

It is often impossible, given time constraints, to capture all of the complexities associated with decision-making. Rather than exhausting lists of criteria and alternatives, the decision maker will use a list that is more limited, and often based on past experience with similar problems. To acquire and process all sources of information is inefficient, and not likely to happen for most managers. So the need to arrive at a satisfactory solution (based on corporate objectives, dependent relationships within the organisation, politics, etc) acts as bounds to rationality.

5.3 Garbage Can Model of Decision-making

The Garbage Can Model⁸ has as its main components of the choice process four factors: problems, solutions, participants, and choice situations or opportunities. These are all mixed up together in the garbage can of the organisation. In other words, the decision-making process is rather chaotic, partly because that might be the decision-making culture of the organisation, but also because a linear, rational approach to problem solving might not be a viable option. Often we can match specific solutions to specific problems, but under this model, that is not possible. It is likely that this environment faces rapid change; you might try to establish solutions to problems that are very ill-defined (the culture is weak, and the politics are pervasive, and many departments have hidden agendas) and therefore hire a consultant to come in and attempt to manage the problems and challenges objectively. In this model, decision-making is haphazard and chaotic, and in fact sometimes depends largely on luck!

6 How Does Decision-Making Differ Between Individuals And Groups?

Many organisations employ groups to make decisions rather individuals. There are a number of strengths and weaknesses to group decision-making, discussed below:⁹

6.1 Strengths of Group Decision-Making

Often the **decision quality** is higher in groups, because the group as a whole can generate more **complete information and knowledge**. In addition, groups tend to **generate more ideas** than individuals, and they can **evaluate ideas better** than individuals.

Groups offer a greater **diversity of views** than individuals because of the heterogeneous nature of the group. There is also generally an **increased acceptance of and commitment** to the decision, partly because of the **diffusion of responsibility** across the members of the group.

Given the strengths of group decision-making, can we conclude that the groups actually do make higher-quality decisions than individuals do? The answer to that question is yes. And the research supports the notion that group performance is heightened when and where:

- the group members differ in skills and abilities
- division of labour can occur
- the group members have a memory for facts;
- individual judgments can be combined by weighting them to reflect the expertise of the various members.¹⁰

6.2 Weaknesses of Group Decision-Making

While there are a number of advantages to using groups to make decisions in organisations, there are a number of shortcomings:¹¹ Group decisions are usually more **time consuming**. Often the decisions necessitate much discussion and debate, and this tends to increase with group size. In addition, as was previously mentioned in block three, *group conflict* is difficult to avoid, and is considered part of the stages of group development. **Domination** of the group and its processes is often a problem in groups; one individual or a small coalition may create ineffective decisions, if views are imposed on the group that emerge from misinformation or extreme biases. Finally, **groupthink** is a risk of group decisions. There are a number of steps that can be taken to minimise the risk of groupthink: leaders must try not to exert undue pressure toward a specific outcome; norms should be established that encourage dissent, and outside experts might be invited occasionally into the group to contribute their own perspective on various problems.¹²

6.3 Group Decision-making Techniques

A number of decision-making techniques can be employed by groups:

Brainstorming: this technique is employed by groups with a view to overcoming the pressure to conform. When groups are brainstorming, a number of group members typically sit around a table, and many ideas are generated by the members. There are four primary rules to brainstorming: no criticism; freewheeling is welcomed; quantity is good; and people should build on each others' ideas (piggy-backing). Electronic brainstorming is becoming popular for groups whose members are geographically dispersed. While brainstorming is a process for generating ideas, the nominal group technique and the delphi technique discussed below provide a means for arriving at a preferred solution.¹³

Nominal Group Technique - this technique is one that is often used when there is conflict in the group, or when it has become almost impossible to make a decision because of diverse opinions. It restricts discussion during the decision-making process. The nominal group technique is often used in large groups that are broken down into smaller sizes of 5-7 people. Each person responds in writing to a question, and then the answers are recorded. After the answers are recorded, again participants are asked to rank the ideas, so that the most preferred action can be narrowed down.

Delphi Technique - sometimes group members cannot meet face to face (for geographic or confidentiality reasons). The Delphi technique uses questionnaires that are answered by members of the group. A coordinator then summarises the solutions and sends the summary back to the group members, together with another questionnaire. This process is continued until a clear course of action is determined.

7 How Can We Improve Decision-making?

There are a number of things to consider when making decisions, either individually or as a group. Using creativity in decision-making is something that we need to consider as part of our day-to-day decision-making approaches. This is a very critical part of decision-making, because decisions require creativity now, perhaps more than ever, because of the rapid pace of change within which we must make decisions. And the literature identifies five stages of creative thinking: a creative decision is defined as one that uses unique and novel responses to problems and opportunities.¹⁴

Preparation: through your day-to-day activities, you must move along a learning curve, and it is at this stage that you develop some sense of the complexities of your environment.

Concentration: at the concentration stage, specific problems are identified, and contextualised as much as possible.

Incubation: this stage is really the meat of the creative component, in that you must approach the problem from as many angles and directions as you can, in order to feel that you have exhausted all possible definitions. This is where brainstorming in a group really adds value.

Illumination: once you have a very specific idea of what the problem is, potential alternatives sometimes almost jump out at you. Other times, they emerge slowly, from further analysis. But in any case, it is at this stage that you really are putting the pieces of the problem/solution mix together.

Verification: this is a post-problem solving stage, in that you are following up on your analysis and recommendations, to ensure that they were appropriate and have indeed met planned objectives.

It is up to decision makers to foster an environment of creativity, by managing judgment heuristics. We must attempt to consider as many options as possible when making decisions, even those that are unattractive to us. Cultural and environmental blocks can also limit creativity and is something that all decision makers must consider when forming decision-making groups. Culture shapes our choices with respect to what must be considered when formulating decisions. The North American view stresses decisiveness, speed and individual selection of alternatives. Other cultures place less emphasis on individual choice; rather the focus is on successful implementation. Certainly it appears that many views are dictated by Western bureaucratic thinking.¹⁵ Cultures differ in the level of pluralism, competitiveness, formal vs. informal behaviour, hierarchical influences, etc., and decision-making individuals and groups must be mindful of these influences.

Exercise

Prepare a short paper (approximately 3 pages) that describes the culture within which you live (based your country/region/city). In addition, reflect on, and describe the culture within your organisation. Describe how both these cultures shape your decision-making within your work environment.

7.1 Which Problems Should Be Addressed?

One of your biggest challenges as a manager (particularly if inexperienced) will be to know which problems to handle yourself and which to delegate to others. When you are new to a position, your initial instinct is to try and handle everything yourself for a number of reasons:

1. you are trying to make a good impression on your superiors
2. you want to convince those that report to you that you are competent to handle a high stress, complex environment
3. you feel a need as a new manager to control everything, and to have your hand in everything.

So you might want to establish a set of simple criteria that helps you to prioritise, and carefully (but quickly) select the appropriate problems that you yourself must deal with, and problems that can be delegated.

There are a number of questions you can ask yourself that will help you move forward with decision-making:¹⁶

Is the problem easy to deal with? You attend to less significant problems with less time and attention. Sometimes it is useful to ‘rate’ problems and challenges in a way that enables you to determine what resources are required to make successful decisions.

Is the problem likely to get resolved without intervention? Sometimes the less significant ones do work themselves out; on the other hand sometimes they become bigger problems if you ignore them. Again, if you take the time to rank your problems, you can attend to the ones that have the most impact immediately.

Is this my decision to make? This is a good question to ask yourself for two reasons: it might be something that is beyond your authority, so perhaps it is best not to try and be a hero.

Is the problem solvable within the context of the organisation? Perhaps this is a challenge that you cannot solve because there are some external variables beyond your control that make the problem impractical for you to address. It is very difficult to make a decision on a problem that necessitates changes that are beyond your sphere of influence.

8 Questions for Review

1. Describe the Rational Decision-making process, and explain the circumstances under which you believe this to be an applicable approach.
2. What are heuristics and what role do they play in decision-making?
3. Provide examples of the circumstances under which each of the three group decision-making techniques would apply.
4. Why might an understanding of decision environments help you make more effective decisions? Might it affect the approach you take? Why?

Case Study 4.4

A NEW DIRECTION FOR THE UPSTAGE THEATRE

The board of the Upstage Theatre Company had assembled to hear the Artistic Director's proposals for the following year's season. Mark Buck, the Artistic Director, had built a reputation on his staging of popular comic seasons, and most members of the board expected a similar proposal this year.

Buck entered the boardroom, and after a few general remarks, began to speak about his plans for the season. As he spoke, the board members began to look at each other with astonishment. Buck was proposing a radical departure with a Shakespearean tragedy and working up to a piece by Arthur Miller. At the end of this totally unexpected proposal he looked around at his audience. 'Any questions' he asked rather blandly, while privately enjoying the obvious bewilderment on the part of the board. He loved surprising people!

Jean Carlisle, the chair of the board, was the only one not surprised by the proposal, as Buck had approached her several weeks ago and dropped some hints about his idea. Buck, she had a shrewd suspicion, was out primarily to promote his own career. Known as a 'comedy man' first and foremost, he was in danger of being typecast within the industry. Only by rounding out his production experience could he hope to progress.

Carlisle, however, could see a lot of possibilities in the proposal for a 'serious' season, even though she knew it would be dismissed as foolhardy by a number of the established board members. Her involvement with the Upstage Theatre was based on a sincere commitment to the cultural development of the community. Lately, she had been coming under some fire from her family and friends for not urging that more 'culturally significant' work be performed by the Theatre. When she had first heard of Buck's proposal, she had decided to support it and had accordingly begun to consider how best to get the board to support it as well.

Now she turned to Robert Ramsay, a board member who had been brought in for his connections with the business community. 'Well, Robert, it's an interesting proposal we

have in front of us,' she said. 'What do you think?'

Ramsay, she happened to know, had been considerably embarrassed in front of the board recently, as a result of his inability to raise money for the Theatre. She also knew that much of the resistance to the corporate support of the Theatre had come from the fact that its plays were not considered serious enough. Thus, Ramsay, she reasoned, would support the departure proposed by Buck.

This was indeed the case. 'I think it's a marvellous idea. And I'm sure it's the kind of season the financial community would support' said Ramsay.

Several others on the board protested strongly against the proposed season. The most vociferous of these was Olaf Vickers, a local playwright of some repute. Vickers had had several of his comedy works performed by the Upstage Theatre Company over the years. The argument presented by Buck, Carlisle, and Ramsay managed to quiet these objections, however, at least to the point where the board voted to examine the marketing and financial implications of the proposal and meet again in two weeks' time.

When the board met again, a month later, the battle lines were more clearly drawn. Olaf Vickers spoke first. 'I move that we dismiss the proposal for a "tragedy" season,' he said. 'The Theatre has always had a reputation for comic works, and this reputation should not be thrown away lightly. I feel that our artistic director should go back and rethink his proposals.'

Jean Carlisle, however, was ready with an answer. 'I know how you feel', she said. 'But I think we have to consider some other factors too. For a year now our theatre has been losing money, and how long the various arts councils will go on funding us is an open question. As I told you last year, some of the government people are very concerned that we develop more in the way of box office support and outside funding. Now, as I see it, this proposal may give us a chance to do just that. I've asked Mark Buck to do an unofficial survey among the town's theatre community, and I think you'll find the results interesting.'

The artistic director now stood up. 'We've been able to put together a random sample of theatregoers from the subscription lists of other theatres in town,' he said. 'I had a couple of people in the administrative office phone these people and do a straw poll survey of their preferences. The results indicate that a majority would patronise a new tragedy season. So I think we can expect some box office support for this proposal.'

He sat down and amid murmurs from the board members Carlisle then asked Ramsay to address the meeting. 'I've canvassed the business community,' he said. 'A number of corporations have indicated their interest in supporting a "serious season" here. I think it's safe to say that we could count on fairly generous corporate support should we decide to go ahead.'

A heated debate followed these announcements. While many of the previously uncommitted board members now leaned toward acceptance of the proposed season, a significant minority, lead by Olaf Vickers, opposed it. As the by-laws required a two-

thirds majority to approve a policy change, the meeting adjourned without any decision being taken. It was decided to meet again the following week to resolve the crisis, if possible.

During that week, Jean Carlisle paid a visit to Olaf Vickers. After some polite discussion of theatre matters, she came to the point. 'You know Olaf,' she said sadly, 'it's rather a pity you don't support the proposal for a 'serious' season.'

'Why's that?' inquired the playwright suspiciously.

'Well', explained Carlisle, 'it's just that I was talking to Buck the other day, and he wanted to commission you to write a work to wrap up the season. He says he's sure a serious piece by you would be just the thing to cap the year.'

'I'm glad that at least he remembers part of the Theatre's original mandate,' growled Vickers. 'After all, the Upstage is supposed to be committed to the development of new local authors.'

'And it's a commitment he takes very seriously,' replied Carlisle. 'And, so do I, I can assure you. That's why if we were to go ahead with the season he suggests, I would move that your new play be commissioned immediately. I hope we can come to some agreement when we next meet,' she added, as she rose to go.

'Maybe,' Vickers replied thoughtfully.

At the next meeting, Vickers announced that after some thought, he had changed his mind, and would now support the new season. Several weeks later, it was announced that as local playwright, he had been asked to write a serious work to be performed as season finale.

Questions

1. What do you perceive to be the primary problem in this case?
 2. Do you believe that the board has made decisions according to the rational decision-making model? Why?
 3. Do you think that using a group such as this one was the most effective way to make the decision?
 4. What might you have done differently, in order to facilitate more effective decision-making in this case?
-

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Commonwealth of Learning Executive MBA/MPA

C2 Management and Organisations

Block 5

Communications

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1 Block Five Objectives

After completing Block Five, you should have a good understanding of:

- the communication process and its importance
- types of communication
- communication flows in organisations
- barriers to communication
- various approaches to improving communication

2 Commitment to Communication

Cirque Du Soleil is no ordinary circus. If you have ever been lucky enough to see a Cirque du Soleil show, you know that it is more sophisticated, more athletically challenging, and more beautiful than your basic elephants-and-clowns Big Top extravaganza. Just as extraordinary is how this global organisation so successfully manages its 2,100 employees, who represent 40 different nationalities and more than 15 languages.

Most of the employees are attached to the tours, with 500 employees at the company's international headquarters in Montreal, Quebec, Canada. The company also has offices in Las Vegas, Amsterdam, and Singapore, and even employees assigned to a permanent office tend to travel a lot. Add to this the company's use of 1,800 temporary employees (temps) a year to support tours as ushers, and security and ticket personnel, and you have the potential for mayhem.

However, just as impressive as the Cirque du Soleil show, is how the company uses communication to keep employees informed and involved in the company. Communications play a huge role in letting employees know what jobs are available, encouraging employee feedback, and keeping employees educated about the company.

How is this done? All jobs are posted on the Internet and in company bulletins. If the company needs a secretary in Europe, it will post the job in every project and office it has, even the tour in Hong Kong. An employee-written newspaper flourishes without corporate censorship. A worldwide video club allows employees in different locations around the world to exchange videotapes. Employees in the Las Vegas finance department can tape themselves on the job and swap tapes with workers in the casting department in Montreal to keep the community feeling close. And if an employee in the secretarial pool at headquarters has never seen a show, she might find herself flying to a tour stop in Chicago.

Communication becomes a global conversation between employees and executives through the company's three publications, *Hand to Hand*, *The Ball*, and the *Nouvel-*

Experience. These publications keep employees informed about new projects and tours and provide news from around the globe. One of the publications even has a column called 'Culture Shock', in which employees describe their experiences in different countries.

To stay in touch with employees around the world, personnel from human resources travel to different venues to talk to employees one-on-one and to get an idea of what's going on in the everyday life of the company. At Cirque du Soleil, the lines of communication are always open from country to country.¹

¹*Excerpted from: (1997, February). 'A circus juggles HR worldwide' Workforce, 76(2), p.50; Flynn, G. (1997, August). 'Acrobats, Aerialists and HR: The big top needs big HR.' Workforce, 76(8), pp.38-45.*

3 Value of Communication

3.1 Communication Defined

Communication is the process of transmitting or exchanging information and meaning between two people. The person who initiates the communication process is known as a sender. The person to whom communication is directed is known as the receiver. It is important that the sender encode the message. Encoding is the determination of the method of conveying meaning to others. How might you deliver this message? This might include decisions about choice of language (including body language), and your decision might depend on who the receiver is and what information you are transmitting (for example, their status relative to yours and the purpose of the message and the environment in which it is delivered will likely influence your choices). You must select a form of transmission, which involves sending the message over a specific channel. You might communicate your thoughts face to face, by written memo, or by email.

The choice of transmission is often an important decision, depending on the information being sent. Your organisation might use e-mail as the most common method to transmit information. E-mail, however, is unlikely to be the ideal choice of medium to conduct a performance appraisal. An interesting statistic to keep in mind is that 60% of meaning in a face-to-face communication is transmitted non-verbally!

Through a process of decoding, the receiver makes sense of the information that was sent. We often know whether the receiver has decoded information accurately when he or she provides some feedback to the sender. Feedback is two-way communication that allows the sender to determine if the meaning of that communication was correctly received. Effective communication occurs when the intended persons receive the right information in an efficient manner, and when the intended meaning of the source and the perceived meaning of the receiver are virtually the same

3.2 Why Is Communication Important?

Substantial research emphasises the importance of communication. One of the reasons that we must communicate effectively is that ineffective communication can lead to substantial conflict. A number of studies have identified some interesting findings: studies of production workers indicate that they are involved in somewhere between 16 and 46 communication episodes per hour.² In higher levels, communication is even more frequent. First level supervisors of production jobs spend 20 to 50% of their time in verbal communication. If written communication is added these figures increase to somewhere between 29 and 64%.³ Finally, if we move even higher to middle and upper management, 66 to 89% of managers' time is spent in verbal communication (this refers to face-to-face meetings and telephone).⁴

As you can see, for many members of organisations, particularly those in management, the majority of their time is spent communicating with others. Ineffective communication will often result in negative outcomes ranging from minor inefficiencies to pervasive conflict and an unattractive work environment.

4 Types of Communication

The primary distinction in communication within organisations is made between two types: formal and informal communication channels. Formal communication channels follow through the hierarchy of authority. This hierarchy typically provides a preferred route for information passing between levels within the organisation. Typically, official types of communication with respect to policies and procedures are sent through formal channels within the organisation. Personal or social messages tend to take place through the use of informal channels. These are typically not structured in accordance with the hierarchy of authority. Often information through informal channels skips across vertical chains of command and helps to ensure that important communication is occurring between the right people.⁵

One informal channel most familiar to us is commonly referred to as the grapevine, through which unofficial information (including rumours) are passed from one person to another. We think of the grapevine as word of mouth communication. Information through this channel can also be communicated electronically, with written notes, or through faxes. Surprisingly, information that is passed through the grapevine is for the most part, accurate. One study shows that at least 75% of non-controversial, organisationally related grapevine information is correct.⁶

In some circumstances, a grapevine is desirable in an organisation, particularly when formal communication is lax. It also contributes to individual needs. If you recall in Block 2, basic human needs include a sense of belongingness, security, or a need for affiliation. The grapevine tends to satisfy these needs, and allows people to feel 'in the know'. The obvious downfall to the grapevine is the quality and accuracy of information. A rumour is an unverified belief that is in general circulation, and often rumours spread

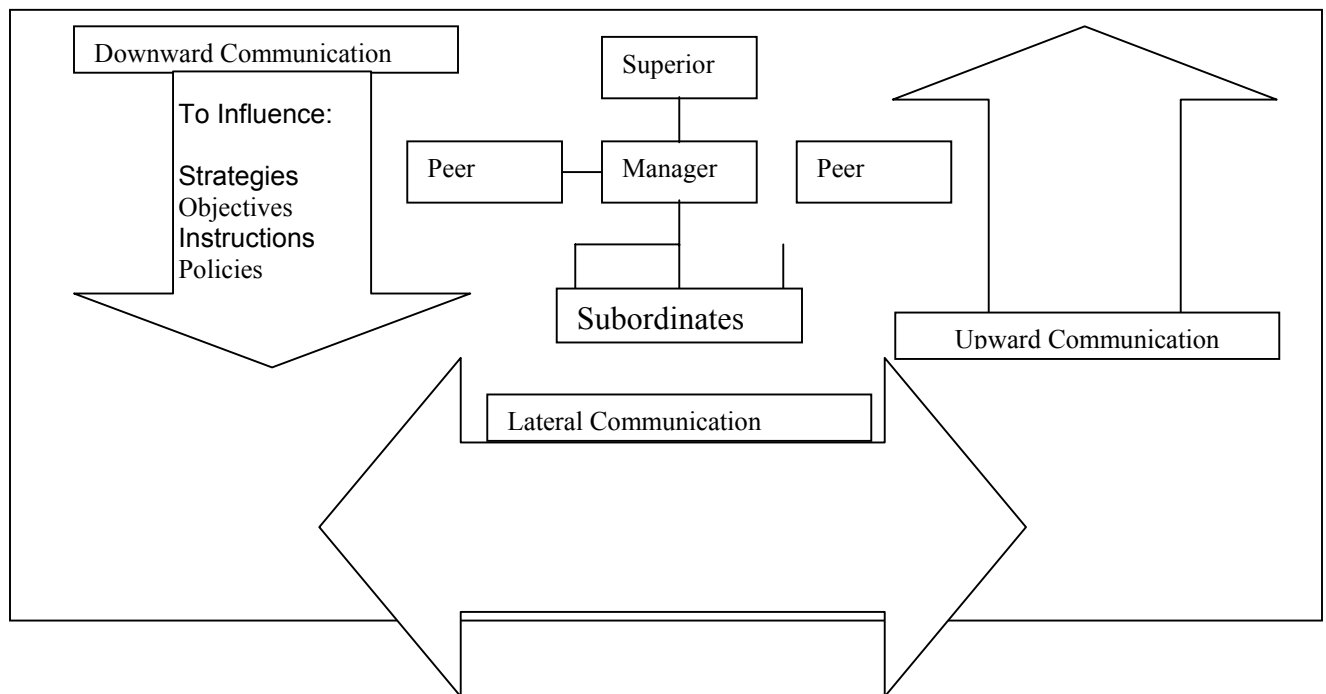
very fast and far, and can therefore have detrimental consequences.

In addition to spoken or written information, non-verbal communication is an important source of information. Much can be communicated through body language, such as facial expressions, eye contact, and physical gestures. Physical space arrangements also affect non-verbal communication and intended messages. The study of the way physical space is utilised is known as *proxemics*, and it has been determined that this is an important component of communication.⁷

Physical proximity between people differs across cultures as well. In Arab, Latin American and South European countries people tend to stand close together. North Europeans and North Americans prefer to stand further apart.⁸ A CEO that places his or her desk in an open space among all members within the organisation communicates a message to employees that is likely distinct from the CEO that has a private office with a door that is typically closed.

5 Communication Flows in Organisations

There are three primary directional flows of communication: downward communication, upward communication, and horizontal communication.



(Diagram adapted from Schermerhorn, Hunt, and Osborn "Organizational Behaviour", 7th ed., 2000.)

Downward Communication flows from the top of the organisation towards the bottom. Managers often use this approach to provide instructional and procedural information to employees. Often downward communication uses formal communication channels to transmit information.

Upward communication flows from lower levels of the organisation to higher levels.

Often, established communications such as performance reports, employee attitude surveys and grievance procedures flow upward from lower levels.

Horizontal communication occurs between departments or functional units. This communication occurs among members within the same work group or often at the same levels. Given the nature of cross-functional teams that are often employed in organisations today, horizontal communication becomes very important because of the interdependent nature of cross-functional areas. On occasion, horizontal communication is a source of interpersonal conflict, particularly when vertical communication flows are breached.

6 Barriers to Communication

Anything that represents a barrier to communication is known as noise. Noise interferes with the effectiveness of communication. It disrupts or interferes with the transference of messages throughout the communication process. Here are a number of examples of noise:

6.1 Physical Distraction

Read the following conversation between a manager and his employee, George:

‘O.K., George, let’s hear your problem.’ (Phone rings, boss picks it up, promises to deliver the report, ‘just as soon as I can get it done’). ‘Now, where were we —Oh, you’re having a problem with marketing. They...’ (the manager’s secretary brings in some papers that need immediate signatures; he scribbles his name and the secretary leaves)... ‘You say they are not cooperative? I’ll tell you what, George, why don’t you...’ (phone rings again, lunch partner drops by). ‘.. take a stab at handling it yourself... I’ve got to go now.’

Source: Farace, Richard. B., and Monge, Peter R. and Russell, Hamish. Communicating and Organizing, Reading, MA: Addison Wesley, 1977, pp.97-98.

While people sometimes have no choice other than multi-tasking, it can result in information overload, or poor communication, or worse, miscommunication. Also what happens, if you are communicating with someone where there are a number of interruptions, is that the person with whom you are communicating feels rushed or pressured, and therefore might choose not to transfer information.

6.2 Gender Distinction Barriers

Research by Tannen has shown that there are differences between men and women in the way they communicate.⁹ Men choose to communicate in a way that maintains status and independence. Women tend to communicate in a way that facilitates relationship

building. They have a preference for connection. Often women use what is defined as rapport talk, and communicate in a way that avoids putting other people down. Tannen's research has identified a number of key distinctions between males' and females' communication:

Getting credit: Men tend to receive more credit for their contributions because they communicate their own accomplishments more often.

Confidence and Boasting: Men sometimes tend to be boastful about their capabilities, while women downplay their capabilities. Sometimes this results in men being perceived as more confident.

Asking Questions: Typically men ask fewer questions, as they feel it might reflect negatively on them.

Apologies: Women are more likely to say 'I'm sorry' as a way of showing concern, whereas men often perceive it as a sign of weakness.

Feedback: Women might buffer negative feedback by beginning with statements of praise. Men tend to be much more straightforward.

Compliments: It is more common for women to exchange compliments than men.

Managing up and down: Men and women communicate up and down in the organisational chain of command differently. Men tend to spend more time communicating with their superiors, associating themselves with those levels, while women who are in power positions tend to downplay their superiority.

Indirectness: Women in positions of authority tend to be less direct when giving orders. Often this can lead to misunderstandings.

While research has reported these distinctions, it is important to make note of the fact that these distinctions cannot be generalised between all men and women. In addition, it is probable that in some circumstances, culture influences male and female communication distinctions as well. In general, there are a number of cross cultural communication issues and challenges that are discussed below.

6.3 Cross-Cultural Distinctions

Another barrier to communication emerges from cultural distinctions. The most obvious cross-cultural communication barrier is language. Even when two parties speak the same language, sometimes the meanings of specific words are quite different for two countries (for example, Americans take the elevator, the English take the lift). One of the things that must be considered when trying to establish brand or product names is that translations can result in a negative image for an organisation. Consider the following international blunders:

- The Chevrolet Nova car did not sell in Puerto Rico, because it sounded like *no va* ,

which means ‘it doesn’t go!’

- An early translation of Coca Cola into Chinese meant ‘bite the wad tadpole’. Coca Cola has since found and trademarked a new Chinese name that means refreshing and delicious. *
- The soft drink Fresca was marketed without a change of brand name. The company later discovered that Fresca is slang for *lesbian* in Mexico.**

Groups and individuals can do a number of things to reduce misperceptions and misinterpretations across cultures. These four rules are useful to keep in mind:¹⁰

Assume differences until similarity is proven: it is likely safe to assume that people from different countries are not similar to us when considering style and interpretations of communication.

Emphasise description rather than interpretation or evaluation. If you take some time to observe and interpret a situation from the multiple perspectives of the cultures associated with the communication, you are less likely to interpret meaning based on your own culture and background.

Practice empathy: The best way to do this is to try and understand the receivers’ values, experiences, and frames of references by placing yourself in their shoes.

Treat your interpretations as a working hypothesis: If you feel you have developed some understanding of communication from a foreign culture, it is likely in your best interests to treat this interpretation as a hypothesis - something that might need fine tuning as time goes on.

7 How Can We Improve Communication?

So much of our progress and success in organisations is dependent upon effective communication. Organisations have identified effective communication skills as a critical component of any manager’s job, and good communicators tend to create environments that foster effective working relationships. A number of basic principles of effective communication are discussed below.¹¹

7.0.1 Take Time

It is difficult to establish good communications with any party or parties without cultivating a relationship based on trust and respect first. As discussed above, there are a number of barriers to communication which resist eradication. They therefore must be managed continually.

* Warner, F. 1996, Western Goods in Asia Lose Something in Translation, *The Asian Wall Street Journal Weekly*, February 12, 6.

** Adapted from Ricks, D. A., 1983. *Big Business Blunders: Mistakes in Multinational Marketing*. Homewood, IL: Dow Jones-Irwin.

7.0.2 Be Accepting of Others

It is very likely that others with whom we communicate do not interpret or evaluate information the same way we do. It would be arrogant to assume that they would interpret or evaluate it as we do, and even worse to react in a way that suggests any interpretation other than our own is wrong. It is important as managers that we be open to diverse understandings, and to view them as an opportunity to learn and develop our own sensibilities and interpretative perspectives.

7.0.3 Try to Separate the People from the Problems

If you recall the rational decision making process, problem identification should be approached objectively. It is often easier to identify a person or group of people as the problem but this may lead you down the wrong path in terms of finding an appropriate solution. The other thing to keep in mind is that, however the problem is defined, it is likely dependent on maintaining a workable relationship with at least some of the people you view to be the source of the problem!

7.0.4 Communicate Your Feelings

Many of you have likely worked with people who behave in a way that is inconsistent with what they 'espouse' to be important to them, or to the organisation. So if you suggest that a strong work ethic is important in your department, but take long lunches each day and tend to be late or generally unreliable for 'important' meetings, it sends a message to others very quickly. This jeopardises your credibility as a manager, and also threatens the communication process and relationships with members in the organisation.

7.0.5 Listen Actively

Research has shown that executives believe the communication skills they find most critical to their success and progress in an organisation are listening skills. Listening is particularly challenging when communicating with people from other cultures where there is a lack of common native language. There are other variables that affect our listening under those circumstances, such as attitudes, beliefs, values, previous experiences, organisational roles. It is the listener's responsibility to ensure that messages are received in the way they were intended. Should there be distortions, they should be clarified as soon as possible. In order to be an effective active listener, one must accept the person for what he or she is, without making judgments of right or wrong, good or bad, logical or illogical. In addition, it is useful to paraphrase the content of what is communicated back to the speaker in order to ensure that they have understood correctly. This is respectful, and useful in maintaining a progressive and successful working relationship. Your body language is also important: ensure that you maintain eye contact, that you are sitting up, leaning forward in a way that shows you are paying attention. It is critical that you demonstrate to the speaker that you understand their feelings; this can be done again through paraphrasing. Finally, an active listener asks questions. This serves two purposes: it confirms that you are listening, and it helps to clarify meaning.

7.0.6 Be Timely and Specific with Your Feedback

Often we must communicate information to others that is difficult (a poor performance evaluation for example). While it might be easier to put it off, it is disrespectful to the recipient, and certainly does not foster a trusting relationship. Be sure to provide feedback (whether it is positive or negative!) in a timely manner, and be explicit. Without detail, often the listener is confused or misled (imagine suggesting to a subordinate that ‘the quality of their work is not as high as expected’ - this adds no value to the listener without specific examples).

Source: Adapted from J. Brownell, “Preparing Students for Multicultural Environments: Listening as a Key Management Competency”, Journal of Management Education 16 December, 1992; Osland, J. Kolb, D. and Rubin, I. Organizational Behavior (7th ed.), 2001, Upper Saddle, NJ: Prentice Hall p.158; Johns, G. and Saks, A. Organizational Behaviour, (5th ed.) 2001, Toronto, CA: Addison Wesley Longman: pp. 330-331.

8 Case Studies

Case Incident 1: Who’s in Charge?

The president of Janice Tani’s firm asked her, as chief executive of the marketing division, and her staff (three male MBAs) to set up and close an important contract with a Japanese firm. He thought his choice especially good as Janice (a Japanese American from California) knew the industry well and could also speak Japanese.

As she and her staff were being introduced, Janice noticed a quizzical look on Mr. Yamamoto’s face and heard him repeat ‘chief executive’ to his assistant in an unsure manner. After Janice had presented the merits of the strategy in Japanese, referring to notes provided by her staff, she asked Mr. Yamamoto what he thought. He responded by saying that he needed to discuss some things further with the head of her department. Janice explained that was why she was there. Smiling, Mr. Yamamoto replied that she had done an especially good job of explaining, but that he wanted to talk things over with the person in charge. Beginning to be frustrated, Janice stated that she had authority for her company. Mr. Yamamoto glanced at this assistant, still smiling, and he arranged to meet with Janice at another time.

Questions

Why did Mr. Yamamoto keep asking Janice about the executive in charge?

1. He did not really believe that she was actually telling the truth about who she was.
2. He had never heard the term ‘executive’ before and did not understand the meaning of ‘chief executive.’
3. He had never personally dealt with a woman in Janice’s position, and her language

ability caused him to think of her in another capacity.

4. He really did not like her presentation and did not want to deal with her firm.
5. He was attracted to her and wanted to meet with her alone.

Case Incident 2: Shaping up the Office

Ronald, an ambitious young executive had been sent to take over the sales branch of his American company in Sao Paulo, Brazil. He spent a few weeks learning the routines with the departing manager and was somewhat disturbed by the informality and lack of discipline that seemed to characterise the office. People seemed to indulge in excessive socializing, conversations seemed to deal more with personal than business matters, and not one seemed to keep to their set schedules. Once he had formally taken over, he resolved to do something for a general meeting. He told them bluntly that work rates and schedules would have to be adhered to and hoped that a more business-like atmosphere would prevail. Over the next few months, he concentrated on improving on efficiency, offering higher bonuses and incentives to those who worked well and private warnings to those who did not. By the end of the first quarter he felt he had considerably improved the situation and was therefore somewhat surprised to find sales figures had significantly dropped since his takeover.

Questions

What reason would you give to Ronald for this drop in sales?

1. He has probably lowered the office morale.
2. The salesmen probably resent his management style and are deliberately trying to make him look bad.
3. The salesmen would probably have responded better to a more participative approach to the problems.
4. Key Brazilian workers lost face through Ronald's actions.

Source: Gary Johns and Alan Saks, (2001) Organizational Behaviour, (5th ed.) Toronto, Canada: Addison Wesley Longman: pp 338-339.

Case 5.1: Archimax Systems Ltd. (Optional Submission)

Please read case study 5.1, Archimax Systems Ltd given in Block 13 of your study material and analyse this case, using the written case format provided in the introduction block. Your paper should be no longer than 8 pages.

8 References

- ¹ Excerpted from: (1997, February). A circus juggles HR worldwide. *Workforce*, 76(2), p.50; Flynn, G. (1997, August). Acrobats, Aerialists and HR: The big top needs big HR. *Workforce*, 76(8), pp.38-45; Gary Johns and Alan Saks (2001), *Organizational Behaviour* (5th ed.), Toronto, CA: Addison Wesley Longman, pp.306-307.
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- ³ Ibid.
- ⁴ Mintzberg, H. (1973) *The Nature of Managerial Work*, New York: Harper and Row.
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- ⁹ Tannen, D. (1991) *You just don't understand: Women and Men in Conversation*, New York, Ballantine Books.
- ¹⁰ Adler, N. (1997) *International Dimensions of Organizational Behavior*, (3rd ed.), Cincinnati: OH, Southwestern: pp.87-88.
- ¹¹ Johns, G. and Saks, A. (2001) *Organizational Behaviour*, (5th ed.) Toronto, Canada: Addison Wesley Longman: page 329

Commonwealth of Learning Executive MBA/MPA

C2 Management and Organisations

Block 6

Organisational Structure

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1 Block Six Objectives

After completing Block Six, you should have a good understanding of:

- what is meant by organisational structure
- how labour is divided and coordinated
- structural characteristics
- various models of mechanistic and organic organisation structures
- determinants of organisation structure

2 What Is Organisational Structure?

Up to this point, we have examined individual and group behaviour, and interpersonal communication between parties. This block introduces another level of analysis, that of the organisation. Specifically, our focus will be on the **structure** of organisations. Structure defines how individuals and groups are organised, or how their tasks are divided and coordinated. There are a variety of organisational structures, which typically emerge as a function of strategy. Take a look at the two structures below (Exhibits 6-1 and 6-2). The first one shows a clear separation of duties within a hierarchical rank, and is pyramidal. The second structure is much flatter, where the number of layers is reduced. In a flat organisational structure, it is likely that you will have more interaction with the person at the top of the organisation. A pyramidal structure is not designed to facilitate that type of communication.

- **Exhibit 6-1 Pyramidal Organisational Structure**

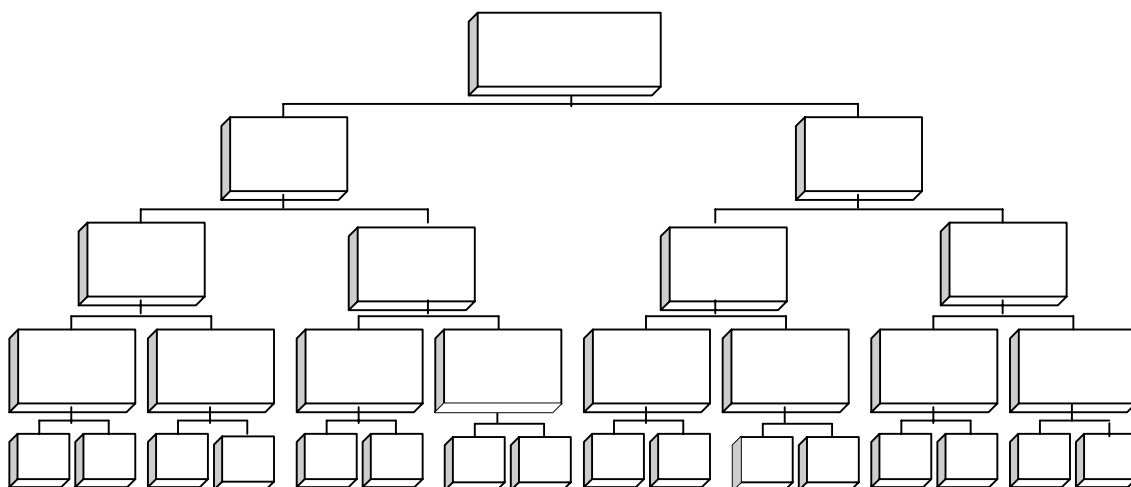
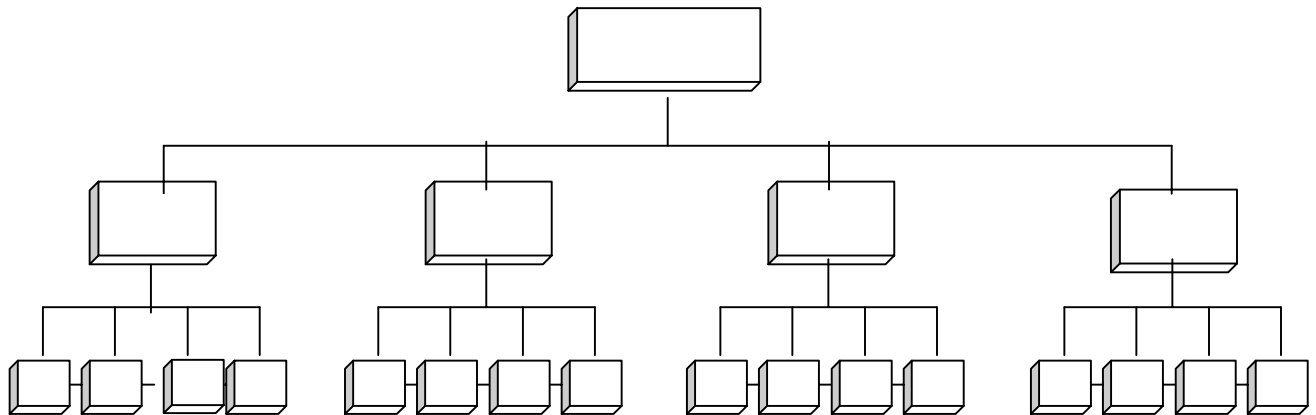


Exhibit 6-2 Flat Organizational Structure



3 Division and Coordination of Labour

3.1 Work Specialization

Work specialization refers to the division of labour, specifically to the degree to which tasks are broken down into separate jobs. In some manufacturing firms division of labour is very high, where each person performs the same task over and over again, and it represents a small component of the final output. For example in a car plant, workers on the assembly line tend to do one thing repetitively; one person might bolt all of the wheels on the car, while another might install steering wheels. Each person specialises in one component of the process, and this allows for an automobile to be completed more efficiently. Henry Ford, of Ford Motor Company came up with the idea of an assembly line.

While specialization promotes efficiencies, there is a down side to this type of labour division. Often people experience boredom, fatigue, and stress; as a result are increasingly absent from work, or produce poor quality goods. The very reason for specialization becomes the source of diseconomies of production! Management in organisations today must structure work in a way that maximises output; and this is very much a function of worker satisfaction and morale. As the workforce has become more educated, so has the need for jobs that are intrinsically rewarding. Therefore, the division of labour must be designed around the nature of the work and the people that must contribute to the process.

3.2 Centralization and Decentralization

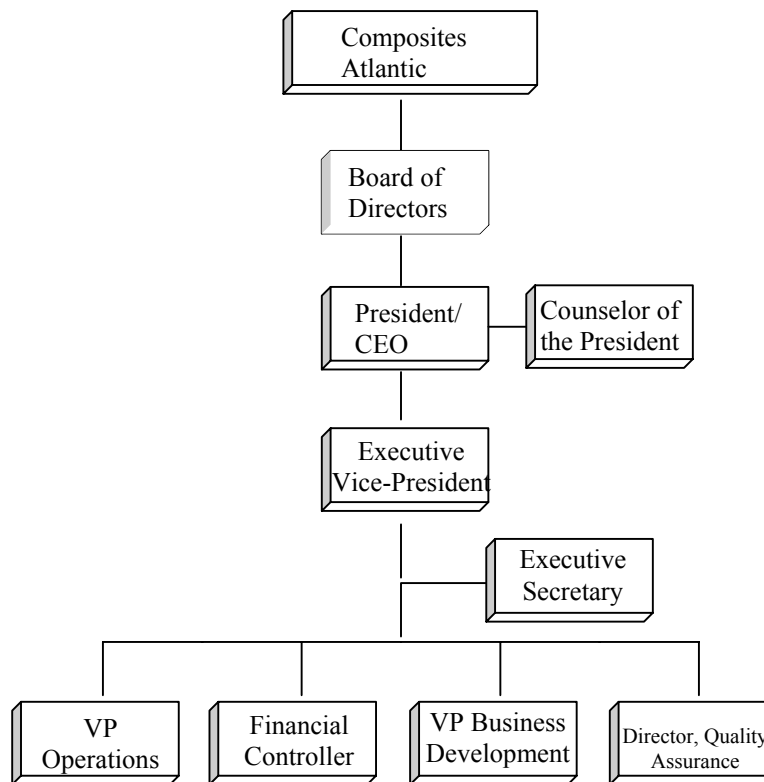
These terms refer to the decision-making process in organisations. Centralised decision-making is concentrated, typically at the top of the organization. Decentralised decision-making allows lower-level employees to make or contribute to the decision making process. More and more we see organizations becoming decentralised, as they flatten the

organizational structure. Decentralised decision-making often boosts employee morale in that it allows people to feel they are a significant part of the organization. In addition, they can respond quickly to customer expectations and needs. Decentralization is a definite trend. A survey of 100 international companies showed that only 36% of these organizations are centralised today, compared with 53% in 1990.¹ Employees tend to have increased satisfaction in organizations that are less centralised.

3.3 Departmentation

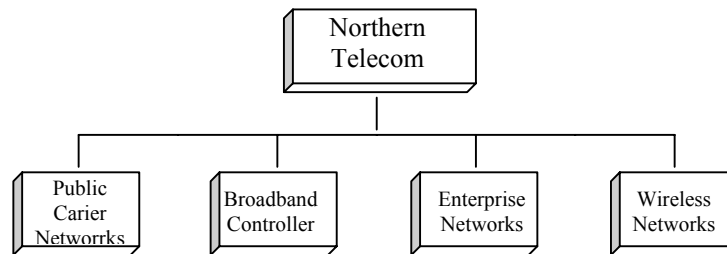
Departmentation is the grouping of jobs in a way that most effectively serves the needs of the organisation. There are numerous ways in which jobs can be grouped in an organisation. The most common grouping is by function. For example we might see that an organisation separates research and development, operations, marketing, finance, human resources into common departments. A functional organisational chart is in

Exhibit 6-3



Another type of departmentation is by the type of product that the organisation produces (referring to a product, a product line, or a service) (see Exhibit 6-4).

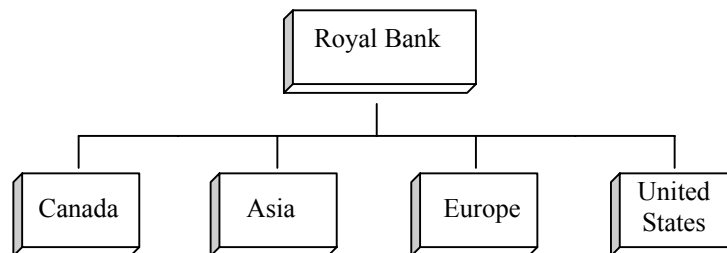
Exhibit 6-4



Product departmentation often combines functional departmentation. A large organisation may be structured by product line, each of which acts autonomously, with its own functional departments. Often this is done in order to better serve customers, but also because it is easier to track the profitability of each product when they are separated, with their own product-specific costs attached. Should one specific product become consistently unprofitable, it is less destructive to the entire organisation to eliminate that product when it is, for the most part, produced in an autonomous unit.

Some organisations will departmentalise on the basis of geography. Specifically, the division can be by country or by any geographic region that serves similar needs (see exhibit 6-5).

Exhibit 6-5



This type of departmentation often allows for greater flexibility in meeting external demands that might differ by region. The disadvantages of this structural form include goal incongruence (between the division and corporate offices), and functional duplication.

Customer departmentation is another structural form, which organises departments by specific customer groups. Again, the primary goal is to service the customer as effectively as possible, through specialization. Banks typically divide their business into retail and commercial lending divisions; universities might divide services between graduate and undergraduate students, and then further by full-time and part-time. Finally, hybrid departmentation represents some combination of the above structures. If we use the university example again, often areas are divided by subject of study: history, business, fine arts, sciences, etc. as well as by function: registration, finance, social clubs, etc.; and often even geographically, if the university has multiple campuses.

3.4 Chain of Command

The coordination of labour in a large organization comes under a chain of command which may be short or long. This is the reporting system—who reports to whom—and it is something that must be clear to members of the organisation so they will understand the process of communication and reporting. The chain of command has seen dramatic changes over the last number of years. This is partly due to the structural changes that have emerged as organisations focussed on getting closer to the customer. We have seen the growth of self-managed work teams, and cross-functional groups, and this has collapsed the hierarchical chain of command significantly. In addition, technology has greatly facilitated information access to all employees in the organisation; it also provides a very common source of communication now.

3.5 Span of Control

The number and functional diversity of employees reporting to a manager or supervisor determines that manager's span of control. In order to determine how wide or narrow the span of control should be, we must answer the question 'How many employees can a supervisor manage directly and still meet corporate expectations and goals?' The answer to that question is 'it depends.' Some organisations are structured in a way such that self-managed teams do not necessitate narrow spans of control because they can make appropriate decisions independently of direct supervision. The success of wide spans of control also depends on individual differences (some people prefer to be directly supervised, while others feel thwarted by such close supervision), as well as the task itself (professional firms may have wider spans of control than manufacturing firms, where division of labour is very high).

3.6 Formalization and Standardization

Formalization refers to the explicit nature of rules, policies, work process procedures that guide work and decision making within the organisation. Often employees depend on specific written instruction for explanation or clarification of their job descriptions, responsibilities, accountability, etc.

Standardization refers to the level of variety or range of actions in a job or job series. Standardization is created in organisations with a view to maximizing efficiencies; where similar work activities are performed in a similar fashion. This often eliminates the need to determine a response to problems or challenges, because experience with similar problems has enabled a response to be prescribed.

3.7 Cross-functional Liaison

The above descriptions of division and coordination are common to most organisations. A growing challenge for many organisations is the effective coordination across lateral departments and functions, where variation and incongruence often exists for goals, time

spans, interpersonal communication. Often organisations establish specific roles to address these challenges: ²

3.7.1 Liaison Roles

This typically involves the role of a person who communicates and coordinates between two departments. They are also referred to as *linking pins*. Sometimes a department will have its own liaison person, who is responsible for communicating with the liaison in another department. For example, in a hospital, there might be a liaison role for a person in physical therapy who is in constant contact with the post-operative department in order to facilitate scheduling.

3.7.2 Task forces

Task forces do much the same thing, but instead of communicating between two departments, they communicate between several departments, or activities, or functions. Task forces are typically temporary groups that are set up to address and coordinate problems and include representatives from each department, either on a full-time or part-time basis. Self-managed teams often serve the same purpose, and are disbanded once the integration objectives have been met.

3.7.3 Integrators

Finally, a full-time integrator will do nothing but coordinate between departments, and is not a member of any one department. Sometimes integrators play important roles in change projects, where they will coordinate activities between functions or departments. They are really full-time problem solvers, where the focus is on reconciling diverse or opposing goals and objectives in a complex environment.

4 Models of Organisational Structure

The following subsections of organisational structure will examine two primary organisation designs. The first is known as a mechanistic structure. Mechanistic structure is a theme common to three theoretical structures: bureaucracy, classical management theory, and scientific management. Mechanistic structures stress very high degrees of employee specialization as well as stringent controls and systems that articulate coordination throughout the organisation. In addition, we will discuss organic structures. These structures tend to be more loosely-knit, in that cross-functional, cross-level teams are more common, communication is often more informal, and the organisation tends to be flatter than a mechanistic organisation. These and other characteristics of organic structures will be discussed below.

4.1 Mechanistic Structure

Max Weber, whom you might have come across in previous studies, was a German sociologist who had a tremendous impact on organisation - he is really known as the father of bureaucracy. He studied European organisations in the early 1920s, but his writings were not translated into English, or introduced into North America until the 1940s. He considered the bureaucracy to be the prototype form of organisation. Rather than viewing bureaucracy as endless red tape and unneeded details for people, Weber saw its emphasis on order, system, rationality, uniformity and consistency as the major asset of bureaucracy.³

4.1.2 Bureaucracy

Each employee in Weber's bureaucracy has specified and official areas of responsibility that are assigned on the basis of competence and expertise. Not only do rules and regulations exist, but these are translated into detailed employment manuals; hence managers use written documents extensively in managing employees. The division of work is fixed, enabling workers to become experts within their small world, or responsibility. Managers of offices, departments, or other groups of workers receive extensive training in their job requirements. They are expected to use the rules that are consistent and complete and that can be learned. There is a strong emphasis on hierarchy, and chain of command, because that is what enables managers and employees to maximise use of their time.

Weber established these rules primarily because he believed that they would result in increased clarity, efficiency, and overall effectiveness. Despite his obsession with organised hierarchy, he did not eliminate or dismiss the importance of human needs; this dismissal is more consistent with the Classical and Scientific Management Theories.

4.1.3 Classical Management Theory

Henri Fayol was a French manager who wrote of management theory in the early 1900s, but like Weber's, his work was not translated into English until well into the 1940s. At the same time the American, Mooney, and the Englishman, Urwick were also contributing to this school of thought. Classical management theorists developed their theories using the military and engineering as a basic foundation for their frameworks of management.

Like Weber's bureaucracy, these theorists emphasised the importance of, and need for hierarchy, order, and hence, predictability. And the traditional hierarchical organisational chart that we are familiar with is what emerged from their emphasis. It represented a network of parts, dependent on each other to deliver the final product.⁴ Classical management theorists focus primarily on the design of the total organisation. This is distinct from scientific management, which focusses on both design and management of individual jobs.

Very much like an automobile with its engine, battery, fuel tank, tires, a body—each very important but insufficient to realise the objective, of movement—an organisation could not function without any one of these parts, which are truly functional.

In terms of ‘planning,’ organisations arrange workers according to logical groupings, such as client, product, expertise, or functional area. For example, GM groups workers for the same make of car (Pontiac, Chevrolet, Cadillac), into a single division. In addition, each organisational member has exactly one direct supervisor. So, John Smith might supervise five presidents of five car divisions and each of those presidents might supervise vice presidents in their respective areas. The chain of command looks very traditional. It usually starts with the CEO, then goes to Senior Vice-Presidents, then to middle managers, then to line staff. Finally, the way that coordination and control are managed is with very formalised mechanisms that ensure communication among groups. Often, this is through written directives. In summary, the classical school of management focussed on extreme discipline, a very well defined and stringent chain of command, and extreme specialization, or division of work.

4.1.4 Scientific Management

The scientific management school of thought is sometimes also referred to as ‘Taylorism,’ in recognition of its founder, Frederick Taylor. He was a foreman at Bethlehem Steel Works. Like the Classical School, there are very clearly laid out managerial responsibilities. It is management who is responsible for creating the vision, selling the vision, and monitoring progress and outcomes. They are the ‘thinkers’ in the organisation. Managing organisations, according to Taylor, could be a science, hence the name. It consists of the following characteristics:⁵

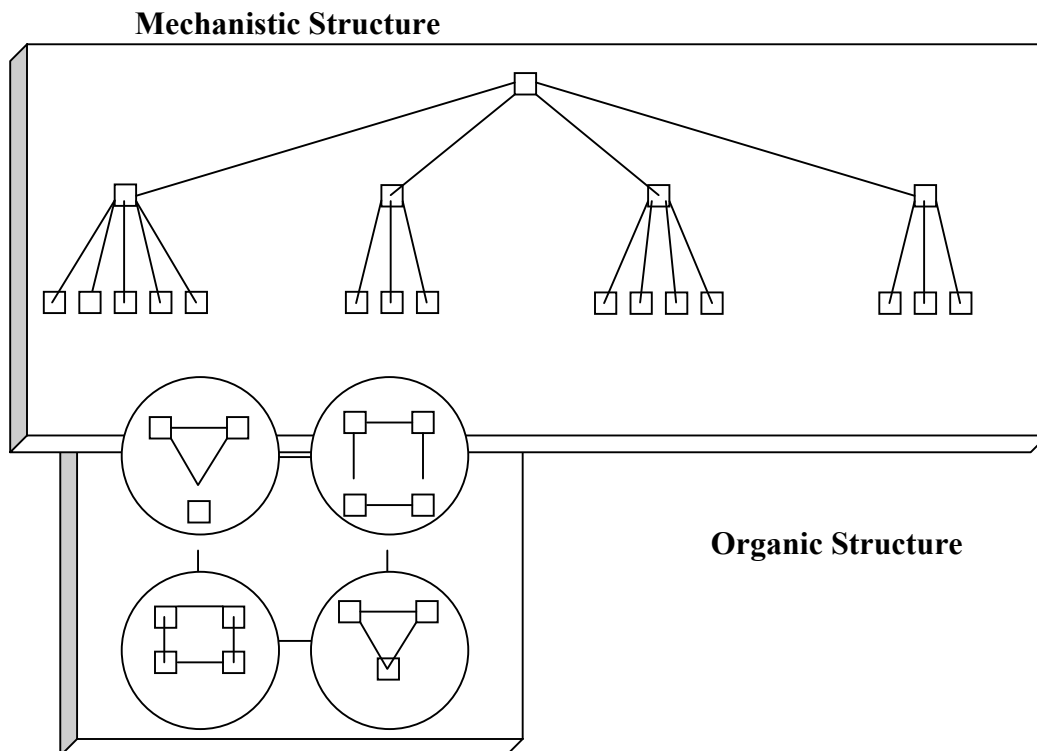
- Managers develop a science for each element of a man’s work, which replaces the old rule of thumb method.
- managers scientifically select and then train, teach and develop the worker, whereas in the past the worker chose his work and trained himself as best he could.
- Managers heartily cooperate with the men so as to insure all of the work being done is in accordance with the principles of the science which has been developed.
- Managers have the responsibility to monitor all performance of the men whereas, before scientific management, the workers were pretty much responsible for the outcome of whatever task they were given.

The three mechanistic models discussed above focus on employee specialization, high standardization and formalization. There is also a very high degree of coordination and control. Over time the human relations movement observed that these organisational structures had some major disadvantages: boredom, resentment, fatigue, absenteeism, poor motivation, poor quality and reduced productivity. It was from this realization, that another form of organisational structure emerged, that of an organic nature.

4.2 Organic Organisational Structures

Organic structures tend to be significantly flatter than mechanistic structures. In addition, they tend to employ cross-functional teams with low formalization. Typically, communication flows laterally as well as vertically and involves multi-directional decisionmaking.⁶ A visual depiction of a mechanistic versus organic structure is shown in Exhibit 6-6 below.

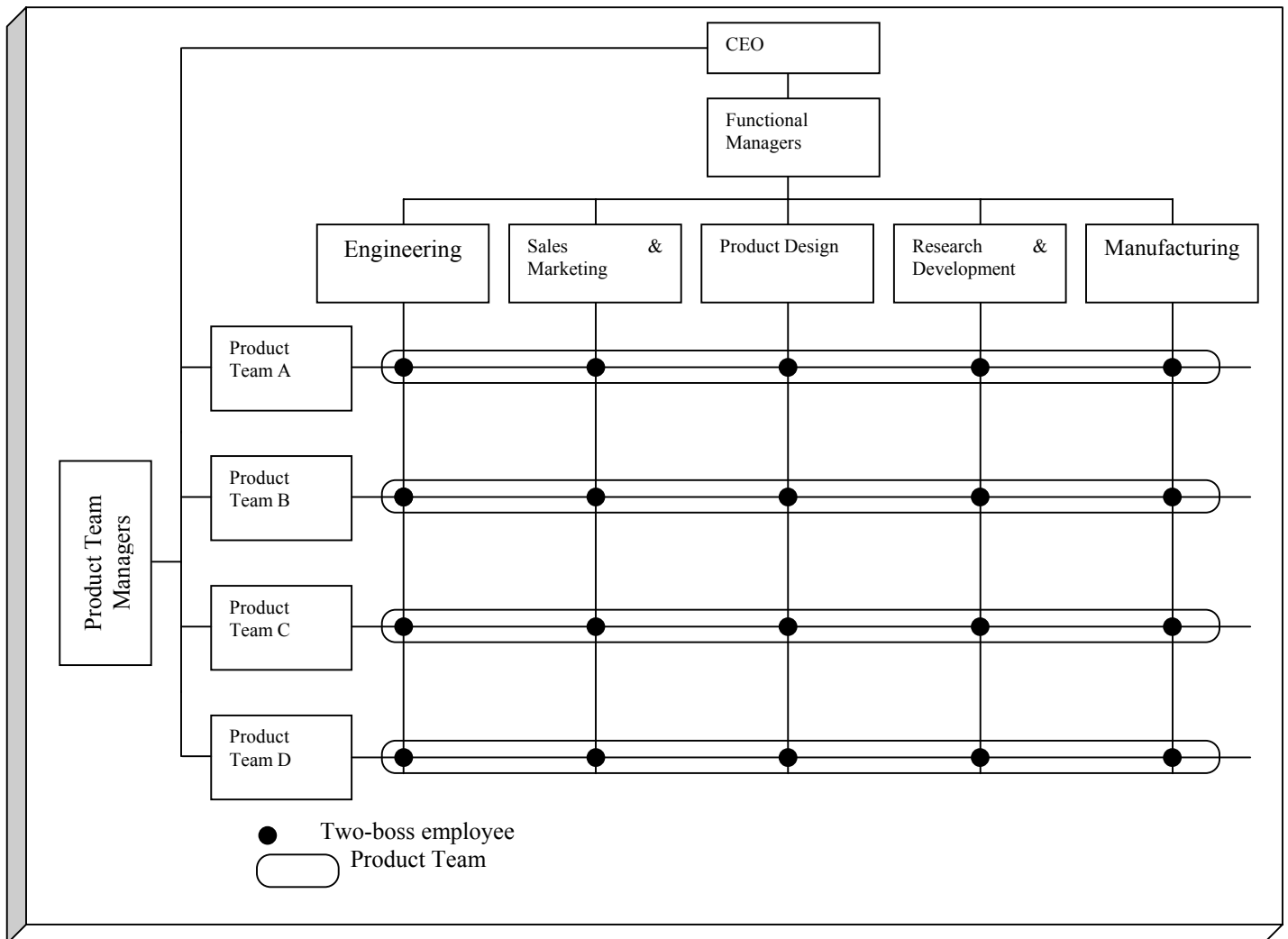
Organic structures characteristically facilitate contributions from lower and middle levels in the organisation that would not be prevalent in mechanistic structures. The following subsections will focus on three forms of organic structure: matrix organisations, network organisations, and so-called boundaryless organisations.



4.2.1 Matrix Organisations

Matrix organisations tend to be team driven, and combine the advantages of both functional and product departmentation. (as shown in Exhibit 6-7 on the following page). A matrix structure is preferred when three primary conditions exist:⁷

The first condition refers to **resource allocation**. The organisation might have a moderate number of product lines, and is a medium-sized organisation. Therefore it is viewed as most efficient to share various resources (people and equipment) across those products. A clothing manufacturer may produce product lines for men, women and children, yet share designers across product lines.



The second condition emerges from pressure for two or more outputs **to share information and integrate activities**. For example, there may be frequent new products (divisional structure) that are highly dependent on in-depth technical knowledge (functional structure). This necessitates a dual-authority structure to manage the balance of power.

The third condition exists where the environmental domain of the organisation is characterised by uncertainty and complexity. There may be **fast-paced change and high interdependence between departments**, which necessitates sharing of information and high coordination in both vertical and horizontal directions.

The dual authority structure in a matrix organisation is established so that the balance of power between them is equal. A number of organisations have attempted implementation of the matrix structure, some of which include banks, insurance companies, government agencies and hospitals.⁸

There are a number of **strengths and weaknesses to the matrix structure**.⁹

Matrix structures are implemented in environments where change is fast-paced and complex, and where goals often necessitate a focus on both product and functional goals. The structure **facilitates coordination** in an environment of interdependent and complex processes. Often the increased communication lends itself nicely to **flexibility, creativity and innovation**. The structure enables information to be transmitted and understood very quickly. Politics and power struggles (in theory) can be kept to a minimum, where dual lines of authority require focus on a shared vision. Finally, a matrix structure facilitates the **allocation of specialists**. Often when individuals are assigned to a functional department, their skills are not shared throughout the organisation. A matrix structure enables economies of scale, by allowing these resources to be spread across a wider terrain.

Without strong interpersonal skills, participants working within a matrix structure often find working with **dual authority** frustrating and confusing. In addition, these structures often require **frequent meetings** that provide a source of conflict; they can be time consuming and frustrating. Possibly the most significant shortcoming of the matrix structure is its propensity to foster **power struggles** between two bosses.¹⁰ Often there is **ambiguity** with respect to who reports to whom. In addition, power struggles can erupt from two bosses who have distinct priorities and management styles; this can lead to enormous stress for the individuals that must report to them.

4.2.2 Network Organisations

Network structures are also referred to as virtual or modular organisations. These organisations emerged in the 1980s, from the pressures of globalization and deregulation, and the need for flexibility and innovation. A network organisation is an evolving liaison or network of independent companies (suppliers, customers, producers, designers, distributors, competitors) linked together to share and coordinate skills, costs and access to one another's markets.¹¹ There are four primary characteristics of a network structure:

- **Vertical disaggregation:** many functions typically performed within an organisation are carried out by independent organisations.
- **Brokers:** often brokers are used to assemble the networks of designers, suppliers, distributors, etc.
- **Market mechanisms:** functions tend to be tied together by market mechanisms rather than plans and controls.
- **Full disclosure information systems:** all participants have broad access, and computerised information systems substitute for extensive trust-building processes.¹²

The primary motivation for establishing a network organisation is that it creates an opportunity for organisations and managers to concentrate on their specific strengths and subcontract various processes or activities that are not consistent with organisational strengths. In addition, network structures allow organisations to manage very complex

relationships in and outside the organisation, in rapidly changing environments. Network or virtual organisations tend to be more flexible than matrix structures.

Network structures are not without disadvantages. One of the primary disadvantages of a network organisation is that it is difficult to ensure quality and working conditions in a company that is owned by a subcontractor. A high dependence on external suppliers and distributors is risky when operational control is diluted through multiple relationships.¹³ It has been suggested that the most successful network organisations have adopted a spherical structure, which is discussed in the case below.

The Multi-firm, Spherical Network Organisation

Technical and Computer Graphics (TCG), located in Sydney, Australia, is a group of small companies that, by practicing sophisticated entrepreneurship, project leadership and self-management, has become the largest privately-owned computer service business in Australia. It is a highly interactive network of 24 companies with combined annual revenues of approximately \$50 million, and a staff of about 200. TCG is considered to be one of its countries most significant innovators in portable data terminals, computer graphics, simulators, bar-coding systems, electronic data interchange, and other applications of information and communications technology.

Within TCG, new product development (and hence network-expansion) is called 'Triangulation,' meaning that it involves a three-cornered partnership among a TCG firm, a similar technology-based firm outside TCG and a major customer. The triangular product-development process typically involves 5 key steps:

- identify the market niche
- find a developmental partner
- locate a customer
- involve other TCG firms
- extend the triangle in new directions.

In a multi-firm spherical network such as that used by TCG, every individual is expected to be an entrepreneur and sometimes project leader. Moreover, every individual in the various TCG firms works closely, as part of a self-managed team, with other professionals within the network. Although the total network staff of 200 is small by most company comparisons, the organisation has global reach. And, perhaps most importantly, TCG has few rules and no pyramidal management hierarchy.

TCG's success, based on the widespread application of technical, entrepreneurial, and self-managed skills, provides evidence of how a group of small firms can hook themselves together to form a highly flexible network. But can this structure work in large companies? The evidence suggests it can.

A good example of a well-developed, large company spherical network is that operated by electrical equipment manufacturer ABB (Asea Brown Boveri). Although ABB has over 200,000 employees, all work in small organisational units. The average plant employs fewer than 200 workers, and most of the company's 5,000 profit centres contain only 40-50 people. Even though the members of most ABB plants and offices do not directly engage in entrepreneurial activities,

they come into contact with both external customers and internal partners through ABB's equivalent of global trading companies, called business areas. But, like TCG, virtually every member of the firm is close to the customer and responsive to market developments. ABB also has minimised the amount of rule-guided behaviour among its internal units, substituting instead a series of market oriented processes and rewards that encourage cooperation and mutually beneficial action. The overall success of this network hinges on management's willingness to put people in this type of arrangement and the ability to make such an arrangement work once it has been designed. This requires a human resource management philosophy in which employees act as partners in their own development. Management, in turn, must not only facilitate employee development but also locate opportunities for employees to apply their continuously expanding knowledge and ability.

Source: Excerpted from Miles, R. and Snow, C.C. The New Network Firm: A Spherical Structure Build on a Human Investment Philosophy, Organizational Dynamics, Spring, 1995, pp.5-183.

4.2.3 Boundaryless Organizations

Mechanistic structures, as well as some organic structures consist of boundaries or barriers that vertically and horizontally divide people. Because various functions and departments are so interdependent, this can be problematic. And often these kinds of barriers stifle productivity and innovation.¹⁴ The notion of a boundaryless organisation was developed by Jack Welch, CEO of General Electric. He believed that boundaries that divide employees by job function, geography or hierarchy, as well as boundaries that create distance between the company and its suppliers and customers, should be eliminated.¹⁵ Cross-managing and cross-functional teams dominate the boundaryless organisation. The primary focus is on business processes that add value to the customers (for example, new product development, or materials handling). Often customers and suppliers are members of these teams. Boundaryless organisations facilitate communication, where information and knowledge is shared quickly throughout the organisation.¹⁶

While boundaryless organisations certainly enhance a company's ability to adapt to environmental changes and meet the needs of multiple stakeholders, there are some shortcomings. A boundaryless organisation necessitates a significant cultural change within an organisation, and it is often difficult to overcome the political and authority boundaries that have shaped organisational structure for many years.¹⁷

5 What Determines Organisational Structure?

How do organisations determine structure? While there is no definitive answer to this question, there are a number of considerations. One design principle suggests that form should follow function. Champy argues that this design principle be restated to 'Form follows customers' where structures should be a function of customer needs.¹⁸ Research has shown that there are four primary forces that act as causes or determinants of an organisations structure:¹⁹ This section will examine the effect of strategy, size,

technology and environment on organisational structure.

5.1 Strategy

It has long been argued that structure is partly determined by the organisation's strategy; and strategic objectives are pursued through a structural form that supports this strategy.²⁰ There are three primary strategic dimensions: innovation, cost minimization, and imitation, and there is a structural design that is most appropriate with each.²¹

An innovation strategy requires flexibility and creativity. To a large degree, the organisation employing this strategy will focus on the introduction of new products and or services ongoing. In a cost minimization strategy, cost efficiencies must be maximised, and unnecessary innovation or marketing expenses are avoided. An imitation strategy attempts to capitalise on the strengths of both innovation and cost minimization strategies. These organisations will move into new products, but only after they have seen the product demonstrate success. The structural configuration most appropriate to each of these strategies is shown in Exhibit 6-8.

The Strategy-Structure Thesis	
Strategy	Structural Option
Innovation	Organic: A loose structure; low specialization, low formalization, decentralized
Cost-minimization	Mechanistic: Tight control; extensive wk specialization, high formalization, high centralization
Imitation	Mechanistic and organic: Mix of loose with tight properties; tight controls over current activities and looser controls and new undertaking

Exhibit 6-8

Reprinted from Robbins and Langton, Organizational Behaviour, page 531)

5.2 Size

It is logical to assume that organisational size shapes structure. Large organisations tend to be more structurally complex than small organisations.²² Large organisations tend to have more functional departments, and are often structured around multiple product lines. As a result, the need for integration and communication increases, and becomes more complex. This necessitates more management levels so that spans of control do not become unmanageable. Political environments sometimes emerge from multiple hierarchical reporting structures. In a small organisation, the president or CEO is often in

a position to make more decisions. Formalization and standardization is typically not part of a small organisational structure.

5.3 Technology

Technology is defined as the activities, equipment and knowledge necessary to turn organisational inputs into desired outputs. For example, in a hospital, sick patients and interns represent inputs, while desired outputs include well people and experienced doctors.²³ Research has established that the technology-structure relationship is somewhat dependent on the level of *routineness* in technology.²⁴ Routine technologies are characterised by standardised and automated operations (for example, an assembly line). Non-routine technologies are customised (patient management, custom shirtmakers). There is a relationship between routineness and formalization in an organisation. Routineness is associated with rule manuals, extensive documentation, job designs, job descriptions, reporting structures. Often routine technology is a function of taller, departmentalised structures. There is also some support for a relationship between routine technology and centralised structures. With non-routine technologies, decision-making tends to be more decentralised.

5.4 Environment

The impact of an organisation's environment is substantial, and helps to shape the structure of an organisation. Environment is defined as those institutions or forces outside the organisation that potentially affect the organisation's performance.²⁵ Typically, organisational structures are shaped by the level of environmental uncertainty. Where environments are very stable (minimal technological change, predictable consumer behaviour, few innovations, static environment) structures tend to be mechanistic, with few departments, formalization and centralised decision-making. Where environments are highly uncertain and complex, organic structures tend to be more prevalent; decision-making is decentralised and cross-function teamwork is pervasive throughout the organisation. The complexity of the environment may necessitate numerous departments with a high degree of interdependence.

6 Case Study 6.1

Insubordination or Unclear Loyalties?

(Optional Submission)

Please read case study 6.1 'Insubordination or Unclear Loyalties?' in Block 13 of your study material and analyse it, using the written case format provided in the introduction unit. Your paper should be no longer than 8 pages.

7 Questions for Review

1. How would you compare the strengths and weaknesses of a mechanistic versus organic organisational structure?
2. Under what circumstances might a narrow span of control be most appropriate? Why?
3. Summarise the technology and size relationships with structure
4. What is a matrix structure? Under what circumstances is this structure most appropriate?
5. When does a mechanistic structure make the most sense? Why?
6. In an organisation that must compete within an environment characterised by explosive growth and consistent innovation, which structure would be most appropriate? Why?
7. How does a virtual organisation differ from a boundaryless organisation?

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Commonwealth of Learning Executive MBA/MPA

C2 Management and Organisations

Block 7

Leadership

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1 Block Seven Objectives

After completing Block Seven, you should have a good understanding of:

- how leadership is defined
- the evolution of three leadership theories
- transactional versus transformational leadership characteristics
- cultural issues and leadership behaviour
- current leadership issues

Case Study 7.1: Progressive

Peter Lewis's Progressive, a \$4.6 billion revenue auto insurance maverick is built around speed, service, and software. He is pushing for claim inspections in nine hours or less and settlements within seven days. With this goal, he not only has built an increasingly prosperous and fast-growing company, but may also transform the struggling, slow-moving auto insurance industry. All this is done with rapid, on-the-spot claims inspections (and sometimes settlements), 24 hours a day, 7 days a week, using two-way radios, laptop computers with custom-designed intelligent software, rapid-moving omnipresent sports utility vehicle, and the power to make on-the-spot decisions. Indeed, Progressive prides itself on settling claims before other companies even know an accident has occurred. All these activities take place with a maze of terminals operated by informally dressed claims representatives who interview customers involved in accidents, enter data into the mainframe computer, and initiate an immediate response – all in just minutes. Progressive also uses unconventional approaches in selling its insurance, where it shares with customers information about exact pricing not only on its policies, but on the identical policy from other competitors.

Progressive employees describe both the firm and Peter Lewis as “intense”, “aggressive”, and “unconventional”. He also has been described as 65 going on 24 and has been Progressive's CEO for the past 33 years. Says Lewis: “We're not in the business of auto insurance. We're in the business of reducing the human trauma and economic costs of automobile accidents – in effective and profitable ways that delight customers.”

Source: Schermerhorn, J., Hunt, J. and Osborn, R. Organizational Behavior, (7th ed.) 2000, New York: John Wiley & Sons, Inc., p.285.

Some people argue that leadership skills are of paramount importance in an organisation; leaders help to establish vision, shape effective strategy, and motivate employees to fulfill corporate goals. Others argue that leadership does not play as critical a role, given the parameters and constraints within which leaders must lead.

Exercise

After reading the above case, think of two leaders whom you had occasion to observe or read about. If you have not observed a leader in a work setting, choose leaders from clubs, teams, neighbourhoods, and so on.

_____ Leader 1 (Initials)

_____ Leader 2

Now write down the ways these leaders behave differently from each other. Be specific. For example, if one leader strikes you as being a better communicator than the other, don't stop with 'M.G. communicates well; B.D. communicates poorly,' Write down the specific behaviour that is different. For example; 'M.G. makes expectations clear; B.D. doesn't explain what she wants us to do.'

Return to the list of behaviours or characteristics you generated for 2. Rank these characteristics according to how important they are in terms of a leader's effectiveness. The most important characteristics should be number one, the second most important should be number two and so on.

Questions

1. What are your own strengths as a leader?
2. How would you rate yourself on the characteristics you previously identified?
3. Is there anything you could improve that would make you a better leader?

Source: Adapted from Osland, J., Kolb, D. and Rubin, I., 2001, Organizational Behavior (7th ed.) Upper Saddle, NJ: Prentice Hall.

2 Leadership Defined

Leadership is the process by which a person exerts influence over others, and inspires, motivates, and directs their activities to help achieve group or organisational goals.¹ A leader is faced with many challenges, particularly in complex, rapidly changing environments. They must create and sustain an environment that increases an organisation's ability to manage and overcome ongoing challenges. This means more than just sustaining a competitive advantage and strengthening profitability; it also means establishing ethical standards, ensuring that the organisation is fostering a safe and equitable work environment, as well as attending to its civic responsibilities. How is one able to successfully motivate members of an organisation to take ownership of corporate goals and objectives? There is a vast amount of literature on this topic (upwards of 10,000 studies, using numerous approaches²), and we will examine this question in the following sections. The theories of leadership that will be examined include trait, behavioural, and situational or contingency theories. In addition, we will compare transactional and transformational leadership, discuss the influence of culture on leadership, and finally focus on leadership issues in today's organisations.

Exhibit 7-1: Traits and Personal Characteristics Related to Effective Leadership

TRAIT	Leadership Feature
Intelligence	Helps managers understand complex issues and solve problems.
Knowledge and Expertise	Helps managers make good decisions and discover ways to increase efficiency and effectiveness.
Dominance	Helps managers influence their subordinates to achieve organisational goals.
Self-confidence	Contributes to managers' effectively influencing subordinates and persisting when faced with obstacles or difficulties.
High energy	Helps managers deal with the many demands they face.
Tolerance for stress	Helps managers deal with uncertainty and the making of difficult decisions.
Integrity and honesty	Helps managers behave ethically and earn their subordinates' trust and confidence.
Maturity	Helps managers avoid acting selfishly, control their feelings, and admit when they have made a mistake.

3 Theories of Leadership

3.1 Trait Theory of Leadership

There are some leaders that fascinate observers because of the enormous influence they have had: Martin Luther King, Jr.; Winston Churchill; Mahatma Gandhi; Nelson Mandela. What made these leaders so influential? It has been suggested that these types of leaders possess a unique set of traits that others do not have. Trait theory argues that leaders have certain personality, social and physical characteristics, known as **traits**, that influence whether the person acts as a leader.³ It was first introduced in the 1940s, and originally proposed that individuals were born to be leaders. Tests that measured intelligence, initiative, persistence, self-confidence, and alertness to others' needs indicated that people were born with these traits.⁴ There have been hundreds of studies conducted that indicate that there is a relationship between specific personal characteristics and effective leadership⁵ (see Exhibit 7-1).

It is also important to note that some very effective leaders do not possess all of these traits. In addition, some ineffective leaders do demonstrate these traits. The research demonstrated that there was no specific set of traits that *always* resulted in effective leadership. This inconsistency prompted researchers to seek out alternative explanations for effective leadership. The research indicated that we could not rely exclusively on traits as a basis for selecting leaders, and so attention was directed to *behaviours* and *situations*, in an effort to determine their influence on leadership. Perhaps there would be some relationship between how members in organisations behave and their success as leaders.

3.2 Behavioural Theories of Leadership

There are three well-documented behavioural theories of leadership to be discussed in this section: the Ohio University studies, conducted in the 1940s; the University of Michigan studies that emerged in the same decade; and Blake and Mouton's Managerial Grid, where behavioural definitions from the Ohio and Michigan studies are reflected.⁶

Each of these three models considers two primary dimensions upon which managers behave. These two dimensions are known in the Ohio State studies as consideration and initiating structure.⁷ A leader who demonstrates high consideration is particularly sensitive to people's feelings, and places priority on an environment of trust and respect. This leader is concerned for employees' well-being, satisfaction and comfort. A leader that demonstrates a high initiating structure is more focussed on defining specific task requirements and clarification of work agendas.

It was first believed in the Ohio State studies that leaders who demonstrated high consideration would be more effective in achieving subordinate satisfaction. Yet findings of these studies indicate that effective leaders need to be high on both dimensions.

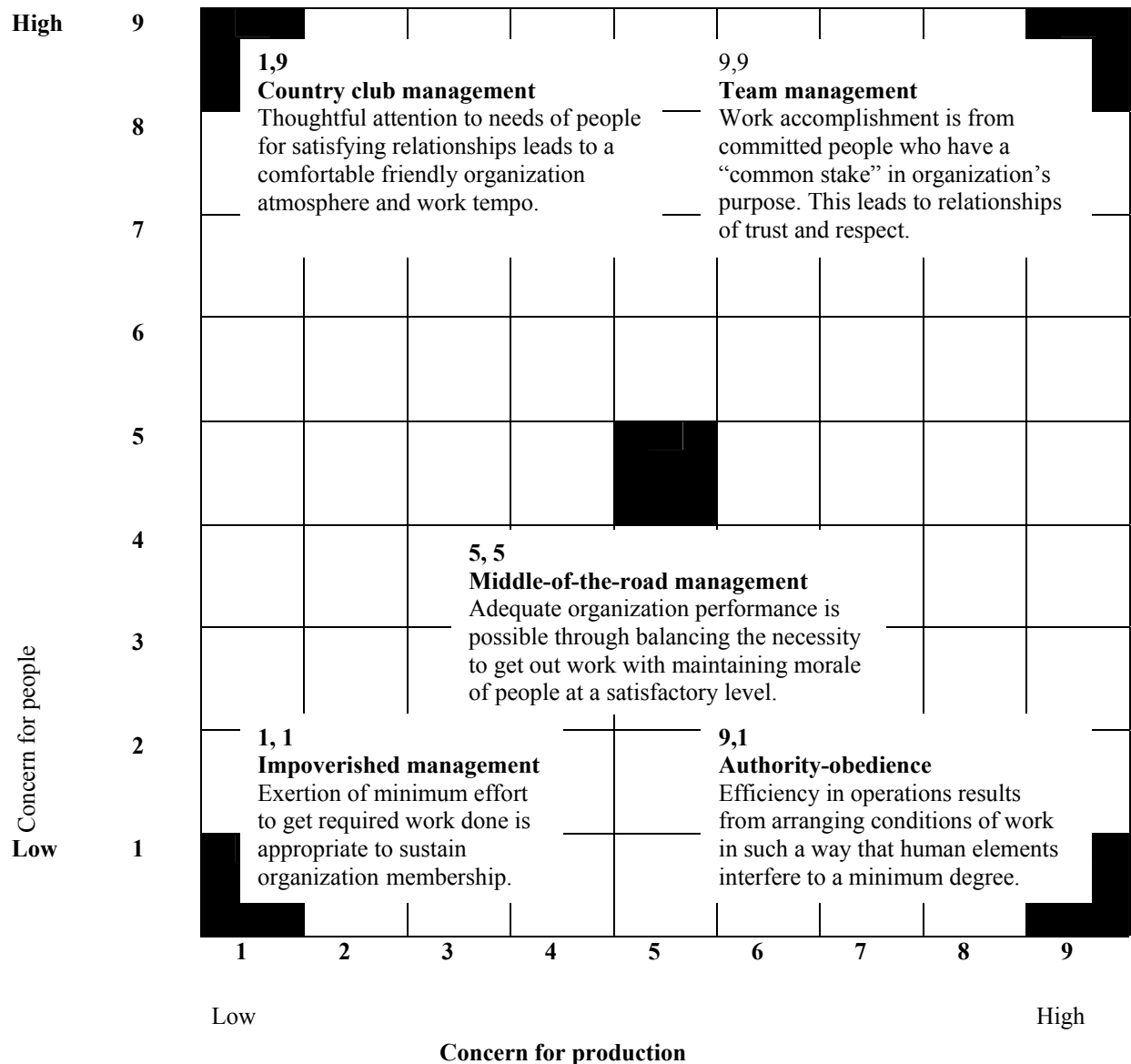


Exhibit 7-2: Blake and Mouton's Managerial Grid

Reprinted from R.R. Blake, J.S. Mouton, L.B. Barnes, and L.E. Greiner(1964)'Breakthrough in Organization Development,' Harvard Business Review, November-December, 1964.

The Michigan studies also focussed on two dimensions: employee oriented and production oriented.⁸ Employee-oriented leaders place importance on personal relations and try to ensure that allowance is made for subordinates' distinctions and individual needs. Production oriented leaders like the leaders demonstrating initiating structure (in Ohio State studies) focus on tasks and technical aspects of work.

Blake and Mouton proposed a managerial grid that is based on the two dimensions from the studies above.⁹ The Managerial Grid shown in Exhibit 7-2 established that there are potentially 81 different positions for leadership style (9 possible positions along each axis). Managers that performed under a 9,9 (team management style), were more effective than managers with a 9,1 (authority-obedience) or a 1,9 (country-club style).¹⁰ The Blake and Mouton Grid, as well as the other two studies, indicates that inconsistent results might necessitate further pursuance of additional variables when developing leadership models. Therefore, in the 1960s researchers began to consider the role of situational factors that influenced a leader's ability to perform effectively.

3.3 Situational or Contingency Theories of Leadership

Leaders might display appropriate traits and behaviours, yet remain ineffective leaders. It has been suggested that this might be due to the wide variety of situations or circumstances under which leaders must perform. A CEO of a large investment bank might not be an effective leader in a non-profit organisation. Similarly, leaders must demonstrate appropriate behaviour when managing subordinates as well as reporting to superiors (a board of directors for example). Leaders face pressures from various levels within the organisation to adjust leadership style. As a result, the environment in which leaders must perform influences their behaviour and effectiveness. In this section, we will consider two situational or contingency theories of leadership: Fielder's Contingency Model, and Hersey and Blanchard's Situation Theory.

3.3.1 Fiedler's Leadership Contingency Theory

In the 1960s, Fred Fiedler established a theory that argued that group effectiveness is dependent on an appropriate match between the leader's style (a trait measure) and the demand of the situation. Success depends upon a proper match between a leader's style and the degree to which the situation gives control to a leader.¹¹ Fiedler used an instrument known as the **least-preferred co-worker (LPC)** questionnaire, in an effort to determine whether employees were more interested in personal relations with co-workers (relationship-oriented) or productivity (task-oriented).

Respondents were asked to describe the person with whom they were able to work least well. This was determined to be their least preferred co-worker. They were given a scale, and were asked to check a number that represented their feelings about their co-workers, based on a number of adjectives (see example below).

Friendly	___	___	___	___	___	___	___	___	Unfriendly
	1	2	3	4	5	6	7	8	
Pleasant	___	___	___	___	___	___	___	___	Unpleasant
	1	2	3	4	5	6	7	8	

Fiedler suggested that leaders demonstrating a high LPC (those leaders that described their least preferred co-worker positively) had a relationship-motivated style.

Alternatively, low LPC leaders are more task-oriented. He argued that managers tend to maintain their leadership style; they are not able to adopt different styles in different situations.

Fiedler identified three situational characteristics that help to determine how favourable a situation is for leading:

Leader-member relations represent the extent to which members in the organisation trust, and are loyal to their leaders. Logically, strong leader-member relationship leaders are favoured.

Task structure is the degree to which the job assignments are clearly communicated so that members know specifically what needs to be accomplished. Situations that are favourable for leading exist when task structure is high. Again, one might draw this conclusion, because where task structure is low, employees are unclear and unsure about what they should be doing and how work should be conducted.

In addition to the level of trust and loyalty employees feel towards their leaders as well as the clarity of the task structure, a situation can be made favourable when the leader has acquired **position power**. Position power is the amount of influence a leader has by virtue of his or her position, and leadership situations tend to be more favourable when position power is strong.

Since Fiedler premised his argument on the assumption that leaders cannot change their behaviour, he argued that managers need to be placed in leadership situations that are consistent with their style. Alternatively, a situation would need to be changed to suit the leader. A number of leadership studies have supported Fiedler's model, yet it has been argued that it is not without flaws. Some have argued against the premise that leaders cannot adjust their style.¹²

3.3.2 Hersey and Blanchard's Situational Theory

Paul Hersey and Ken Blanchard introduced the Situational Leadership Theory (SLT), and this model has been incorporated into hundreds of leadership training programs in organisations.¹³ This model also argues that there is no one best way to lead.¹⁴ This model compares the leader-follower relationship to a parent and child relationship. Similar to a parent-child relationship where children are given more control as they mature, it is argued in this model that leaders should also do this with employees. Specifically, the theory suggests that it is the responsibility of the leader to select a behaviour that will match a follower's ability and motivation.

If the follower is unable or unwilling to perform a task, then it is the leader's responsibility to provide very specific instructions and be highly directive.

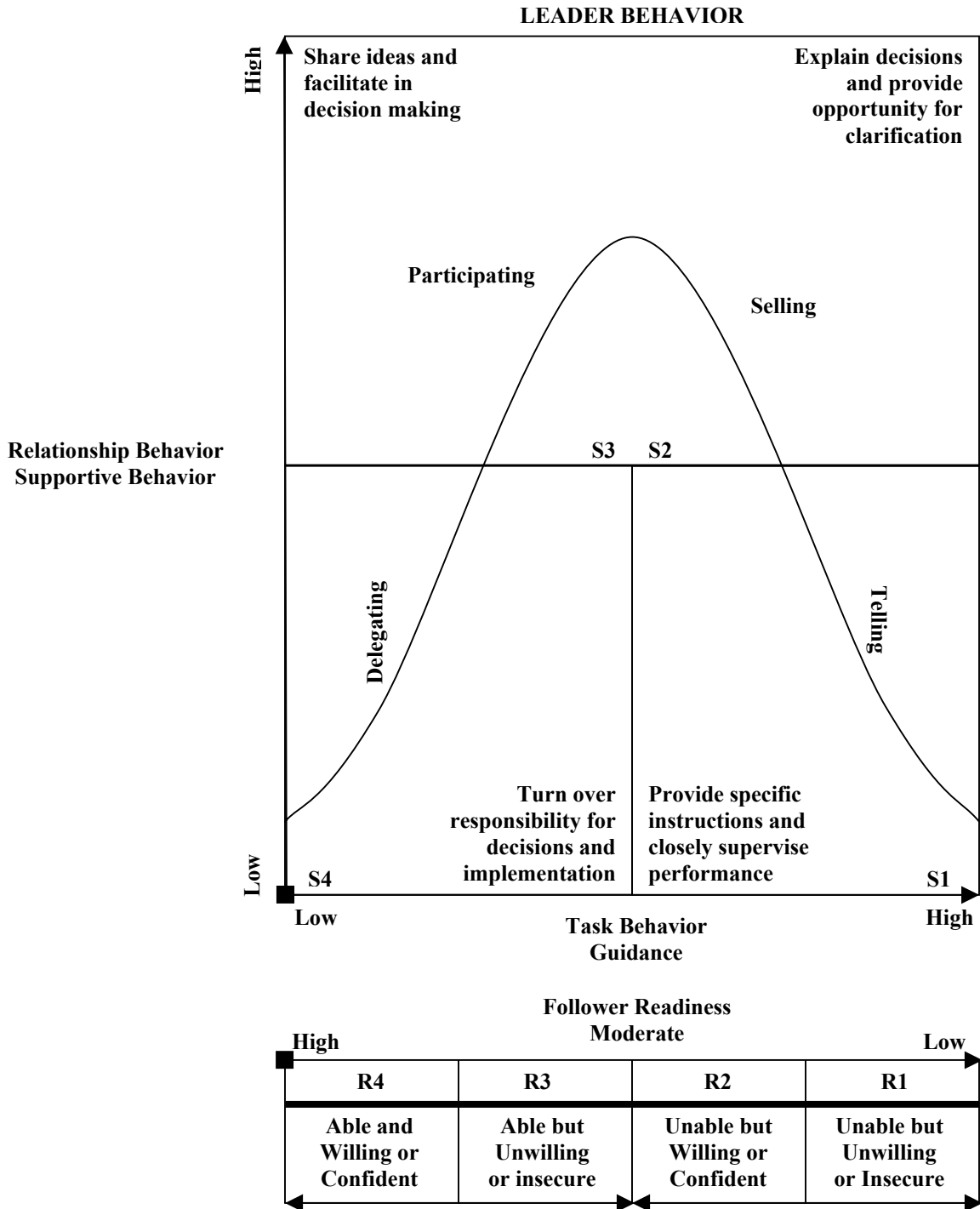


Exhibit 7-3: Hersey and Blanchard's Situational Leadership Theory

From Hersey, P. and Blanchard, K., Management of Organizational Behavior, Englewood Cliffs, N.J., Prentice Hall, 1988.

Specifically, Hersey and Blanchard identified four leadership styles:

- **Telling style:** is most appropriate for low follower readiness, where employees are unable and unwilling to take responsibility themselves.
- **Selling style:** is most appropriate for employees who are unable but willing to take responsibility. These followers have low to moderate readiness. Here, leaders combine a directive approach with an explanation as well as reinforcement to foster commitment.
- **Participating style:** is most appropriate for moderate to high follower readiness. These employees are able but unwilling followers. As a result, leaders solicit their opinions and allow them to participate in decision-making.
- **Delegating style:** is most appropriate for high readiness. These employees require very little in terms of support and direction or clarification for work. As a result, these employees tend to have a high degree of autonomy.

This model suggests that the leader must determine the level of readiness amongst followers: based on that determination, he or she must then choose a response that is most consistent with that behaviour. Exhibit 7-3 demonstrates the matches for appropriate leadership style.

4 Transactional versus Transformational Leadership

The leadership theories discussed above focus primarily on what is known as transactional leadership. Transactional leadership is based on leader-follower exchanges; subordinates perform their jobs and the leader rewards and recognises their efforts. The primary objective is to ensure that subordinate behaviour is consistent with overall organisational goals. There are four dimensions of transactional leadership:¹⁵

- **Contingent rewards:** leaders provide a variety of rewards in exchange for mutually agreed upon goal accomplishment.
- **Active management by exception:** leaders take corrective action for any deviation from rules and standards.
- **Passive management by exception:** leaders intervene only in circumstances where standards are not met.
- **Laissez-faire:** leaders sometimes abdicate responsibilities and avoid decisions.

Transformational leadership is quite distinct from transactional leadership. Transformational leaders are able to alter the beliefs and attitudes of followers and inspire them to subordinate their own interests for the good of the organisation.¹⁶ Mahatma

Ghandi (again, I raise the question of whether you want to use Indira or Mahatma as an example), Martin Luther King Jr., Jack Welch (CEO of GE), Steven Jobs (CEO of Apple), Richard Branson (of the Virgin Group) are some leaders that have been described as transformational. These leaders are able to facilitate new understandings by increasing or altering awareness of issues. This results in excited and inspired followers who are willing to put forth exceptional efforts to achieve specific goals.

Transformational leaders have four dimensions:¹⁷

- **Charisma:** the leader provides a clear vision and articulate mission, instils pride, and gains respect and trust.
- **Communication:** communicates high expectations using symbols to direct efforts and expresses important purposes in simple ways.
- **Intellectual stimulation:** promotes intelligence, rationality and careful problem solving.
- **Individualised consideration:** the leader coaches and advises each employee based on his or her individual needs.

Some literature has identified charismatic leadership as being distinct from transformational leadership. However, it has been argued that the two can be used interchangeably. Conger and Kanungo argue that charismatic leaders ‘critically examine the status quo with a view to developing and articulating future strategic goals or vision for the organisation, and then leading organisational members to achieve these goals through empowering strategies.’¹⁸ They identify five key characteristics of charismatic leaders:¹⁹

- **Vision and articulation:** the leader has a vision that is expressed as an articulate goal. This goal suggests a future that is better than the status quo. The leaders is able to clarify the vision in a way that resonates with others.
- **Personal risk:** charismatic leaders are willing to take on high personal risks and incur high costs and engage in self-sacrifice to achieve the vision.
- **Environmental sensitivity:** charismatic leaders make realistic assessments of the environment and its constraints; are also able to identify needed resources to effect change.
- **Sensitivity to follower needs:** they are perceptive of others’ abilities and are responsive to their needs and feelings.
- **Unconventional behaviour:** they engage in behaviours that are perceived to be novel and counter to norms.

5 Leadership and Culture

In a cross-cultural context, leadership means many different things. In fact, the term leader is not even used in many cultures. The term used in Japanese, Chinese and Korean, for example, would mean *coach* in English.²⁰ Germans avoid using the word for leader (Führer) because of its association with Hitler.²¹ Another cross-cultural distinction is the multiplicity of definitions and meanings for leaders. In the United States leadership roles and responsibilities are distinguished by titles such as vice-president, executive vice-president, senior vice-president, etc. These titles are not recognised across all cultures.

Labour relations differ throughout the world. In European countries for example, labour relations are political and based on social class distinctions between workers and management or ownership. In addition, the government plays a more active role in regulating labour. Unions also have a higher degree of acceptance in Europe than they do in the United States.²² In Japan, labour relations are also distinct, in that most firms organise and control a union. Japanese unions tend to be very responsible in negotiations, and strikes are very rare in Japan.²³

In cross-cultural contexts, effective leadership becomes a challenge: leaders have a choice of either imposing their own styles on subordinates, or adapting leadership style to the expectations of that culture. Sometimes this is a difficult decision, and where cultural differences are extensive, it may be most effective to use indigenous managers, rather than those from corporate headquarters.²⁴

It is important to remember that most leadership theories were developed in the United States, and used American subjects. Therefore follower responsibilities are highlighted as are democratic values. In addition, the theories stress rationality rather than spirituality, religion or superstition.²⁵ It is incumbent on you as managers to be aware of probable distinctions in leadership style and effectiveness across cultures.

6 Current Leadership Issues

The work environment is now characterised by cross-function teams, the influence of globalisation, telecommuting, home-offices and multi-culturalism, and other emergent changes. How do these issues affect leadership? A number of areas merit attention:

6.1 Emotional Intelligence and Leadership

Leaders must have enough knowledge and basic intelligence to perform their duties. Yet recent studies indicate that *emotional intelligence* is more important than any other single factor, and is the best predictor of who will become a leader.²⁶ Emotional Intelligence is made up of capability, non-cognitive skills, and competencies that determine one's ability to manage environmental demands and pressures. There are five primary dimensions to emotional intelligence.²⁷

- **Awareness:** this is exhibited by self-confidence, realistic self-assessment, and a self-deprecating sense of humour.
- **Management:** the ability to manage one's emotions and impulses. This is exhibited by trustworthiness and integrity, a tolerance for ambiguity and willingness to change.
- **Self-motivation:** the ability to persist through setbacks and barriers. It is exhibited by a strong ambition, optimism and high organisational commitment.
- **Empathy:** the ability to sense how others are feeling. This is exhibited by expertise in building and retaining talent, cross-cultural sensitivity and service to clients and customers.
- **Social skills:** the ability to handle the emotions of others. This is exhibited by persuasiveness and expertise in building and leading groups and teams.

Research has shown that emotional intelligence is positively related to job performance at multiple levels throughout the organisation. It is also required in jobs that demand a high degree of social interaction; a significant component of a leader's job. The research provides empirical support for a relationship between leadership effectiveness and emotional intelligence. As such, it might be considered a necessary leadership trait.

6.2 Leading from a Distance

Globalisation, virtual organisations, mergers, telecommuting and other changes have necessitated long-distance leading; personal interaction under some circumstances is not possible. It has been argued that physical distance often impairs high quality relationships between managers and employees.²⁸

It appears that effective long distance leaders display many of the dimensions that characterise transformational or charismatic leadership: they articulate a compelling vision and communicate the vision in a way that resonates with followers. There are indications that this communication does not need to be done in person, as long as it is done effectively.²⁹

7 Review Questions

1. Why does leadership play such an important role in organisations?
2. Distinguish between transactional and transformational leadership.
3. Do you believe that leadership skills can be learned, or are they innate? Why?
4. How would you distinguish managers and leaders?
5. Discuss the role of situational contingency approaches in leadership
6. How do you think today's new leadership compares with traditional leadership?

Exercise: Are You a Charismatic Leader?

Instructions: The following statements refer to the possible ways in which you might behave toward others when you are in a leadership role. Please read each statement carefully and decide to what extent it applies to you. Then circle the appropriate number.

- To little or not extent 1
 To a slight extent 2
 To a moderate extent 3
 To a considerable extent 4
 To a very great extent 5

You.....

1	Pay close attention to what others say when they are talking	1	2	3	4	5
2	Communicate clearly	1	2	3	4	5
3	Are trustworthy	1	2	3	4	5
4	Care about other people	1	2	3	4	5
5	Do not put excessive energy in avoiding failure	1	2	3	4	5
6	Make the work of others more meaningful	1	2	3	4	5
7	Seem to focus on the key issues in a situation	1	2	3	4	5
8	Get across your meaning effectively, often in unusual ways	1	2	3	4	5
9	Can be relied upon to follow through on commitments	1	2	3	4	5
10	Have a great deal of self-respect	1	2	3	4	5
11	Enjoy taking carefully calculated risks	1	2	3	4	5
12	Help others feel more competent in what they do	1	2	3	4	5
13	Have a clear set of priorities	1	2	3	4	5
14	Are in touch with how others feel	1	2	3	4	5
15	Rarely change once you have taken a clear position	1	2	3	4	5
16	Focus on strengths, of yourself and others	1	2	3	4	5
17	Seem most alive when deeply involved in some project	1	2	3	4	5
18	Show others that they are all part of the same group	1	2	3	4	5
19	Get others to focus on the issues you see as important	1	2	3	4	5
20	Communicate feelings as well as ideas	1	2	3	4	5
21	Let others know where you stand	1	2	3	4	5
22	Seem to know just how you 'fit' into a group	1	2	3	4	5
23	Learn from mistakes, do not treat errors as disasters, but as learning	1	2	3	4	5
24	Are fun to be around	1	2	3	4	5

Source: Sashkin, M. and Morris, W.C., 1987, Experiencing Management, Addison-Wesley Inc.

Scoring: The questionnaire measures each of the 6 basic behaviour leader patterns, as well as a set of emotional responses. Each question is stated as a measure of the extent to which you engage in the behaviour, or elicit the feelings. The higher you overall score, the more you demonstrate charismatic leader behaviours. The indices outline a variety of traits associated with charismatic behaviour. For each index, add up the scores you gave to the relevant questions. Your score on each index can range from 4 to 20.

Index 1: Management of Attention (1, 7, 13, 19). Your score _____. You pay especially close attention to people with whom you are communicating. You are also 'focused in'

on the key issues under discussion and help others to see clearly these key points. They have clear ideas about the relative importance or priorities of different issues under discussion.

Index 2: Management of Meaning (2, 8, 14, 20). Your score _____. This set of items centres on your communication skills, specifically your ability to get the meaning of a message across, even if this means devising some quite innovative approach.

Index 3: Management of Trust (3, 9, 15, 21). Your score _____. The key factor is your perceived trustworthiness as shown by your willingness to follow through on promises, avoidance of ‘flip-flop’ shifts in position, and willingness to take a clear position.

Index 4: Management of Self (4,10,16,22). Your score _____. This index concerns your general attitudes toward yourself and others, that is, your overall concern for others and their feelings, as well as for ‘taking care of’ feelings about yourself in a positive sense (e.g., self-regard).

Index 5: Management of Risk (5, 11, 17, 23). Your score _____. Effective charismatic leaders are deeply involved in what they do, and do not spend excessive amounts of time or energy on plans to ‘protect’ themselves against failure. These leaders are willing to take risks, not on a hit-or-miss basis, but after careful estimation of the odds of success or failure.

Index 6: Management of Feelings (6, 12, 18, 24). Your score _____. Charismatic leaders seem to consistently generate a set of feelings in others. Others feel that their work becomes more meaningful and that they are the ‘masters’ of the own behaviour; that is, they feel competent. They feel a sense of community, a ‘we-ness’ with their colleagues and their co-workers.

Case Study 7.2

Incident on the USS Whitney (Optional Submission)

Please read case study 7.2. Incident on the USS Whitney in Block 13 of your study material and analyse this case using the written case format provided in the introduction block. Your paper should be no longer than 8 pages.

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Commonwealth of Learning Executive MBA/MPA

C2 Management and Organisations

Block 8

Organisational Environment

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1 Block Eight Objectives

After completing Block Eight, you should have a good understanding of:

- how organisational environment is defined
- the impact of globalisation on organisations and managers
- how technology affects the design of organisations
- the importance of ethical behaviour in organisations

2 What Is Organisational Environment?

In previous study blocks, the focus has been primarily on environments that are internal to organisations. In this block we will discuss various influences of the environments that are external to organisations. The external environment is defined as ‘those events and conditions surrounding the organisation that influence its activities.’¹ There is a wide ranging set of external environmental influences: customers, competitors, suppliers, distributors, as well as technological, economic, demographic, political and legal. All of these influences affect the way organisations behave and shape the strategic direction that is adopted. These influences also present numerous and diverse opportunities and threats that must be exploited or mitigated by organisations.

One of the most significant influences on organisations in the last decade has been the emergence of globalisation, and we will discuss this in some detail. In addition, technological advances have prompted organisational re-designs, business process innovations, and significant human resource reallocations. It is an emergent influence that merits attention in this unit. Finally, the accelerated pace of change in the environment has created an environment that forces organisations to examine their diverse stakeholder groups, and establish some systematic ethical guidelines that will ensure appropriate consequences of organisational decisions. For that reason, we will also examine ethical considerations and conduct in organisations today.

3 The Impact of Globalisation on Organisations and Managers

The notion of a closed economy or domestic self-sufficiency is certainly an antiquated one given the rapid emergence of globalisation. World economic, political, legal and technological changes, as well as newly formed international relationships have had a significant effect on managers within organisations.² There are a number of economic alliances that merit the attention of global managers today:

1. **European Union (EU)** : The EU (which includes most Western European nations, such as France, Greece, the United Kingdom, Denmark, the Netherlands, Belgium, Ireland, Italy, Luxembourg), has emerged with a political, economic and monetary union among the member countries. Barriers between borders have been lowered, and goods and services now move more freely between countries.³
2. **North American Free Trade Agreement (NAFTA)**: This agreement (which came into effect on January 1, 1994) has also reduced tariffs and barriers to trade, and has linked customers and economies between the United States, Canada and Mexico.
3. **Asia-Pacific Economic Cooperation Forum (APEC)**: This agreement emerged with the objective of joint economic development of the Asia-Pacific basin countries.
4. **Caribbean Community (CARICOM)**: This community is pursuing agreements for free trade within Latin American countries.
5. **World Trade Organisation (WTO)**: The WTO is responsible for monitoring the reduction of import duties that will be phased in over the next several years. The founding members of the WTO include Canada, the European Union, and the United States. The WTO has faced a number of challenges from various leaders who are concerned about the economic consequences of freer trade. As well, WTO conferences are often disrupted by protestors, some of whom include labour unions, environmentalists, social activists and farmers.⁴
6. **Mercosur**: this free trade agreement came into effect on January 1, 1995, and has as its primary objective, the elimination of 80 per cent of goods traded between Argentina, Brazil, Uruguay and Paraguay. It has been proposed that a South American Free Trade Area (SAFTA) negotiate with NAFTA to form an Americas Free Trade Area (AFTA).⁵ A number of other free trade areas are in existence in the Americas: The Andean Pact (Bolivia, Ecuador, Colombia, Peru, and Venezuela); The Central American Common Market (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua); the G-3 group (Colombia, Mexico and Venezuela), and The Caribbean Market (several of the Caribbean islands).⁶
7. **Other areas**: There are a number of other free trade associations throughout the world, some of which include: ASEAN Free Trade Area (Brunei, Indonesia, Malaysia, the Philippines, Singapore, Thailand and Vietnam); the Economic Community of Central African States (many nations in equatorial Africa), and the Gulf Cooperation Council (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates).⁷
8. **SAARC**: South Asian Association for Regional Cooperation

It becomes obvious, when we consider the growing number of alliances between nations, that the world is becoming a single interdependent entity. Global managers face a variety of challenges in this 'global village': increased heterogeneity across organisational populations necessitates continuous learning, increased flexibility and successful management of change.

A global manager is described as someone who is able to conduct business across borders.⁸ By the year 2015, trade between nations will exceed trade within nations. In addition, 85% of companies in the American Fortune 500 group indicate that they do not have an adequate number of globally competent managers.⁹ There are many opportunities for managers who demonstrate the skills required to function effectively in an international business environment. What characteristics do global managers possess? Before reading further, think about your own perception of characteristics that might contribute to successful 'global management'. Create a list of 8-10 characteristics that global managers might require, and justify your choices (2-3 pages). You will probably be able to add to this list; however, the following global attributes are sought after by many organisations:¹⁰

- **Adapts** well to different business environments
- **Respects** different beliefs, values and practices
- **Solves** problems quickly and effectively in new environments
- **Communicates** well with people from different cultures
- **Speaks** more than one language
- **Understands** different government and political systems
- **Conveys** respect and enthusiasm when dealing with others
- **Possesses** high technical expertise for the job

Think about this list and draw some conclusions about your own managerial attributes. Do you think that you are well suited to be an effective global manager? Do you relish the opportunity to experience new things in foreign cultures? Do you feel comfortable with uncertainty and ambiguity? Are you flexible and willing to adapt to change? Do you think you are able to recognize new market opportunities that are consistent with organisational goals? It is difficult to answer these questions with certainty, but they merit your attention. Managing in a global environment can be challenging and even daunting. There are a number of things you might do in order to better equip yourself, and enhance your global managerial skills. Some of these might include the following: inquire about existing training programs in your organisation, seek out a mentor that will facilitate your progress as a global manager, participate in associations or clubs that focus on required skills, and enhance your formal education. Many of these activities will also enable you to improve your network of contacts and influencing factors.

4 Technology and Organisational Design

The way work is organised is very much a function of technology within the organisation. Products and services are produced very differently than they were a decade ago, simply because of a new technological presence. The infrastructure of organisations

has been redesigned in a way that has radically changed the way people communicate with each other, and the cross-functional nature of work teams has also been enabled with technology. For the purposes of this discussion we will focus on the classifications of technology provided by Charles Perrow, James Thompson, and Joan Woodward. These classifications apply to organisations that provide either products or services, or both.

4.1 Charles Perrow – Routineness

Charles Perrow argued that various technologies are differentiated primarily by the routineness of the transformation task that is managed by the department or organisation.¹¹ Perrow examined two components of this task:

Exceptions: if the organisation is using standardized inputs to produce standardized outputs, it is likely that there are few exceptions. On the other hand the organisation might have a variety of inputs and outputs where many exceptions are the norm. As exceptions increase, technology becomes less routinized.

Problems: some problems necessitate nonprogrammed decision-making because they are difficult to analyse. Alternatively, programs can be easy to analyse under some exceptions. Where problems are more complex and difficult to analyse the technology becomes less routine.

		Exceptions	
		Few	Many
Problems	Difficult Analysis	Craft Technology Cabinet Making Public School	Nonroutine Technology Research Unit Psychiatric Hospital
	Easy Analysis	Routine Technology Assembly Line Vocational Training	Engineering Technology Heavy Machinery Construction Health Spa

Exhibit 8-1 – Perrow’s Technology Matrix

from Perrow, C. (1967) ‘Framework for the comparative analysis of organizations,’ Figures 1 and 2, American Sociological Review, Vol. 32, April number, pp. 196, 198.

4.1.1 Outputs from Inputs

Perrow used the term technological routineness to describe the extent to which exceptions and problems affect the task of converting inputs into outputs. In exhibit 8-1 below, the matrix demonstrates that exceptions and problems produce four specific types of technologies:¹²

Craft Technologies: these refer to standard inputs and outputs. Only when a special need or request is present, will an exception be made (for example, you might order a car, and choose a paint that is not among the standard choices available).

Routine Technologies: these technologies also require standardized inputs and outputs, however, when an exception is made, the adjustments are clearly articulated (for example, you might have a new product line added to an assembly line).

Non-routine Technologies: exceptions are common, and decision-making regarding processes can be complex. An addiction centre might treat alcoholism, but also needs to consider a wider variety of mental disorders.

Engineering Technologies: many exceptions are characteristic of these technologies, however, the solution or application is standardized. For example, you may have a number of clients, all of whom require consulting for fund-raising events. While their needs are distinct, you have an application for each of them that is based on their own objectives and available resources.

4.2 James Thompson – Interdependence

While Perrow focussed on the routineness of technology, James Thompson pursued an understanding of sequential work activities. Specifically, he examined the way work activities are sequenced.¹³ Thompson's work examined multiple organisational subunits or activities, with a view to identifying the ways in which these units or activities were dependent on each other for resources such as raw materials or information. Thompson argued that the degree of interdependence among activities fell into three categories of technology. Exhibit 8-2 overleaf provides a visual comparison.

4.2.1 Intensive Technology

Intensive technologies are complex environments where interdependence is reciprocal. Under this technology, members of the organisation work interactively and use multiple techniques in order to solve problems. An example that Thompson provides is a hospital, where a combination of efforts and coordination from doctors, nurses, pharmaceuticals, social services, religious services, and others is needed in order to facilitate patients' progress.

4.2.2 Mediating Technology

This is a function of pooled interdependence. Unlike intensive technology, the level of interdependence is not as high, however, each unit or activity relies to some extent on pooled resources that have been generated by other units. An example of mediating technology can be found in banks, which link creditors and depositors, and are sources of information that facilitate exchanges. A post office provides another example.

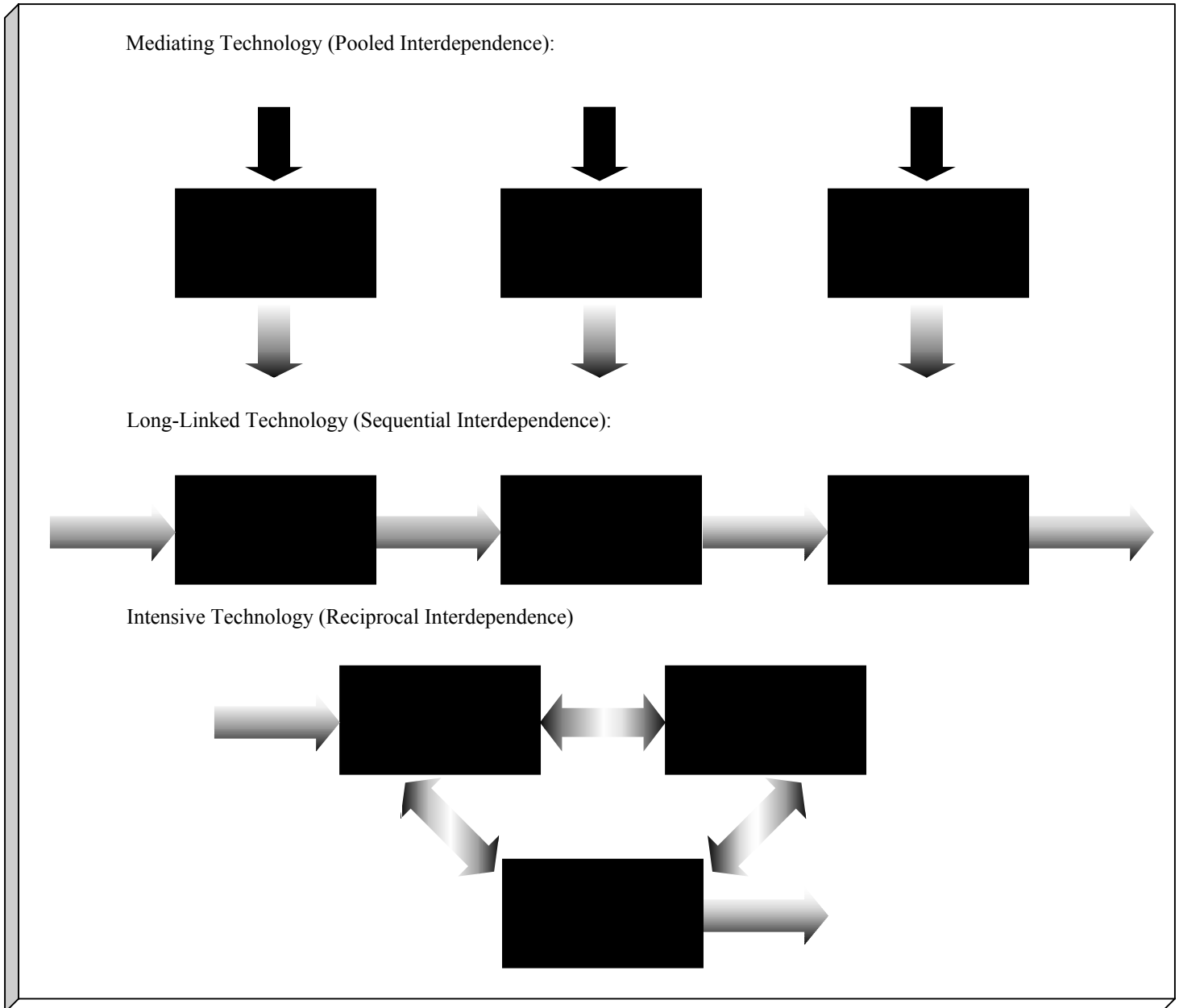
4.2.2 Long-linked Technology

This technology implies a sequential interdependence, where each unit is dependent on the unit that preceded it in a sequence. Long-linked technology is also known as mass production or industrial technology, and a common example of this is the automobile assembly line. An example of a paper processing technology that is sequentially

interdependent is an insurance claim, where claims are reported, then verified, then adjusted, then settled.

Exhibit 8-2 Thompson's technology classification

Reprinted from Johns, G. and Saks, A. Organizational Behaviour, 5th ed. 2001, pg. 505



4.3 Joan Woodward – Batch Technology

Woodward's work focused primarily on the relationship between technology and organisational structure. She distinguished among three kinds of technology based on relative contributions made by people or machines.¹⁴ Woodward's work is based on a study in South Essex, England, where she was examining technology, structure, and organisational effectiveness.¹⁵ It was Woodward's assumption that mechanistic structures would be most effective under all circumstances. However, the results indicated that there is no predictable or consistent relationship between organisational structure and effectiveness. In fact, some successful firms produced their goods using an organic structure, where decision making is more decentralized, in a structurally flatter organisation. This type of organisation might entail more team or group-managed projects as well.

Woodward classified technology of many firms in her sample in three specific production groups:

- **Unit or small batch technology:** entails custom-tailored units using unsophisticated machinery and equipment. Quantities are small and production is carried out by small groups of skilled participants. Examples of small batch technology include custom tailored suits, custom built cars, or highly specialized metals and chemicals. Small batch technology necessitates a customized and situation-dependent effort and analysis. As such, organic structures that lend themselves to decentralized decision making models are most appropriate in unit production.
- **Mass production technology:** makes use of automated machines that perform the same activities over and over again. Tasks tend to be repetitive and there are typically stringent controls in place that manage the production process. Products are produced in large quantities and are highly standardized. Woodward determined that the most appropriate structure for this type of production was a mechanistic structure, where hierarchical levels are common, and there is a clear separation between lower paid workers who have very detailed instructions, and higher level management, where strategic decisions are made.
- **Continuous process technology:** is highly mechanized and inputs are transformed as on ongoing process. This is done using automated machines that typically are centrally controlled with computers. Examples include automated oil refineries and chemical plants. Employees monitor the processes continuously and are responsible for reacting quickly when a breakdown occurs. As such, a flexible organisational structure is required.

Woodward made a substantial contribution by demonstrating that there is indeed a relationship between organisational structure and technology, and her argument that structure must be tailored to fit the technology employed by the organisation has received further support from numerous other studies.¹⁶

4.4 Advanced Information Technology in Organisations Today

For the purposes of this discussion, we will define **information technology** (IT) as:

a combination of machines, artefacts, procedures and systems that are used to generate, aggregate, store, analyse, and disseminate information that is translated into knowledge.¹⁷

When mainframe computers were introduced, they did displace many routine, highly-specified and repetitious jobs.¹⁸ Yet the character or ‘personality’ of the organisation was typically unaltered.

As time went on and a second wave of IT implementation took place, we began to see subtle changes in organisational design. Technology did replace some process controls and coordination mechanisms. Firms in some cases began to outsource operations that were traditionally managed by internal staff. An example of this is employee payroll.¹⁹

People have historically made predictions about the influence of information technology within an organisation. Some would argue that job loss and deskilling would be a result; others suggested that productivity, quality, and efficiencies would improve exponentially. But the impact of IT is not as deterministic as that. In fact, what we can safely assume is that, in most organisations, IT increases the number of choices that organisations can make about how to design and manage work.

Manufacturing technology was significantly advanced with the introduction of Computer Aided Design (CAD) and Computer Aided Manufacturing (CAM); together known as a CAD/CAM system. These programs allowed for technological integration that enabled members of the organisation across several levels to make informed decisions, increase coordination, and become empowered to make non-programmed decisions.

Advanced manufacturing technology has led to more organic, flatter structures that facilitate flexibility.²⁰ These findings support Woodward’s proposition about the correlation between technologies and organisational structure.

With respect to job design, advanced manufacturing technologies often require more sophisticated skills and diverse responsibilities; in fact, self-managed teams are often responsible for operating and servicing the system.²¹

Like manufacturing technology, advanced office technology has also had a significant impact on the nature of work within organisations, as well as managerial decision-making. Technology has enabled employees to work from home; managers can supervise and coordinate work across geographically dispersed employees, meetings can be conducted via videoconferencing.

There have been a number of positive effects of advanced office technology in the workplace: organisations have enjoyed significant labour savings by making use of many computer programs that allow employees to work faster: word processing, spreadsheet analysis, email, video conferencing and others. In addition, technology has enabled people to improve decision making, with increased and faster access to information, coordination and responsiveness.

With respect to organisational structure, office technology has often resulted in eliminating middle management layers, making organisations flatter.²² Like manufacturing technology, office technology has in many cases enabled employees at lower levels to make decisions that were historically made by middle management, because the programs available are able to provide the analysis that was typically the responsibility of middle managers. While many organisations have had great success with the introduction and management of office technology, others have not. Often the assumption is made that employees will simply adapt and exploit the advantages of technology, without consideration of the training involved, as well as the emotional stress of change. The effects of organisational change are discussed in Block Eleven.

Case Study 8.1

Please read the case below, and respond to the questions that follow.

Changing the Technology at Signicast Corp.

Signicast Corp., an investment castings* manufacturer based in Milwaukee, had a major problem. In 1992, the company was landlocked in its Milwaukee facility. There was obviously no more room for expansion. “If we wanted to continue to grow, and we very much wanted to – we’d have to buy some land and build,” said Robert Schuemann, vice-president of sales and administration. “Why don’t we build what we’ve always wanted? As long as we can start from a blank sheet of paper, we can design the best facility in the world.”

So management decided to build a new \$12 million automated plant. They began talking to customers to learn how Signicast could improve its investment-castings service, which makes precise metal parts direct to customers’ blueprints, such as a kickstand for a Harley Davidson motorcycle or a part for a John Deere tractor.

Customers’ principal concerns were long lead times, unreliable delivery dates, and cost. Accordingly, the new plant would be designed to attack these concerns. The strategy for cutting lead time was to cut throughput-time (the time it takes to make a product from beginning to end). That, in turn, required converting production from batch processing (creating batches of product at intervals) to automated continuous-flow processing. “In a traditional shop, people spend most of their time trying to figure out what to do next,” says Terry Lutz, Signicast’s president. “With a control system and a continuous flow manufacturing, we are able to get the product to flow to the people. Everybody knows what to do, because that’s what comes next.” If an order starts on time, the process ensures it will ship on time, thus providing more reliable delivery dates.

A core group of five executives started planning the new facility to be built in Hartford, not far from the existing Milwaukee facility. Every Signicast employee had an opportunity to contribute to the new facility. An early decision was made to build the new plant as a small module,

designated Hartford 1, that would handle a closely related product mix for which Signicast would develop business. If successful, Signicast would then build a second facility, Hartford 2, and develop a product mix for that module. Each product would be a stand-alone operation. While the new technology would contribute to the objectives of speed, low costs, and flexibility, would other changes be necessary? Manufacturing through-put times were to be only 3 to 5 days versus approximately 25 days at Milwaukee. Signicast would achieve low costs only if production was right the first time, every time. Thus, the executive team resolved that no space would be allocated to rework. Signicast employees at Milwaukee, working within batch processing technology, performed only one highly specialized job consistent with a mechanistic organizational structure. However, management realized that Hartford personnel would have to do more, and have more responsibility than their counterparts at Milwaukee.

* Editorial note: 'investment casting' is the modern industrial equivalent of the 'lost wax' casting technique.

Questions:

1. What else would have to change as a result of the new automated and continuous flow technology and the objectives of low costs, speed, and flexibility? You decide.
2. How will the change in technology at Signicast affect organisational structure? Refer to Perrow, Thompson, and Woodward to answer this question.
3. What changes do you think Signicast made in order to tailor the organisation's structure to the new technology?

To find out what Signicast did, refer to the notes following the Reference section.

Source: Based on Nagler, B. (1988, January). Recasting employees into teams. Workforce, 77(1), pp.101-106; Johns, G. and Saks, A. Organizational Behaviour (5th ed.), 2001, Toronto, Canada: Addison Wesley Longman, pp.508 and 514.

5 Ethical Behaviour in Organisations

Many of the environmental variables that influence organisational behaviour have also brought attention to the importance of established ethical standards within organisations. Customers are well-informed, sophisticated, and often demanding. This includes demands and expectations about ethical responsibilities that organisations must consider. Ethical standards have become a critical factor in 'adding value to the customer' for many organisations, and the customer (thanks to technology, primarily) is in a position to circulate dissatisfaction with unethical organisational conduct very quickly; and this information will potentially reach a very wide audience!

Organisations have also come to believe that their primary objective—to maximize shareholder wealth—is dependent on behaviour that its stakeholders believe to be appropriate. Child labour, workers rights, environmental issues, bribes, have all become issues surrounding social accountability.

For our purposes we will define ethical behaviour as morally ‘good’ and ‘right,’ as opposed to ‘bad’ or ‘wrong,’ in a particular setting. This definition speaks to moral principles or beliefs that guide individuals through their interactions with others.²³ Often members within organisations face ethical dilemmas when they must manage the needs and expectations of multiple, diverse stakeholder groups. The challenge for many people is often deciding which behaviour is most ethical and most appropriate for any given situation.

This section introduces three models that have been used to help us determine whether decisions are ethical or unethical.²⁴

5.0.1 Utilitarian model

This view argues that one would make an ethical decision by considering what would produce the greatest good for the greatest number of stakeholders. The challenge for managers is that often stakeholder groups have distinct and even competing interests.

5.0.2 Moral rights model

The moral rights view is more specific to fundamental rights and privileges shared by all human beings. One might consider whether the decision will protect people’s right to freedom, life and safety, due process, and free speech. Managers must often weigh the outcomes to various groups or individuals when making these decisions. For example, if you are responsible for meeting an economic objective of a 10% return on revenues, yet you must also consider making expenditures to ensure environmental protection (that would not enable you to meet those economic objectives), how might you decide?

5.0.3 Justice model

The justice model would encourage one to make decisions based on what is fair and impartial – equity is distributed across shareholders. For example, employees who share similar skills, experience and education should receive the same pay. Managers must be aware not to discriminate between people, and rely on established objective criteria to make decisions.

5.1 Ethics in Practice

Many organisations have established a code of ethics which articulate standards and rules for managers so that appropriate decisions can be made; decisions that consider stakeholders needs and expectations.²⁵ Often, the promotion and management of ethical behaviour in organisations is dependent on support for such behaviour. The role of an ethical supervisor, or ombudsman, can be established so that ethical standards can be

overseen. This person is also available to discuss ethical dilemmas faced by employees in the company, and provide guidance with respect to a course of action.

There are a number of considerations and questions that one can entertain when dealing with ethical dilemmas:²⁶

- Recognize and clarify the dilemma.
- Identify the stakeholders that might be affected by the decision.
- Gather all of the relevant facts.
- Identify costs and benefits of various decision alternatives to stakeholders.
- List all of your options.
- Test each option by asking: Is it legal? Is it beneficial?
- Make your decision.
- Double check your decision by asking: ‘How will I feel if my family finds out? How will I feel if this is printed in the newspaper?’
- Then take action.

Exercise

Read the ethical dilemmas below. Think carefully about what you would do in each of these circumstances, and explain your reasons.

You are driving to a nearby country from your job as a manager of a foreign subsidiary. In your car are a number of rather expensive gifts for family and friends in the country you are visiting. When you cross the border, the customs official tells you the duty will be equivalent to \$200. Then he smiles, however, hands back your passport and quietly suggests you put a smaller sum, say \$20 in the passport and hand it back to him.

What do you do?

One of your top managers in a Middle Eastern country has been kidnapped by a terrorist group that has demanded a ransom of \$2 million, plus food assistance for refugees in a specified camp. If the ransom is not paid, they threaten to kill him.

What do you do?

Your company has been trying to get foreign contracts in this developing country for several months. Yesterday, the brother-in-law of the Finance Minister offered to work as a consultant to help you secure contracts. He charges one and one-half times more than anyone else in a similar situation.

What would you do?

You have been hired by an investment firm funded by US dollars. Your job is to fund companies in several former communist countries. If you do not meet your quota for each of three months, you will lose your job, or at least have your salary severely cut back.

One of the countries is still run by communists, though they have changed the name of their political party. They want you to fund three companies that would still be tightly controlled by the state. You know they would hire their relatives to run those companies. Yet, if you don't fund them, no other opportunities will exist for you in this country.

What would you do?

You are the manager of a foreign company in a country where bribery is common. You have been told an important shipment has arrived but it will take up to six months to clear the paperwork. However, you were informed casually that a "tip" of \$200 would cut the time to three days.

What would you do?

Source: Francesco, A. and Gold, B. International Organizational Behavior (1998), Upper Saddle River, NJ: Prentice Hall, pp.594-596.

6 Questions for Review

1. In what ways do you believe a global environment poses new or different challenges in your workplace? How might this shape your behaviour or learning interests?
2. Choose an organisation and interview a manager; ask that manager to list the most significant influences of the environment on his/her work, and make some predictions as to the future direction or patterns of decision making for that person.
3. As a manager who has experienced structural change, describe the specific structural and control/system alterations that have help the organisation respond to a changing environment.
4. Provide some examples of unit technology, mass technology and process technology. Which technology do you believe fits best with a mechanistic organisational structure? Why?
5. Provide an explanation for the emergence of more organic structures in organisations today.
6. In what ways does technology influence job design? How might you reconcile the research findings of Perrow, Thompson and Woodward?
7. Do you believe that managers should place a priority on a specific group of stakeholders when making ethical decisions? Why?

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Please see the commentary on 'Changing the Technology at Signicast Corp.' overleaf

Changing the Technology at Signicast Corp.: commentary

Signicast Corp.'s shift to an automated continuous-flow processing technology is a good example of how a shift in technology can affect organizational structure. According to Perrow, routine technologies should function best under mechanistic structures, while nonroutine technologies call for more organic structures. With the new continuous-flow technology, there are likely to be more exceptions and difficult problems compared with the batch-processing technology. Thus, decision-making power should be located 'where the actions is,' and this is most likely to occur in an organic structure. According to Thompson, the continuous-flow technology would result in greater technological interdependence and would require intensive coordination. This would call for greater mutual adjustment and an organic structure for the free and ready flow of information among units.

Woodward's views would also predict a more organic structure. His research showed that successful firms with unit and process technologies relied on organic structure, while successful firms that engaged in mass production relied on mechanistic structures. Because process production is almost totally automated, the workers are usually skilled technicians who monitor and maintain the system, and they tend to also work in teams. As well, informal relationships with supervisors replace close control. Thus, all three theories predict an organic structure in which workers make decisions, coordinate their efforts, and work in teams. Now let us take a look at how the new technology actually changed the structure at Signicast.

The basic requirements for new hires at Milwaukee are a high school diploma and a good work ethic. No specific experience is sought because Signicast provides all necessary training. For the 135 new employees at Hartford, however, the same basic requirements were sought plus a team orientation, good trainability, good communication skills, and a willingness to do varied jobs over a 12-hour shift. These skills were not required because of changes in job design and working arrangements. For example, it was decided that employees at Hartford would not stay in the same job for more than four to six hours as was the case at Milwaukee. Instead, employees would be cross-trained to do a variety of jobs thus enabling them to move elsewhere in the plant to work and perform two or more jobs in a shift. This would make jobs more interesting, teach employees new skills, and reduce injuries.

Thus, Hartford was structured so that people would move to the work rather than having the work moved to the people. Employees have the title of technician and operate equipment, inspection devices, and other aspects of the plant, while machines do the heavy physical work. Signicast also created teams for the Hartford plant. Instructors from a local technical college were brought in to give 10-week team-building courses for two hours a week. The course covered habits, problem solving, team building, diversity, and other issues affecting how workers relate to their co-workers and work, and how they can solve problems as a team. A team consists of everyone on a given 12-hour shift. There are two day-teams (6 a.m. to 6 p.m.) and two night-teams (6 p.m. to 6 a.m.) and each team has its own supervisor. These teams have a large degree of input and impact on

operations. Many policies and procedures are put to a vote as to what team members want. Because the supervisor runs the entire plant, he or she has neither the time nor the inclination to do any straw boss-type supervision. Accordingly, empowered workers have to be both motivated and trained to do their jobs not only well but independently.

In the end, Signicast was able to build a new kind of workforce along with a new kind of facility because management realized that in addition to technology, changes also had to be made in work arrangements, structure, and job design. The reduced supervision combined with the use of empowered work teams and cross-trained, multi-skilled employees created a more organic structure that was more suitable to the new automated technology.

Source: Based on Nagler, B. (1988, January). 'Recasting employees into teams'. Workforce, 77(1), pp.101-106; Johns, G. and Saks, A. Organizational Behaviour (5th ed.), 2001, Toronto, Canada: Addison Wesley Longman, pp.508 and 514.

Commonwealth of Learning Executive MBA/MPA

C2 Management and Organisations

Block 9

Power and Politics

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1 Block Nine Objectives

After completing Block Nine, you should have a good understanding of:

- how power and politics are defined
- various sources of power
- how we might manage power effectively
- the nature of organisational politics
- effective management in a political environment

Case Vignette

The Prisoner of Azkaban versus The Spirit Level

The Whitbread Book of the Year Award in 1999 featured a showdown of two fictional characters: a young wizard against a monster-slaying warrior.¹ The controversy surrounded what became a political battle surrounding the selection of a winner. Would Nobel laureate Seamus Heaney's *Beowulf* or J.K. Rowling's *Harry Potter and the Prisoner of Azkaban* win the honour and its £23,000 prize? During the meeting to decide the award, committee members almost broke into a brawl over the decision, and one member even threatened it would be 'over my dead body' if his choice didn't win.

Why the controversy? Before the committee even met to make a decision, spokespeople for the rival Booker Prize had already criticised the Whitbread organisers for 'dumbing down' the award by appointing Jerry Hall, model and ex-wife of Mick Jagger, as one of the judges. The English literary establishment mocked Hall's appointment to the prestigious award panel, especially when, in response to a question about her qualifications for the task, she responded, 'I love reading and I love reading to my children.' Other non-academic appointees included actor Imogen Stubbs and Sandi Toksvig, a comic.

The *Prisoner of Azkaban* was also criticized for being a lightweight choice as a finalist for the prize. Even though over 30 million *Harry Potter* books have been sold worldwide, London's *Evening Standard* wrote: 'Rowling is a brilliant writer of children's books but only readers who refuse to grow up demand that *Harry Potter* should be treated as a masterpiece for adults too.'

By contrast, Seamus Heaney is an Irish poet whose international stature was confirmed when he was awarded the Nobel Prize for literature in 1995. He was a previous Whitbread winner in 1996 for his collection *The Spirit Level*. *Beowulf*, his translation of a thousand-year-old Anglo-Saxon epic, has been widely praised for restoring a dusty classic to modern readers through a vivid, colloquial style.

During the meeting to decide the winner, Anthony Holden, a biographer and one of nine judges, threatened to walk out and dissociate himself from the enterprise if *The Prisoner of Azkaban* won

the Book of the Year Award. Three of the other judges, including Hall and Stubbs, said they would walk out with him.

Holden said letting Harry Potter win 'would be a 'national humiliation' and would send out the wrong message about a serious literary competition.' Robert Harris, also one of the judges and the author of the best-selling thrillers *Fatherland* and *Enigma*, accused Holden of blackmailing the other committee members. After a brief shouting match between the two, Dr. Eric Anderson, the chair of judges, called for a vote in the hopes of restoring order.

Even the announcement of the final decision was fraught with controversy. At first, Dr. Anderson announced that *Beowulf* had won by a clear margin. The next day, another judge said that the 90-minute meeting of judges had been tense and the final vote was five to four.

Source: Robbins, S. and Langton, N.(2000), Organizational Behaviour, Toronto, Canada: Prentice Hall. pp. 324-325.

The vignette above provides an example of the themes that we will discuss in this unit. We will first examine what is meant by the terms power and politics, and identify various sources and types of power. We will also discuss various ways of managing power and political environments.

2 Power

Power is the capacity to influence others who are in a state of dependence. Power is used to get someone to do something that is consistent with our own planned objectives.² It is important to note that while power is the *capacity* to influence others, it is not always exercised.³ While you may have the power to influence the direction your subordinates take on specific projects, you may not exercise that power, because it is inconsistent with your desire to empower those subordinates.

We imagine power being used by senior people within an organisation. While this is often the case, the ability to influence others is multi-directional. Subordinates often have power over their superiors, and we often have power over co-workers, because we are able to influence their behaviour based on our relationship with them, rather than our position within the organisation.

Power emerges not just from individuals but from groups as well. And often, we see specific groups within organisations having enormous influence over decision making. This power tends to shift over time, depending on the strategy adopted by senior people throughout the life of an organisation. For example, in a new organisation that is attempting to provide an innovative new product line, the research and development department might have significant power. As time goes on, and market share objectives have been achieved, that power might shift to another group or area – operations for example.

3 Sources of Power

There are five primary sources or bases of power:⁴

3.0.1 Reward

Reward power allows managers to exert influence by providing positive outcomes that affect the behaviour of others. A manager can influence behaviour by recommending salary increases, promotions, or interesting work, and intrinsic rewards such as flattery and compliments.

3.0.2 Coercive

Coercive power enables managers to deny employees specific rewards when they are not displaying desired behaviour. Employees might be punished with a reduction in pay, a demotion, or they might be given less attractive work or even threatened with dismissal. But coercive power has its limits, particularly in a unionised environment, where employees might work-to-rule until their demands are given some attention. Coercive power generally has negative consequences in the workplace; it decreases morale, and increases mistrust and fear.

3.0.3 Legitimate

Legitimate power is a function of one's position within the structure of the organisation. Naturally the CEO tends to have substantial legitimate power. It emerges from one's place within the hierarchy. In most cultures we are taught to obey and respect others with higher authority. Legitimate power is strengthened or weakened based on one's ability to manage and work with others. Therefore, leadership styles also play an important role. An organisation may have five senior managers, all with the same legitimate power because of their parallel positions in the hierarchy. Yet two of these five people may have greater power because of their ability to influence others more effectively through leadership. While legitimate power does not have a negative effect, it often does little to improve attitudes among employees.

3.0.4 Expert

Expert power emerges from specific expertise, skills, information or knowledge that one possesses within the organisation. Doctors often have expert power in that patients assume they have a base of knowledge and expertise that can be relied upon to make decisions about their health. Expert power, like referent power, is a source of power for people throughout the organisation. Secretaries often have expert power in that they might accrue information over time about procedural or process protocols within the structure of the organisation. Research has shown that subordinate effectiveness seems to be more a function of expert power than any other base of power.⁵

3.0.5 Referent

As mentioned above, legitimate power is enhanced with personal characteristics of a manager or leader. Referent power is a function of being respected and admired by

others. One of the unique features of referent power is that it is a base of power for anyone in the organisation regardless of the position they hold. We are willing to be influenced by people that we like and often employees in middle or lower level positions have the power through charisma and other personal characteristics to influence the behaviour of their co-workers.

4 Managing Power

How do we make use of power in an effort to influence the behaviour of others? Research has shown that there are a number of specific strategies and behaviours that we adopt:⁶

Reason: this involves using rational, logical arguments with facts and data that have been collected. Reason is the most used strategy of the seven listed here.

Friendliness: we might use goodwill, flattery, or be especially nice to someone before we make a request.

Coalition: often we will rally others together in order to use those relationships for support, in order to back up the request.

Bargaining: we might be able to achieve our objective by exchanging benefits or favours with others.

Assertiveness: we might be direct and forceful, by demanding that people do what is being asked of them. This often involves repeated requests or making reference to rules that necessitate compliance.

Higher authority: we sometimes seek the support from superiors to back up requests.

Sanctions: we use organisationally derived rewards and punishments, such as salary increases, promotions, demotions, and performance evaluations, to achieve desired outcomes.

These seven tactics are not relied upon equally, and often the selection of which tactic to use is dependent on four contingency variables: the organisation's culture; the manager's relative power; the manager's objective for wanting to influence; and the manager's expectation of the person's willingness to comply. Another interesting finding is that we tend to use reason and rationality more often when we are appealing to superiors. When attempting to influence peers and subordinates, we employ other tactics such as bargaining, higher authority and friendliness.⁷

We often think of power in negative terms, and feel that it is something that others strive to obtain, and then often abuse. This is sometimes the case. However, people also use power responsibly to influence others.

Psychologist David McClelland argues that effective managers:⁸

- Have a high need for power (*nPow*)
- Use their power to achieve organisational goals
- Adopt a participative or ‘coaching’ leadership style
- Are relatively unconcerned with how much others like them.

McClelland identified these employees as *institutional managers*, and argued that they tend to subordinate personal needs to organisational objectives. They make good managers because they show no favourites (as a result of not worrying too much about being liked), and they clearly articulate organisational priorities, instill team spirit and empower others.⁹

5 Empowerment

Historically, management has viewed power as a fixed quantity, and therefore it was isolated at the top of the organisation. Lower level employees had very little if any power in organisations. In today’s environment, this is not the case. In recent years there has been a movement towards empowering employees. Empowerment means sharing or giving employees the authority, opportunity, and motivation to solve organisational problems using independent decisions.¹⁰

One of the changes within organisations that prompted the need for empowerment was the elimination of layers of management as well as the emergence of self-managed teams. Fewer managers with larger spans of control must share power in order to facilitate timely decisions. Empowerment changes the dynamics of traditional power within an organisation and employees must adopt a new perspective of power. It is something that is shared in an effort to be both efficient and effective in meeting planned organisational objectives, rather than something that few possess and exercise over others.

Some have argued that empowerment is often a term that is used in organisations, but in reality does not exist. Superiors still make decisions.¹¹ Empowerment in its true form necessitates access to information, so that employees can make decisions. It also requires a reward system that reinforces appropriate behaviour. In addition, employees must have the authority to make these decisions. When they do not have these opportunities available to them, they perceive empowerment as an espoused theory, but in reality, as a farce. It has been difficult for some senior managers to forfeit power that they have exercised for many years.

Guidelines for implementing empowerment include:¹²

- Delegation of authority to lower levels should be clear and unambiguous
- Planning must be integrated and participative at all levels

- Managers at all levels, especially top levels, should emphasise strong communication skills.

Research has shown that empowerment does increase productivity both at the individual level and the team level.¹³ How do empowered people behave? Robert Quinn and Gretchen Spreitzer identified through their research what empowered people tend to have in common:

- Empowered people have a sense of **self-determination**. They have freedom in their ability to select what work they will do, without being micromanaged.
- Empowered people have a sense of **meaning**. They believe in the importance of their work, and are interested and care about that work.
- Empowered people have a sense of **competence** in their work. They believe that they are able to do their work effectively and are confident that they can perform.
- Empowered people have a sense of **impact**. They believe in their ability to influence their work unit and also understand that others listen to their ideas.

Source: R.E. Quinn, and G.M. Spreitzer, "The Road to Empowerment: Seven Questions Every Leader Should Consider", Organizational Dynamics, Autumn, 1997, p.41.

Empowerment often necessitates shifts in tactics that managers have historically used. Coercion and appeals to higher authority might not be attractive options; rather reason and friendliness may work more effectively in an empowered environment.

Professor Dan Ondrack of the University of Toronto in Canada argues that four conditions must be met in order to empower employees:¹⁴

- There must be a clear definition of the **values and mission** of the company;
- The company must help employees acquire the relevant **skills**;
- Employees need to be **supported** in their decision, and not criticised when they try something extraordinary;
- Workers need to be **recognised** for their efforts.

It is clear that empowerment has been a very successful shift in many organisations. With empowerment, people are able to make effective decisions and solve problems in less time, while employees feel challenged and optimistic about the work environment. Yet it is important to recognise that empowerment is not a switch; one cannot walk into the organisation one day with a magic wand and tell the employees that they are now 'empowered'! This would surely be a recipe for disaster. Research has shown that, while empowerment can be very effective in organisations, it must be viewed as a substantial change that necessitates careful planning and management.

6 Organisational Politics

Organisational politics are defined as the management of influence to obtain ends not sanctioned by the organisation, or to obtain sanctioned ends through the means of non-sanctioned influence.¹⁵ People are engaging in political behaviour once they convert their power into action. What does political behaviour look like? It might emerge from people hoarding information with a view to controlling decision-making; it might also entail whistle-blowing, spreading rumours, leaking confidential information to sources with the potential to spread the information (media), exchanging favours with other employees.

Our usual perception is that political behaviour is bad. This is not necessarily the case. There are circumstances under which people within organisations will use their power to effect positive change and help others, all with a view to realising organisational mandates. Formal authority and standardised procedures, while they exist to facilitate efficiency and decision making, often create bottlenecks and discontinuities. Managers may use their power to align people and resources more quickly than the existing structure would allow. Networking provides a good example of this. Networking is defined as establishing relationships with employees or outside stakeholders in order to accomplish goals. This type of networking is described as functional political behaviour.¹⁶

6.1 Machiavellianism

The sour side of politics exists primarily because of the characteristics of members within the organisation who are high on the personality dimension known as Machiavellianism (discussed in more detail in Block Two). A series of instruments known as Mach scales can measure one's orientation to this dimension.¹⁷ These people have the following characteristics:

- They act with self-interest, even at the expense of others;
- They are cool and calculating, especially when others get emotional;
- They have high self-esteem and self-confidence;
- They form alliances with powerful people to achieve their goals.

High Machs will not hesitate to lie or behave in other unethical ways in order to meet personal objectives. They will do this by 'stepping over' or defeating others who get in the way of these accomplishments. People who demonstrate high Mach characteristics find favourable tactics that allow them to *politick* under specific circumstances:¹⁸

- They are able to have a face-to-face encounter with the person they are trying to influence
- Typically the circumstances are emotional
- The situation is unstructured, with few guidelines for interaction

7 Effective Management in a Political Environment

Politics emerge in almost any organisation where there is more than one employee, so ignore them at your peril. Politics emerge naturally as a result of distinct objectives, interests and values across activities or departments. And there is not a manual or articulated procedure for every decision that must be made. In addition, multiple variables affect the need to move quickly and be more flexible than some organisational structures allow. *Politicking* is a fact of organisational life, and cannot be ignored. How might you become more politically adept in your organisation? Robbins and Hunsaker have offered the following suggestions:

Frame arguments in terms of organisational goals. Effective politicking requires camouflaging your self-interest. No matter that your objective is self-serving; all the arguments you marshal in support of it must be framed in terms of the benefits that will accrue to the organisation. People whose actions appear to blatantly further their own interests at the expense of those of the organisation are almost universally denounced, are likely to lose influence, and often suffer the ultimate penalty of being expelled from the organisation.

Develop the right image. If you know your organisation's culture, you understand what the organisation wants and values from its employees – in terms of dress; associates to cultivate (and those to avoid); whether to appear risk-taking or risk-averse; the preferred leadership style; the importance placed on getting along well with others, and so forth. Then you are equipped to project the appropriate image. Because the assessment of your performance is not a fully objective process, both style and substance must be addressed.

Gain control of organisational resources. The control of organisational resources that are scarce and important is a source of power. Knowledge and expertise are particularly effective resources to control. They make you more valuable to the organisation and, therefore, more likely to gain security, advancement, and a receptive audience for your ideas.

Make yourself appear indispensable. Because we're dealing with appearances rather than objective facts, you can enhance your power by appearing to be indispensable. That is, you don't have to really be indispensable as long as key people in the organisation believe that you are. If the organisation's prime decision makers believe there is no ready substitute for what you are giving the organisation, they are likely to go to great lengths to ensure that your desires are satisfied.

Be visible. Because performance evaluation has a substantial subjective component, it's important that your manager and those in power in the organisation be made aware of your contribution. If you are fortunate enough to have a job that brings your accomplishments to the attention of others, it may not be necessary to take direct measures to increase your visibility. But your job may require you to handle activities that are low in visibility, or your specific contribution may be indistinguishable because you're part of a team endeavour. In such cases – without appearing to be tooting your

own horn or creating the image of a braggart – you'll want to call attention to yourself by highlighting your successes in routine reports, having satisfied customers relay their appreciation to senior executives in your organisation, being seen at social functions, being active in your professional associations, developing powerful allies who speak positively about your accomplishments, and similar tactics. Of course, the skilled politician actively and successfully lobbies to get those projects that will increase his or her visibility.

Develop powerful allies. It helps to have powerful people in your camp. Cultivate contacts with potentially influential people above you, at your own level, and in the lower ranks. They can provide you with important information that may not be available through normal channels. Additionally, there will be times when decisions will be made in favour of those with the greatest support. Having powerful allies can provide you with a coalition of support if and when you need it.

Avoid 'tainted' members. In almost every organisation, there are fringe members whose status is questionable. Their performance and/or loyalty is suspect. Keep your distance from such individuals. Given the reality that effectiveness has a large subjective component, your own effectiveness might be called into question if you're perceived as being too closely associated with tainted members.

Support you manager. Your immediate future is in the hands of your current manager. Since he or she evaluates your performance, you will typically want to do whatever is necessary to have your manager on your side. You should make every effort to help your manager succeed, make her look good, support her if she is under siege, and spend the time to find out what criteria she will be using to assess your effectiveness. Don't undermine your manager, and don't speak negatively of her to others.

Source: S.P. Robbins and P.L. Hunsaker, (1996), Training in Interpersonal Skills: Tips for Managing People at Work, (2nd ed.), Upper Saddle, NJ: Prentice Hall, pp. 131-134.

The presence of political behaviour varies widely across organisations. It is likely that politics can be kept to a minimum, or even eliminated, where every member of the organisation shares the same goals, values, and objectives. Yet in reality, this is not typical. As members of organisations, we must navigate our way through complex environments that are often riddled with political behaviour. It is therefore up to us to establish personal standards and manage our own behaviour in a way that can be rationalised to that person in the mirror!

8 Questions for Review

- 1 Describe the bases of power in an organisation. Do you believe that these differ between for-profit, not-for-profit, and government controlled organisations? Why?
- 2 Which of the 5 power bases emerge from the individual, and which emerge from the organisation?

- 3 Prepare a list of positive components of organisational politics. Why might these components help organisations and its employees? Under what circumstance might your use of power be detrimental to both the organisation and its employees?
- 4 Imagine yourself working with a team of people, one of whom is a high Mach person. What might you do to neutralise his or her behaviour?
- 5 Differentiate between power and politics. When might power not be an example of political behaviour?

Case Study 9.1

Bernd Sterzel at the IVth Medizinische Klinik (A)

Please read case study 9.1 Bernd Sterzel at the Ivth Medizinische Klinik (A) in Block 13 of your study material and analyse this case, using the written case format in the introduction unit. Your paper should be no longer than 8 pages.

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Commonwealth of Learning Executive MBA/MPA

C2 Management and Organisations

Block 10

Organisational Culture

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1 Block Ten Objectives

After completing Block Ten, you should have a good understanding of:

- how organizational culture is defined
- the various purposes of organizational culture
- the difference between strong and weak cultures, and the implications for organizations
- how national culture influences organizational culture
- how organizational culture can be reshaped

Ray Kroc: McDonald's Hero

McDonald's Corporation (www.mcdonalds.com) has a rich culture sustained by hundreds of stories that organizational members tell about founder Ray Kroc. Most of these stories have a common theme. They focus on how Kroc established the strict operating values and norms that are at the heart of McDonald's culture. Kroc was dedicated to achieving perfection in McDonald's quality, service, cleanliness, and value for money (QSC&V), and these four central values permeate McDonald's culture. The following story illustrates the way Kroc went about socializing McDonald's employees to these values.

One Day, Ray and a group of regional managers from the Houston region were touring various restaurants. One of the restaurants was having a bad day operationally. Ray was incensed about the long lines of customers, and he was furious when he realized that the product customers were receiving that day was not up to his high standards. To address the problem, he jumped up and stood on the front counter and got the attention of all customers and operating crew personnel. He introduced himself, apologized for the long wait and cold food, and told the customers that they could have freshly cooked food or their money back – whichever they wanted. As a result, the customers left happy, and when Kroc checked on the restaurant later, he found that his message had gotten through to its managers and crew – performance had improved.

Other stories describe Kroc scrubbing dirty toilets and picking up litter inside and outside a restaurant. These and similar stories are spread around the organization by McDonald's employees. They are the stories that have helped establish Kroc as McDonald's hero.

McDonald's employees are expected to be extremely dedicated to the central values of McCulture, to work hard, and to be loyal to McFamily. If they do accept its culture, McFamily will take care of them. McDonald's needs employees to be dedicated to QSC&V in order to maintain its high standards and keep its competitive advantage. Stories about heroes can help create a strong culture and increase employee dedication.

Source: Jones, G., George, J. Hill, C. and Langton, N. (2002), Contemporary Management, Toronto, Canada: McGraw-Hill Ryerson, p.277.

2 Organizational Culture Defined

While culture has emerged as a popular concept in organizational research over the last decades, it remains both a subjective and elusive concept for practitioners and academics. Organizational culture can be traced to anthropology and be best understood as a continuation of organizational sociology.¹

While there are a number of diverse expressions of culture, concepts of culture around the notion of a pattern of shared understanding. For our purposes, we will define culture as a pattern of basic assumptions, shared beliefs and values that have been developed by a given group as it learns to cope with its problems of external adaptation and internal integration. This 'way of behaving' gives validity to the way members think and feel.² Culture creates a sense of identity for members within the organization and helps to establish a commitment beyond one's self.³

2.2 Visible Level of Culture

Schein (1992) identifies three levels of culture which refer to the degree to which it is visible to the observer (see Exhibit 10-1). **Artefacts** represent the first level and include what one sees, hears, and feels when first subjected to a culture. These include language, technology, emotional displays, and other observable behaviours. While at this level one can visibly observe various artefacts, one's interpretation of culture will still emerge from personal feelings and reactions to what is visible. The following observable aspects of organizational culture are representative of Schein's first level:

2.2.1 Heroes and Heroines

Heroes transmit culture by personifying its corporate values. A leader who is viewed as a hero or heroine reinforces the basic values of an organization's culture. By acting as role models, symbolizing and hence representing the organization to the outside world, these people set standards of performance, motivate employees, and make success attainable. Jack Welch of the General Electric Company might be cited by many as an organizational 'hero.'

2.2.2 Myths and Stories

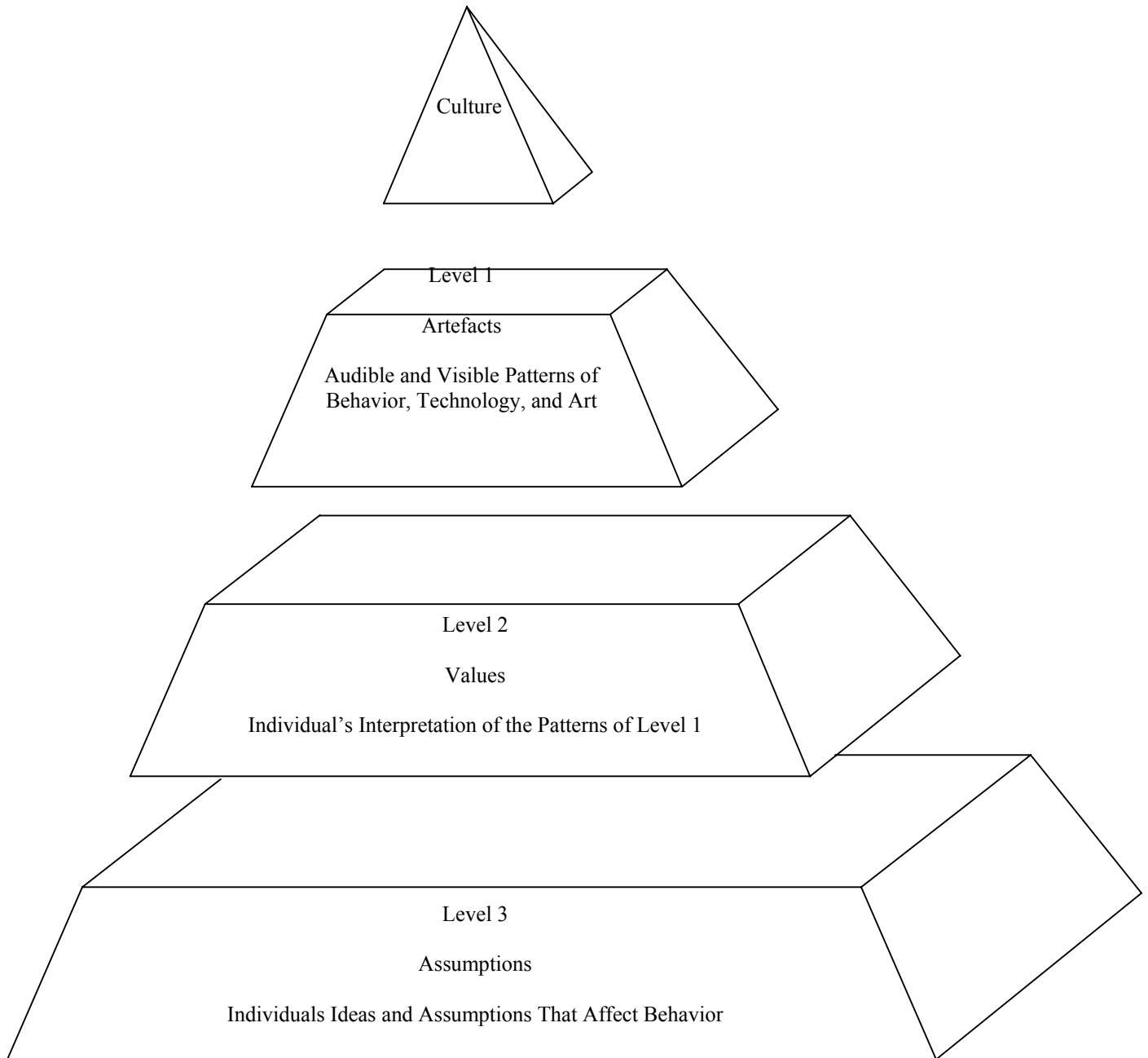
Myths and stories are about corporate heroes, and they facilitate the transmission and embedding of culture. They are stories of the spectacular rise of one or another's career at one organization, or stories like that of the man at 3M that created the "post-it" note; when we hear that story, we think about how it is part of the culture of 3M to encourage creativity, failure, and entrepreneurial behaviour.

2.2.3 Rituals and Ceremonies

These might include things like posting team accomplishments, or year-end results; ceremonies might include things like retirement dinners, golf tournaments, and 'employee of the month' awards. Rituals and ceremonies often act as rites of passage into new social roles, however, they can also be a source of conflict and power struggles.

Exhibit 10-1 – Schein’s Model of Organizational Culture

From Schein, E.H. 1992, Organizational Culture and Leadership, San Francisco, CA: Jossey-Bass



2.2.4 Physical Arrangements

The selection and arrangement of offices and furnishings often reveal significant insights into corporate culture and its underlying values. Compare a physical environment where all people work in a bullpen with a desk and a phone, versus private offices for everybody. What might be the differences in values or assumptions?

2.3 Espoused Values and Basic Assumptions

The second level of culture, espoused values, helps to predict what people will say in various situations, as a result of assertions made by group members (often leaders). However, like artefacts, this may not indicate how they might actually behave. Not until espoused values transform into shared beliefs and assumptions (through experience), can one identify the 'true' culture of the group.

The third level, basic assumptions, emerges from experiences from the group which has supported espoused values. Members of the culture believe that their values are 'good,' and these beliefs, perceptions, facts and feelings become unconscious. At this level, assumptions about people's behaviour become embedded and reinforced in the minds of members. Until one recognizes the pattern of basic assumptions, the interpretations of artefacts and espoused values will not uncover the ideational essence of the culture. This includes developing and understanding the underlying assumptions and values that emerge among members of the organization.

2.4 Subcultures

Often we observe multiple cultures within single organizations. *Subcultures* often emerge within groups in organizations. These subcultures reflect departmental differences as well as distinctions in occupation or training.⁴ A study conducted in computer companies found that subcultures emerged between hardware people and software people. In addition, the hardware people were subdivided into engineers and technicians, while the software people were subdivided into software engineers and computer scientists. Each of these groups had its own set of values, beliefs and assumptions about the design of computer systems.⁵ Subcultures create distinct meanings that establish in-group identification. However, subcultures can be a source of conflict within organization-wide culture; they might become so strong that group members no longer identify with the overall corporate culture.

Exercise

(3-5 pages)

Think about your own work environment, and describe what you perceive to be the culture within your organization. Is there a single culture, or can you identify subcultures? If you can identify only one culture, in your view, why has this single culture persisted? If you see subcultures in your organization, how have these subcultures

emerged, and what effect have they had on members within the organization? Do these subcultures affect performance? In what ways?

3 Developing a Strong Organizational Culture

Organizational cultures are considered strong when the core values are both intensely held and widely shared.⁶ In a strong culture where people share assumptions and values, the workplace is an environment in which people thrive and learn. Strong cultures foster high agreement among individuals, building loyalty, commitment and cohesiveness. As a result, employees show lower absenteeism and are less likely to leave the organization.⁷

In what ways can founders and/or managers set the foundation from which to build a strong organizational culture? It has been argued that this can be done in 3 ways:⁸

- The founders and/or senior management of the organization hire or retain employees who think and feel the same way they do;
- Management indoctrinates and socializes members within the organization to their own way of thinking and feeling;
- Top managers serve as role models – employees observe their behaviours, and eventually identify with them, and internalise their beliefs, values, and assumptions.

It is logical that cultures are sometimes industry-specific. For example, it is likely that we would observe a very cautious and conservative culture in a nuclear power station, a financial institution or insurance company. On the other hand, a more aggressive, risk-taking culture might be found in an advertising company or a software development company. We often have seen mergers fail, not because there was a poor economic match or because synergies could not be realized based on each company's strengths, but because the cultures collided to such an extent that untenable conflicts emerged.

Schermerhorn, Hunt and Osborn argue that there are specific elements of strong corporate culture:⁹

- A widely shared real understanding of what the firm stands for, often embodied in slogans.
- A concern for individuals over rules, policies, procedures and adherence to job duties.
- Recognition of heroes whose actions illustrate the company's shared philosophy and concerns.
- A belief in ritual and ceremony as important to members and to building a common identity.
- A well-understood sense of the informal rules and expectations so that employees and managers understand what is expected of them.

- A belief that what employees and managers do is important, and that it is important to share information and ideas.

3.1 Pros and Cons of Strong Organizational Cultures

Johns and Saks have identified three primary advantages of strong cultures:¹⁰

- **Coordination:** Structural changes within organizations over the last decade or so, have given rise to increased interdependence across functions and activities. As such, coordination has become a critical success factor in helping organizations achieve their goals. Where strong cultures exist, communication is facilitated. Employees are not afraid to share information and this will ultimately add value to the customer base.
- **Conflict resolution:** When people share the same basic core values in an organization, it can often lead to conflict resolution more quickly than in an organization with a weak culture. While members of a not-for-profit might argue over how to best deliver a service, agreement might be more readily reached when they can all agree that they share the core values of serving the membership to the best of their ability.
- **Financial success:** A number of studies have been done that indicate that strong cultures (where the mission, strategy and goals of the organization are supported) contribute to the bottom line. A study of insurance companies found that managers who responded more consistently to a culture survey had greater asset and premium growth than those with disagreement.¹¹

3.1.1 What Are the Disadvantages of a Strong Culture?

One of the cons to strong cultures was mentioned above, and that is of colliding values and beliefs when organizations merge or are acquired. In addition, one of the most significant downsides to a strong organizational culture is a forceful resistance to change. In a new economy where change has become the norm rather than the exception, organizations must be flexible and adapt quickly to external influences. Often, this necessitates a new perspective, part of which includes the adoption of new and different beliefs and assumptions. Innovation might depend on a cultural change; strong cultures tend to resist this.

A strong culture can also act as a barrier to diversity. One must be able to “fit” with the culture of the organization, and often new employees, because of race, gender, disability, or other differences, might not be perceived as an appropriate “fit”.¹² It is critical for managers to remember that a heterogeneous work environment will provide a variety of strengths within the organization.

Given the discussion on strong organizational culture above, would you describe the culture in your work environment as strong? Why?

4 Organizational Culture versus National Culture

While many have argued that industry, technology, economic factors, and other variables help shape organizational culture, Trompenaars argued that national culture distinctions might also help determine the type of corporate culture that is 'chosen'.¹³ Trompenaars' research argued that internal organizational variables should be considered a primary source of culture (for example the authority system). He developed four organizational cultural types and linked these types to national cultures. The four types of organizational culture include: Family, Eiffel Tower, Guided Missile and Incubator.

Trompenaars argues that a **family** organizational culture is a power-oriented corporate culture where the leader is viewed as an informed and caring parent who understands what is best for his/her subordinates, and takes care of them (Trompenaars: 154). There are a number of countries with organizations that display this culture most often: Japan, France, Belgium, India, Greece, Italy, Singapore, South Korea, and Spain.

Eiffel Tower Culture is a function of Weber's traditional bureaucracy. There is a rigid hierarchical structure, a specific and comprehensive division of labour, and all developments are planned. The system is designed for subordinates to follow specific instructions from their superiors, who are responsible for a specific level within the organization. Should procedures not be followed, the system will be inoperable. Hierarchical relations establish one's role and status within the organization, and often serve as a safety net that allows members within the organization to predict activities and decisions. As such, change is not attractive and is often resisted in this culture. Trompenaars' research indicates that the Eiffel Tower culture is most evident in Denmark, the Netherlands and Germany.

Guided Missile Culture is characteristically egalitarian where, unlike the Eiffel Tower culture, roles are not carved in stone, and teams or project groups are common throughout the organization. However, similar to the Eiffel Tower culture, this culture is very task focused and impersonal. Members of the organization must do whatever it takes to meet planned objectives. Technical expertise reduces emotional elements in this culture. We see guided missile cultures most often in the United States, Canada, and the United Kingdom.

The **incubator culture** is most unlike the other three discussed above. Trompenaars argued that these organizations exist to serve as incubators for self-expression and self-fulfillment more than anything else. There is minimal organizational structure and the culture is egalitarian, personal and highly creative. These organizational cultures are found most often in knowledge and science industries such as computer software development firms. We see this type of culture in Silicon Valley, California and Route 128 near Boston in the United States and in Sweden, in the automobile industry.

Trompenaars suggests that some organizations demonstrate more than one type of culture simultaneously but that for the most part, one type characterizes the entire organization. Exhibit 10-2, overleaf, summarizes the characteristics of the four cultures.

Exhibit 10 –2 Characteristics of Trompenaars’ Four Corporate Cultures

<i>Variables</i>	<i>Family</i>	<i>Eiffel Tower</i>	<i>Guided Missile</i>	<i>Incubator</i>
Relationships between employees	Diffuse relationships to organic whole to which one is bonded	Specific role in mechanical system of required interactions	Specific tasks in cybernetic system targeted upon shared objectives	Diffuse, spontaneous relationships growing out of shared creative process
Attitude toward authority	Status is ascribed to parent figures who are close and powerful	Status is ascribed to superior roles, which are distant yet powerful	Status is achieved by project group members who contribute to targeted goal	Status is achieved by individuals exemplifying creativity and growth
Ways of thinking and learning	Intuitive, holistic, lateral, and error-correcting	Logical, analytical, vertical, and rationally efficient	Problem centred professional, practical, cross-disciplinary	Process oriented, creative, ad hoc, inspirational
Attitudes towards people	Family members	Human resources	Specialists and experts	Co-creators
Ways of changing	“Father” changes course	Change rules and procedures	Shift aim as target moves	Improvise and attune
Ways of motivating and rewarding	Intrinsic satisfaction in being loved and respected	Promotion to greater position, larger role	Pay or credit for performance and problems solved	Participating in the process of creating new realities
Management style	Management by subjectives	Management by job description	Management by objectives	Management by enthusiasm
Criticism and conflict resolution	Turn other cheek, save others’ faces, do not lose power game	Criticism is accusation of irrationalism unless there are procedures to arbitrate conflicts	Constructive task-related only, then admit error fast and correct	Must improve creative idea, not negate it

5 Is It Possible to Change Organizational Culture?

Much of the discussion in this block has revolved around the nature and pace of change in our work environment today. It was mentioned above that organizational culture is elusive. Culture is something that emerges from a number of beliefs, assumptions and values. It is therefore a difficult thing to get your hands around and to change.

Organizational culture is very important; in fact, it has much to do with a company’s success or failure. Edgar Schein, one of the most well-known theorists of culture, argues that it is the primary role of the leader within the organization to create and manage, and when necessary, destroy existing culture.¹⁴ The existing culture might have to be destroyed in order to facilitate organizational change, particularly radical change.

There are a number of actions that leaders can take in organizations to facilitate a cultural change. They must focus primarily on the socialization process. If we go back to Schein's levels of culture, the first level, visible artefacts, are something that leaders can alter without much difficulty. For example, physical arrangements in an office can be changed. If the CEO wanted to create a culture that included more communication, the office space might be redesigned in an effort to facilitate this. It is also possible to establish new and different ceremonies and rituals that help to shape a different set of assumptions and values. Criteria for new entrants or promotions among existing employees can be changed in a way that reshapes behaviour. Certainly, bringing new people into an organization introduces objectivity and new perspectives at the same time.

What becomes most difficult for leaders is to change the deeper levels of organizational culture.¹⁵ An achievement-oriented, aggressive culture cannot be easily changed to one that is risk-averse and conservative. This kind of radical or transformational cultural change would require much planning, time and effort, while people learned to adapt to a new environment, with new expectations, criteria, job designs, reward systems, etc. Again, often organizations bring in new people with distinct skills and values, in order to facilitate such a change.

While culture is difficult to change, organizations have done so successfully. Change is dependent on communicating a need for change and establishing a commitment to a shared vision. Change is discussed in greater detail in Block 12.

Exercise: What Kind of Organizational Culture Fits You Best?

Source: Robbins, S. and Langton, N. Organizational Behaviour (2nd ed.), (2000), Toronto, Canada: Prentice Hall, pp.411;634.

In each of the following statements, circle the level of agreement or disagreement that you personally feel:

SA = Strongly Agree

A = Agree

U = Uncertain

D = Disagree

SD = Strongly Disagree

1. I like being part of a team and having my performance assessed in terms of my contribution to the team.	SA	A	U	D	SD
2. No person's needs should be compromised in order for a department to achieve its goals.	SA	A	U	D	SD
3. I like the thrill and excitement from taking risks.	SA	A	U	D	SD
4. If a person's job performance is inadequate, it's irrelevant how much effort he or she made.	SA	A	U	D	SD
5. I like things to be stable and predictable.	SA	A	U	D	SD
6. I prefer managers who provide detailed and rational explanations for their decisions.	SA	A	U	D	SD
7. I like to work where there isn't a great deal of pressure and where people are essentially easygoing.	SA	A	U	D	SD

See notes at the end of this unit for scoring direction and key.

6 Review Questions

- 1 What is organizational culture, and how might it affect the behaviour of employees?
- 2 Interview 5 employees within one organization in an effort to understand the organization's values, norms, socialization practices, ceremonies and rites, as well as special language and stories. Based on this, how would you describe the organization's culture?
- 3 What are the observable aspects of culture, and how important are they? If you had to develop an argument for one of Schein's three levels being most important, which would you choose and why?
- 4 In what ways might you assess an organization's culture before you join the company, in order to determine whether that culture presents a 'fit' for you?
- 5 What are the primary dangers of subcultures? Under what circumstances might subcultures have a positive effect on organizational performance?
- 6 How might you go about changing the culture of an organization? Where would you start, and how would you prioritise your efforts?

Case Study 10.1

Cultural Changes at Nissan Motors (Optional Submission)

Please read case study 'Cultural Changes at Nissan Motors' case and analyse this case, using the written case format provided in the introduction unit. Your paper should be no longer than 8 pages.

7 References

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Scoring directions and key

for 'What Kind of Organizational Culture Fits You Best?'

For items 5 and 6, score as follows:

Strongly Agree	=	+2
Agree	=	+1
Uncertain	=	0
Disagree	=	-1
Strongly Disagree	=	-2

For items 1, 2, 3, 4 and 7, reverse the score (Strongly agree = -2, and so on). Add up your total. Your score will fall somewhere between +14 and -14.

What does your score mean? The higher your score (positive), the more comfortable you'll be in a formal, mechanistic, rule-oriented, and structure culture. This is often associated with large corporations and government agencies.

Negative scores indicate a preference for informal, humanistic, flexible, and innovative cultures, which are more likely to be found in research units, advertising firms, high-tech companies, and small businesses.

Commonwealth of Learning Executive MBA/MPA
C2 Management and Organisations

Block 11
Organisational Change

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1 Block Eleven Objectives

After completing Block Eleven, you should have a good understanding of:

- three conceptual perspectives of organisational change
- sources of resistance to change
- effective leadership through change processes
- current issues in organisational change

The principles of traditional management models have stood the test of time for many organisations over a number of decades. There was a time when much of an organisation's future could be determined by examining the past. Many academics and practitioners have suggested that we can no longer determine an organisation's future by examining its past. Historic perceptions of certainty, predictability and permanence are no longer consistent with the complexities and ambiguities that present themselves to organisations today.¹ Our society is characterised by an explosion of information and a technological quantum leap that has virtually eliminated stability and made change the norm. A solution to a problem today is exactly that: a solution for the moment, and not one that will necessarily persist as a solution, or be applied consistently to future problems. For some organisations enhancement of existing work processes is necessary, but not sufficient. Today's environment necessitates a fundamental transformation of assumptions for many organisations; a substantially greater leap than 'better sameness.'

A shift from an industrial society to an information society, as well as an increasingly global market, have created competitive pressures which have accelerated the rate of environmental change. As a result organisations have tried to become more responsive and flexible. In addition, customers have a wealth of information at their disposal and organisations are faced with more competition now than ever before. It is the customer who has dramatically changed the way many organisations do business; forcing them to redefine their philosophies and major objectives as well as their criteria for measuring performance. Often a new set of imperatives must be established to better respond to customer expectations.

In this block we will examine the nature of change. We will first examine some of the conceptual models of organisational change and then move on to a discussion of why we instinctively resist change, and how change is managed and facilitated in organisations today.

2 Theories of Organisational Change

2.1 Scope of Change

Numerous theorists have provided useful perspectives from which to understand and manage organisational change. While many have defined types of change in different

terms, most authors identify with two: the notion of routine, incremental planned change (**first-order change**, also known as continuous improvement), and non-routine, more dramatic change (second-order change) that typically occurs less frequently within organisations. **Second-order change** has been referred to as a number of things; revolutionary change, frame-bending change, radical change, transformational change, and various other terms that indicate a non-routine and dramatic organisational change.² Despite the various perspectives on organisational change, there is general agreement that change, particularly revolutionary change, does not occur easily; it is risky, difficult, complex, unpredictable and emotionally intense. And organisations will most often embrace the status quo until such time that it becomes cost-prohibitive.³

Let's examine the distinctions. Incremental change or continuous improvement is change that should be ongoing in any organisation. It tends to be linear in nature and does not entail fundamental shifts in the way the organisation conducts its business, or in the underlying values and assumptions of the members within the organisation. It might entail minor personnel or structural changes, for example.

2.2 Radical change

Radical or discontinuous change is distinct from first-order change for a number of reasons. Tushman, Newman and Romanelli argue that radical change is characterised by several possible shifts:⁴

2.2.1 Restated Mission and Values

When a company enters a new market or industry, or leaves an industry in a way that changes the character of the organisation, then it necessitates a new focus. And this focus emerges from a re-defined mission, and often revisited values, within the organisation.

2.2.2 Power redistribution

As mentioned in Block Nine, power shifts within organisations over time. When significant change is attempted, in almost every case, it results in resource allocation and redistributed status among departments and people. Often it is because of a new product introduction, or the movement from one stage of maturity to another in an organisation's life.

2.2.3 New Structure, Systems and Procedures

When new strategies are formulated, it is rare that these strategies can be successfully implemented without some major structural changes, or procedural or systems changes. If nothing else, structural changes send strong signals to members of the organisation that major change is a reality. Often technology plays a significant role in radical change efforts.

2.2.4 New Interaction Patterns

Transformational changes usually entail new workflows. As a result, the historical communication systems and patterns are usually inappropriate and inconsistent with the

new strategy. So people often communicate within a new hierarchy, perhaps more cross functionally than before, or through fewer vertical channels perhaps more often as group members.

2.2.5 New Senior Management

Few radical change applications are attempted without bringing in new blood to the organisation. Organisational inertia emerges from a culture that has grown comfortable and complacent within an existing framework. And it's sometimes difficult to ask existing members of the organisation to shake that up. However, it is much less difficult, and perhaps more appealing for a newcomer to do just that.

2.3 Must Organisations Choose?

Certainly there is a long standing debate and quite a lot of research on the need for incremental versus transformational change efforts. But the proponents of radical change argue that often, especially given the so-called hypercompetition that we are faced with today, incremental change is worse than no change at all. The organisation might be perpetuating an unworkable, inconsistent, obsolete or antiquated strategy. They argue that without a fresh approach, an 'out-of-the-box' application, some organisations will be unable to maintain a competitive advantage, and will therefore be selected out of the population.⁵

Does an organisation have to choose between incremental change and radical change? Gary Hamel says, 'no': organisations need not view these two types of change as mutually exclusive.⁶ He suggests that incremental improvement should be assumed, since the quest to get better is only logical and prudent. In addition, incremental change need not exclude innovation; innovatory solutions can emerge in linear ways (Hamel provides the example of Gillette's Mach 3 razor as an example of this). Hamel makes a number of additional arguments for considering first and second-order change simultaneously:

Innovation creates new wealth: Despite the need for continuous improvement, radical innovation is creating most of the new wealth. Examples include Starbucks (revolutionary new business model, which, despite the fact that it has 4% of Nestle's revenues, has a market value that is more than 10% of Nestle's). Dell, Cisco, Microsoft are also industry revolutionaries who saw their share of the market dramatically improve in the 90s while IBM, HP and other industry veterans saw their shares decline. The down side is that the way for insurgents like Starbucks and Dell to maintain or further expand their share of wealth is to be revolutionaries more than once, and this is a major challenge.

It's not an either/or decision: Organisations need not choose between radical innovation and continuous improvement. It can do both. Cartier, provides luxury goods to a targeted market. It has continued to improve the way it designs, manufactures, and distributes its jewellery (continuous improvement), yet it has also expanded into completely different products that necessitate more radical shifts in strategy and change applications (tobacco, scarves, perfume, leather goods).

Another thing that we might believe is that we need to abandon all existing strategic plans in order to experience radical innovation. This is simply not true. While we hope that members of the organisation can find a way to detach themselves from their traditional ways of thinking and planning, that is not to say that they cannot be innovative by exploiting existing resources, competencies, capabilities, skills, brands, assets. Organisations spend many years and much money establishing these things, In most cases it would be imprudent to abandon them entirely.

Radical innovation is not always riskier than incrementalism: Another myth that exists among management is that radical innovation is always riskier than incrementalism. This assumes that incrementalism is low risk, and that innovation is high risk. We know that incrementalism was enormously risky for IBM, Compaq and Sears. It might reduce the company's immediate investment risks, but it poses potentially long-term strategic risks. Innovation means that we likely need to be quick studies, but it doesn't mean we have to throw every resource we have at a new idea.

It's not about drama: People also tend to believe that radical innovation is about dramatic change – change that always creates new products or new businesses. This is simply not true. Often innovative ideas surround business processes within an organisation that may be radical, but do not change the fundamental business of the organisation. However, it might radically change the way that process is done (paperless account systems for example). The point is that radical innovation can come in rather small packages. (the express check-in at the airport). Usually, radical innovation entails leveraging something the company already has.

Exercise

(4-5 Pages)

Think about various change efforts in your organisation. Would you describe them as first or second-order change? Why? What made the management of change successful or unsuccessful?

2.2 Kurt Lewin's Model of Change

Kurt Lewin developed a three-stage model of change that is widely cited. He argued that successful change was dependent on following three steps: **unfreezing**, **moving**, and **refreezing**.⁷

In the unfreezing stage, members prepare for change by establishing a plan that will help manage employees' resistance to the change, articulate a path for implementation, and establish measures for the outcome of the change. Organisations may use *driving forces* to direct behaviour away from the status quo (promotions, or increases in pay for example), or employ *restraining forces*, which hinder movement from the existing equilibrium.

The moving stage involves the actual implementation of the planned change effort. The ease with which change is implemented depends on a number of variables: how well the change effort was planned; the nature and scope of the change effort (revising the criteria for new hires will likely be more palatable and less intrusive than a radical restructuring, for example); and the ability of senior management or a 'champion of change' to manage the change process successfully.

Once the change has taken place, behaviours, values, and structure become institutionalised. Lewin defined this as the refreezing stage. The post-change environment becomes routine again, and is part of day-to-day life within the organisation.

2.3 Models of Punctuated Equilibrium

Tushman and Romanelli present a model of **punctuated equilibrium**, and offer three constructs which characterise their model:⁸ processes of *convergence*, where change is incremental and consistent with overall strategic orientation; processes of *reorientation*, where short periods of discontinuous change transform strategies, power, structure and systems; and finally, *executive leadership*, which is an essential component of successful change. Executive leaders must mediate between the inertial forces of convergence and performance pressures for strategic reorientation.

2.3.1 Convergence, Reorientation, and Executive Leadership

Organisations, during periods of **convergence**, make incremental modifications that are consistent with what business the firm is in and how it competes. This type of change will persist until performance falls to an unacceptable level, resulting from inconsistencies between orientation and environmental fit, or lack of alignment between activities supporting the strategic orientation. This results in a crisis that promotes the process of reorientation. This process may also include *re-creations*, which are reorientations (defined above) but also involve a discontinuous shift in the firm's core values and beliefs.

In order to enjoy success, Tushman and Romanelli argue, a firm's strategic orientation must be consistent with internal and external political and economic environments. A process of **reorientation** can be thwarted by the powerful influences of inertia⁹ and institutionalisation.¹⁰ Internally coordinated activities, as well as coordination with the external environment, promote structural elaboration and complexity, which in turn promote further convergence. Tushman and Romanelli suggest that this is most prevalent in larger organisations, or where the convergent period has persisted for an extended period of time.

The roles and characteristics of **executive leadership** are integral components of the punctuated equilibrium model: strategic reorientation cannot be successful without being initiated and implemented by executive leadership. The decision to initiate a strategic orientation is dependent upon both the length and success of the prior convergent period and by demographic characteristics of the executive team. Strategic reorientations are less likely to occur where the prior convergent period has been long and successful and where

a strong link exists between the executive team and ownership. Reorientations are more likely to occur through external executive succession, and will be most successful when implemented by internal executive leadership.

Tushman and Romanelli present a useful model of change that specifies *what* type of change will occur and *when* this change is likely to occur. While they provide insight into the circumstances under which change is often triggered, little attention is given to how change occurs in terms of the interdependence of levels and functions within the organisation. Also, specific distinctions between internal and external pressures for change are unclear.

2.3.1 Periods of Deep Structure, Equilibrium and Revolution

Gersick presents three main components of a punctuated equilibrium model:¹¹ *deep structure, equilibrium* and *revolutionary periods*. Deep structure is presented as a set of managerial choices; these choices are made based on patterns that have been established between interrelated parts that make up units within the organisation, and are also reinforced by systems outside the organisation (competitive, regulatory, technological). Equilibrium periods are characterised by maintaining and carrying out choices that are part of the deep structure; incremental adjustments take place during this period. Revolutionary periods dismantle the deep structure, and new choices emerge out of a reconfiguration of units and patterns.

Gersick stresses the **interdependence** of subunits within the organisation. This interdependence is identified as a primary source of resistance to change: managers will react to internal and external distress by making incremental alterations in an effort to avoid dismantling the deep structure, and managing revolutionary change. Gersick identifies the three primary barriers to change in human systems as cognition, motivation and obligation. Managers will be aware of opportunities only if they represent change that is consistent with existing systems. Motivation to change is thwarted when people feel threatened by a loss of opportunity, power, or difficult tasks; and inertial pressures, both from inside and outside the organisation, can reduce one's commitment to change in that these pressures make it extremely difficult, if not impossible, to change.

Gersick argues that the patterns that help to create deep structure and promote incremental change can also generate revolutionary change. When a system faces 'internal changes that pull parts and actions out of alignment... and environmental changes that threaten the system's ability to obtain resources' (1991:21), a foundation is laid from which revolutionary change will likely emerge. She emphasises, however, that these internal and external shifts will not in themselves cause revolutionary change. Two primary antecedents of revolutionary change include newcomers to crisis situations and the systems arrival at key temporal milestones. A change in top management has been cited by several punctuated equilibrium theorists as likely triggers for transformation.¹²

The notion that transitions are triggered by **midpoint milestones** is unique to Gersick's model.¹³ She argues that inertia is interrupted by people's awareness of time. Typically mid-way through the life of a project, major transitions are initiated in order to accomplish planned objectives. Finally, Gersick discusses the role of emotion in affecting

successful revolutionary change. She argues that while people often feel afraid and pressured by dramatic change, they may also draw from this and generate confidence and enthusiasm for a new direction, fostering the commitment that revolutionary change necessitates.

3 Why the Resistance to Change?

Generally, people don't like change. It is human nature to embrace what is comfortable to us; typically, the status quo is like a warm blanket – it keeps us cozy, and we do not like to part with it. The challenge is often significant for change agents within organisations: 'what is it that we need to do in this organisation, in order to effect real change, meaningful change that is indeed significant enough to respond effectively to environmental shifts and customer demands'? Rumelt has offered a number of reasons for inertia within organisations that are faced with the need for change:¹⁴

3.0.1 Distorted Perception

Rumelt talks first about myopia, and suggests that some people within organisations simply do not have the capacity to look into the future with any useful insight or clarity. Part of the reason for this is that they are short-term focussed, and might work in a situation where the results of their own efforts cannot be predicted or seen, because of high turnover, mergers, or takeovers. He then talks about hubris and denial, with respect to our reaction to information. Many members of the organisation will either deny the implications of data that have been collected or they will selectively remember or manipulate the data so that it favours the status quo. He also identifies grooved thinking, where our thoughts are restricted or myopic based on groupthink, or habitual thinking.

3.0.2 Dulled Motivation

Rumelt argues that people are not motivated to implement change efforts because of either the direct costs of change, or the potential cannibalisation costs (organisations may put off introducing a new product in the fear that it will eat into the profits or sales of another product). A third explanation for dulled motivation is the comfort organisations might feel through some form of subsidy (either from other related companies, or hidden consolidated financial data).

3.0.3 Failed Creative Response

There are a number of things that block our creativity, and some of us are blocked more easily than others. If a competitor far exceeds the organisation's ability to meet new demand or can redesign and innovate products much faster and more efficiently, then you are likely to be further thwarted simply based on the competitor's increased reaction time. In addition, our reactive nature suggests that we are not able to always predict problems. Rather, we blame problems on the industry, and not on our organisation's ability to deal with them.

3.0.4 Political Deadlocks

This is a pretty old story. But politics are an integral part of even the smallest organisations, and they must be managed, not ignored. Politics emerge because of distinct interests across departments and individuals, and often people are concerned about the sustainability of their own status through change efforts.

3.0.5 Action Disconnects

Finally, Rumelt identifies ‘action disconnects’ which prevent people from mobilising themselves into action. There are a number of potential sources for action disconnects. It might be leadership inaction; or perhaps the complexity of the change effort (or more importantly the perception of complexity) fosters inertia. We like habitual routine and patterns – we’re comfortable with them, even if they don’t work.

Exercise

(2-3 pages)

Describe an example of resistance to change in your organisation. Why do you think this resistance occurred?

4 Strategies for Effecting Successful Change

We know that change is difficult, and efforts to effect change in organisations often fail. The challenge for members within organisations is to create, develop and sustain an environment that facilitates change processes. This necessitates attention to the unique complexities and risks that are inherent in change initiatives. There are a number of key influences that managers and change agents must be aware of and consider in order to plan and implement successful change:

4.1 Construction of Crises

The literature argues that people must be driven out of their comfort zones, and often they will not leave those comfort zones without a very compelling reason. It is suggested by many researchers that a sense of urgency or ‘pain’ must be communicated to members of the organisation.¹⁵ If management is able to communicate this sense of urgency in a way that inspires employees to want to change, then it is more likely that they will embrace the need for such change.

4.2 Leadership

The need for a strong champion of change cannot be over-emphasised. Change efforts require leaders that not only inspire those around them, but leaders who can set a course,

steer the ship, and re-navigate when necessary without a lot of warning. Much attention is given to the role of leadership throughout change efforts, and most researchers would identify strong leadership as essential to success for any organisational change. In particular radical change, because of its unique demands on members of the organisation, places a special premium on leadership skills and competencies.¹⁶ Transformational change is unique for two reasons: (i) the pace of the change itself is faster; and (ii) organisational elements that require leadership attention centre around high-involvement, cross-functional, technology driven, group or team focussed core competencies and values.

This research reveals that leadership skills proven to be successful within the context of continuous improvement may be insufficient or distinct from those skills required to lead radical change. Ketterer and Chayes identify a number of competencies of change-oriented leaders:¹⁷ an ability to articulate an image of the future (visioning); capacity to organise information into logical sequences; business and industry insight; drive for success; personal integrity; flexibility. Another model proposes five dimensions of charismatic leaders, who are responsible for managing transformation change: strategic vision and articulation; sensitivity to the environment; unconventional behaviour; personal risk; and sensitivity to members' needs.¹⁸

Little attention is often given to the role of leadership at lower levels in the organisation, and the data in a study conducted by this author suggest that it is a subject worthy of attention. Often middle level managers, while not members of the senior executive, play one of the most critical leadership roles in the organisation. Personal style, characteristics, and skills seem to be associated with the success of change processes within many organisations. It is the responsibility of the senior executive team to facilitate this by sharing and owning the vision of change and by being visible as champions and managers of change. But their 'shared understanding' must first transcend their individual perspectives and priorities in order for them to successfully *lead* the organisation through a change effort.

4.4 Team Dynamics

The teams that are formed to effect change have an enormous responsibility: they establish paths for innovation after collecting information (through benchmarking and in-house analysis primarily) that defines the direction of needed change. They reinvent the way the organisation conducts its business, and must sell that 'reinvention' to the rest of the organisation. The literature argues team members should meet specific criteria: 'ideally, creativity and openness will be blended with sound business judgment and the ability to synthesise information from multiple sources. Team members must grasp strategic realities and possess an operational understanding of the business.... [T]his combination is most often found in the middle to upper-middle ranks of a business unit.'¹⁹

Often team dynamics necessitate the understanding that the team is developing a whole new way of looking at the business (in the case of second-order change). While success is dependent to some extent on careful selection of participants, successful teams must

clearly understand their objectives, their role as a team, their rewards as a team, and finally their accountability as a team. This is the responsibility of the leaders who are driving the change effort.²⁰

4.5 Benchmarking

You may have participated in a benchmarking initiative—perhaps even more than one—and found it can be a useful way to learn about successful change techniques. Benchmarking with other organisations (or other subsidiaries within your own organisation) can be time consuming, stressful at times, and costly in the short term. But if you are not able to establish a yardstick of measurement in terms of your expected outcomes, then you cannot set goals that are meaningful or even achievable.

4.6 Culture

The tacit nature of underlying values and assumptions makes them directly unobservable. Yet insight to these belief systems is critical to planning for and predicting successful change. Some cultures are paradoxical in nature - behaviour that participants display may be consistent with what has been identified as an antecedent to successful change. But the willingness to embrace change might not remain constant throughout the project; it is often ultimately subordinated to the individualistic need to outperform others, and be recognised (and compensated) as individuals who succeed. Members of the organisation generally want to be a part of the change project, but only for as long as it is associated with success, and for as long as they can be seen, as individuals, as enhancing the performance of the organisation. Culture can be an impediment to change efforts and, as discussed earlier, is a difficult construct to change.

Rosabeth Moss Kanter argues that radical change may make an immediate impact, but tends not to be very successful at changing organisational culture in the longer term.²¹ Fundamental or radical transformation in multiple areas of a company does not necessarily cause a fundamental shift in organisational culture. In addition, diverse sub-cultures influence the process and outcome of change.²² Certainly, sub-cultures warrant individual examination, in an effort to identify the impact of these distinctions. An understanding of the culture, including distinctions between units within a single organisation, might provide some indication of the most appropriate intervention for that organisation, or those groups. Scant attention has been given to the relationship between culture and radical change efforts that are specific to cultural preconditions, or modifications that might foster successful change.

4.7 Goal Congruence

Senior management often face difficulties in establishing goal congruence in an organisation. They must consider individual goals, group goals and organisational goals. The challenge is in reconciling these goals and identifying a source of leverage for change efforts that meets all of these needs. It is the responsibility of the champions of change to be adequately in touch with the various elements of influence in an

organisation that shape the needs and interests of diverse constituencies. If you can develop an understanding of the sources of distinction in these interests, it is likely that you can understand the common areas as well and then capitalise on those common interests, and manage the distinctions.

5 Your Role in Change

Practitioners need access to information about first and second-order change, as it relates to antecedents for successful change. They must have prescriptive knowledge of the cross-functional, multi-level, team-based nature of change applications, and the attitudinal and behaviour adjustments that they necessitate. They need to feel confident in their ability to develop or acquire the appropriate resources to communicate these changes and manage the change through to its successful completion. Frameworks of change that convey its complexity and multiplicity might help to shift the majority balance of transformational change from failed to successful interventions. Incremental change has lost its dominance in leading-edge organisations that are driven by dramatic and unabating shifts in technological, competitive, and global boundaries. Because the fundamental essence of organisations must sometimes be significantly altered, so must the philosophy of leading and managing its members. This is difficult. Behavioural patterns are not easily disrupted, nor can they be successfully reconfigured without new skills, new resources, and new understandings of the multiple, interdependent levers of change.

6 Questions for Review

Exercise

(4-5 pages)

Which of the key influences discussed above do you believe to be the most important levers of successful change in your organisation? Be sure to justify your choices.

Case Study 11.1

John Hancock Mutual Life Insurance (Optional Submission)

Please read case study 11.1 John Hancock Mutual Life Insurance in Block 13 of your study material and analyse this case using the written case format provided in the introduction unit. Your paper should be no longer than 8 pages.

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Commonwealth of Learning Executive MBA/MPA

C2 Management and Organisations

Block 12

Conflict and Negotiations

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1 Block Twelve Objectives

After completing Block Twelve, you should have a good understanding of:

- sources of conflict
- various types of conflict
- stages of conflict
- management of conflict
- effective negotiation strategies

Ellie the Elephant Versus Geoffrey the Giraffe

Redwood's Holdings Ltd., the owner of Reggie's Toy Store, legally registered the Toys "R" Us trademark during South Africa's apartheid regime. In post-apartheid South Africa, when trade embargoes vanished and the opportunity existed to participate more extensively in international trade, Redwood's had to confront the possibility of a challenge to its trademark. The four Redwood Toys "R" Us stores were similar to the original Toys "R" Us chain in the United States, except Redwood used Ellie the Elephant as its mascot instead of Geoffrey the Giraffe.

As expected, the U.S.-based Toys "R" Us objected to Redwood's use of its trademark. Rather than fighting in court, where Redwood's might have won, Redwood's decided to negotiate with Toys "R" Us. The result was a win-win solution. Redwood's agreed to sell back the trademark to the U.S. company and simultaneously buy the rights to its use in South Africa. The South African government approved the deal in March, 1996, making Redwood's the seventh foreign franchise of Toys "R" Us.

Source: Excerpt from "Restoring Their Good Names: U.S. Companies in Trademark Battles in South Africa", by Donald G. McNeil, Jr. from the New York Times, May 1, 1996.

You can imagine the conflict that faced the executives from the two companies discussed above. Each company potentially had a lot to lose. However, through effective cross-cultural negotiation, both were happy with the outcome.

Managers spend considerable time addressing conflict within organisations. Like politics, it is an inevitable occurrence, and the management of conflict is a skill that will enhance one's ability to be more effective in the workplace. While we often think of conflict as dysfunctional, under some circumstances it is beneficial, and we address this in Block Twelve. For our purposes, we will define conflict as follows: an existing disagreement in a social situation that emerges when the goals, interests, or values of different individuals or groups are incompatible, and those individuals or groups block or thwart each other's attempts to achieve their objectives.¹ One of the tactics that organisational members use

in order to mitigate or manage conflict is negotiation, also a focus of this unit. Let's begin with discussion of some of the antecedents of conflict.

2 Sources of Conflict

As you may have experienced, conflict within an organisation emerges for a number of reasons. In this section, we will examine six potential sources of conflict.²

2.0.1 Incongruent Goals

Block Six discussed organisational structure, which included departmentation and division. The establishment of such categories often results in the emergence of distinct priorities of goals and time horizons for the groupings. The importance of strong and cohesive teams has also been emphasised, and while this has had a positive impact on performance, the down side is that group or team biases emerge that provide a source of conflict. As an example, the sales department in a computer retail store will likely place sales as its top priority. This encourages the sales people within the department to offer features, upgrades, and delivery times that might not be realistic for the service department that is responsible for meeting these requirements.

2.0.2 Power and Status

Power presents a potential for conflict when individuals or groups are not mutually dependent. If I prepare financial statements for my organisation on a monthly basis, I might be dependent on another party to first complete the bank reconciliation. The person preparing the bank reconciliation does not require my assistance; as such, antagonism could develop.

With respect to status, people have come to accept that if they have a lower status in the organisation, they are typically dependent on others to whom they report. However, there are occasions where people with lower status develop control, or give orders to those with higher status. An example of this is in the restaurant industry, where wait staff (servers or waiters) typically gives food orders to higher status chefs. In addition, the wait staff returns food to the chef that is unacceptable to the customer. As a result, conflict often emerges. Often, we see wait staff putting the order for food in writing rather than speaking with the chefs directly, a practice that serves to mitigate conflict.³

2.0.3 Culture

As discussed in Block Ten, subcultures often emerge within organisations. Distinct sets of values, beliefs, and assumptions within the same organisation often foster conflict. As an example, we often see subcultures emerge in hospitals among hospital administrators, nurses and doctors.

2.0.4 Task Interdependencies

Without doubt, interdependencies among individuals, groups, teams and departments represent potential for conflict.⁴ Many of you have likely worked in groups where one

member of that group did not complete his or her expected contribution to the effort. As a result the process might have been delayed or incomplete. This is a common source of conflict, and one that groups must constantly manage.

2.0.5 Ambiguity

Typically, there are numerous rules and procedures that govern interaction between individuals, groups and departments. When these rules are unclear, it becomes difficult to determine the source of success or failure. As such, various individuals or groups might take credit or lay blame for performance or results. In addition, often evaluations and reward systems are not clearly articulated to employees. Therefore, outcomes are difficult to predict and measure. For example, an employee may believe that she has done an excellent job, and met planned objectives while, in the superior's mind, criteria for high performance were not met. This is a common source of conflict within the organisation.

2.0.6 Scarce Resources

It is management's responsibility to work toward an appropriate and sufficient allocation of resources. In perfect circumstances, there would never be a scarcity of resources. Yet the reality suggests that resource scarcity is typical in organisations, and this often leads to conflict.⁵

So we see that there are numerous factors that can give rise to conflict. Scholars and observers have also categorised types of conflict.

3 Types of Conflict

The literature on conflict identifies four primary types.⁶

3.0.1 Interpersonal

This is conflict between two or more individuals who do not share the same goals or values. One manager might argue that the organisation must hire more MBAs in order to increase performance, while another manager may insist that MBAs are too expensive and not required, given the objectives of the organisation.

3.0.2 Intergroup

This type of conflict is most often seen between functional groups, teams or departments. These groups may have diverse interests, and may not be willing to share information freely. Members of groups might clash with members of other groups as well. An example can be provided using the R&D department and manufacturing. The R&D department might have designed a product that they believe will capture a large market share if sold at a specific price point. Manufacturing may insist that the resources required to manufacture the product as designed far exceed those anticipated by members within the R&D department.

3.0.3 Intragroup

Intragroup conflict arises within groups, teams or departments. Members of the marketing department might experience conflict over the allocation of resources made available to that department. For example, some members may believe that a successful marketing campaign necessitates a larger allocation to television advertising, while other members insist that print advertising would be more effective.

3.0.4 Interorganisational

This conflict emerges among organisations. For example, an organisation that has mission to defend and protect wildlife may come into conflict with builders who argue the need to clear large areas of wilderness in order to develop properties. As one might expect, interorganisational conflict is also often seen between businesses that operate in the same markets.

3.1 Functional vs. Dysfunctional Conflict

Many of us have the perception that conflict is always bad, but certainly this need not be the case. In fact, progress among individuals, groups and departments is often dependent on functional conflict. Without conflict, we as individuals often do not make the kind of progress (at least at the pace) that we would like. Functional conflict is also called constructive conflict, and ultimately leads to a clear and progressive path of action. It can foster creativity, clarify goals and objectives, and ultimately improve team performance and hence organisational performance. What is most critical, is that you as a manager can foster an environment that is conducive to constructive conflict, where individuals welcome criticism.

Dysfunctional conflict does exist, of course. Also known as destructive conflict, it sucks energy from the group and is de-motivating. This is a work environment that is unattractive to employees, and leads to poor productivity, low morale, absenteeism, high turnover, etc. Again, it is the responsibility of a manager to recognise and eliminate destructive conflict before it becomes an irremediable situation.

4 Management of Conflict

Conflict must be managed. Individuals tend to react to conflict in various ways: you might know of people who, because of their intense aversion to conflict, tend to ignore it in the hope that it will go away! Others tend to become very assertive or aggressive, while others are very cooperative. Perhaps the same individuals behave differently across conflict situations. Kenneth Thomas argues that there is no one best way to facilitate conflict management, and various styles will be more or less effective, depending on the situation.⁷ Conflict management styles become easier to observe if you are aware of the stages of conflict.⁸ A short description of these follows.

4.0.1 Conflict Antecedents

Are simply conditions that lay the seeds for potential conflict. You might have a mandate to reduce operating costs by 10% this year, and the operations department has a mandate to increase quality by 15%. This might provide the basis for future conflict.

4.0.2 Perceived Conflict

In the example above, your operations staff may perceive that increased quality will necessitate more resources, which is incongruent with your planned direction. Perceived conflict emerges once individuals and groups discover that their mandates are somewhat contradictory.

4.0.3 Felt Conflict

Felt conflict is identified when the conflict has surfaced and people start vying for resources that might help them achieve their objectives.

4.0.4 Manifest Conflict

This exists when the conflict is out in the open. Yet people might still feel a need to somehow quash it, or pretend that it is manageable. They might even try to suppress it. (Again, the 2nd and 3rd sentences of this bullet might belong in the next stage? W.)

4.0.5 Conflict Suppression

When we suppress the conflict by ignoring it, none of the antecedents are removed or mitigated. It often leads to further future conflict. Nevertheless, this does not mean that one should not suppress conflict in some situations. For example, maybe Noni does not get along with Stephen, but in three weeks Noni is being transferred overseas. Perhaps the personality conflict does not merit extensive attention at this point, given that these two individuals will soon not be working together.

4.0.6 Aftermath

Often the management of conflict can have implications for future conflict. Manager must try (to the best of your ability) to resolve the conflict in a way that will prevent it from rearing its ugly head again.

There are a number of things that can be done that do not necessitate the alteration or expectation of personality changes. In other words, if you are a manager who must reduce a conflict between two people, you might try and find a way to do it without insisting to one person that they have an unattractive or offensive personality! What options are available to managers that might help mitigate or even eliminate conflict? The following section examines several beginning with *indirect* approaches.:

4.1 Indirect Approaches to Conflict Management

Sometimes conflicting individuals and groups reach resolution by confronting each other directly—or the opposite, engaging in withdrawal and avoidance while silently retaining their claims to resources or validation. There is a range of less direct measures that may mitigate or resolve a conflict. These are the principal indirect approaches identified in the literature.

4.1.1 Reduced Interdependencies

We know that task and workflow interdependencies are a very common source of conflict. A number of techniques can reduce these interdependencies to manage conflict:⁹

- **Decoupling** - decoupling simply means reducing the contact between the two parties. This might be accomplished through job redesign, transfers, or a redefined reporting structure.
- **Buffering** – buffering is one tactic that is available when the inputs of one group or department are the outputs of another. Should one group become uncooperative or become unavailable to do the work, then building an inventory is a type of buffering will help to reduce the risk of a shortfall. This is not a very popular choice because of the cost of inventory storage.
- **Linking pins** – a linking pin is a person who acts as a liaison between parties in an effort to help create and sustain mutual objectives, a mutual benefit or vision.¹⁰ This person is responsible for keeping informed about departmental objectives, obstacles, members' needs, etc.

4.1.2 Appeals to Common Goals

This is really about trying to champion both sides (or in some cases many sides) around a common vision. And again, this is the job of a linking pin in many cases, but can also be done with the help of external consultants. What can all parties can focus on that will mobilise the energy in a similar or common direction?

4.1.3 Hierarchical Referral

This is simply the act of referring the conflict to someone higher in the hierarchy. Sometimes this does indeed resolve the conflict permanently, but it can also fuel future 'fires.' For example, if a conflict is referred to a VP level and the VP finds in favour of one party, that party may be more aggressive in the next conflict, making the assumption that the VP will rule in his/her favour again. What's worse is that sometimes the conflict management gets moved so high up the hierarchy that the person at the top does not know enough about the antecedents or causes of the conflict to make an informed decision.

4.1.4 Altering Scripts and Myths

Recall from our discussion on organisational culture that scripts and myths represent observable artefacts of culture. Sometimes, for example, managers try to manage conflict

through standard meetings. This scenario might seem familiar if you participate with a number of other managers in a monthly meeting to discuss various challenges and issues across your departments. Yet, in reality this approach rarely, if ever, seems to reduce serious conflict. As a result, this type of ritual ceases to be taken seriously by participants.

4.2 Direct Conflict Management

There is a number of direct approaches to mitigating or eliminating conflict. Described below are five such styles.

4.2.1 Avoiding

This is a popular tactic used by people who do not want to cooperate and do not assert their own preferences when conflict emerges. While generally not very effective in resolving conflict, in the short term it might allow people to regroup or re-examine the issues.

4.2.2 Accommodating

If we accommodate in a conflict situation, we are, like avoidance above, not asserting our own position. However, this approach is distinct because we are cooperating with the other party. You might sacrifice your own goals in an effort to cooperate. Under some circumstances, this might, in the end, cause you to resent the other party.

4.2.3 Competing

A person reliant on a competing management style is not interested in cooperating with the other party. Personal interests are given priority and full attention. This type of behaviour sometimes includes blaming others in an effort to look good, and achieving your own goals by sacrificing goals of others. This is often used under emergency situations, where time is critical, or where unpopular actions must be implemented.

4.2.4 Compromise

When parties compromise, you are both willing to giving up something in order to resolve the conflict. You do not necessarily feel like a 'winner' or 'loser,' and the outcome does not indicate one or the other. An example of this is when an employee requests a 5% salary increase, but ultimately accepts 3%.

4.2.5 Collaborating

Collaborating behaviour is a demonstration by both parties of good faith, interest, and determination to find a win-win solution. The parties attempt to clarify their differences and examine potential solutions that are mutually beneficial. Often the issues for both sides are recognised as very important, and the objective of negotiating a solution is to form consensus and sustain the relationship.

Exercise

What Is Your Primary Conflict-Handling Intention?

Indicate how often you rely on each of the following tactics by marking the number that you feel is most appropriate. The number 1 indicates rarely, and the number 5 indicates always.

1	I argue my case with my co-workers to show the merits of my position.	1	2	3	4	5
2	I negotiate with my co-workers so that a compromise can be reached	1	2	3	4	5
3	I try to satisfy the expectations of my co-workers	1	2	3	4	5
4	I try to investigate an issue with my co-workers to find a solution acceptable to us.	1	2	3	4	5
5	I am firm in pursuing my side of the issue.	1	2	3	4	5
6	I attempt to avoid being put on the spot and try to keep my conflict with my co-workers to myself	1	2	3	4	5
7	I hold on to my solution to a problem.	1	2	3	4	5
8	I use give-and-take so that a compromise can be made.	1	2	3	4	5
9	I exchange accurate information with my co-workers to solve a problem together.	1	2	3	4	5
10	I avoid open discussion of my differences with my co-workers.	1	2	3	4	5
11	I accommodate the wishes of my co-workers.	1	2	3	4	5
12	I try to bring all our concerns out in the open so that the issues can be resolved in the best possible way.	1	2	3	4	5
13	I propose a middle ground for breaking deadlocks.	1	2	3	4	5
14	I go along with the suggestions of my co-workers	1	2	3	4	5
15	I try to keep my disagreements with my co-workers to myself in order to avoid hard feelings.	1	2	3	4	5

Source: An abbreviated version of a 35-item instrument from M.A. Rahim, "A Measure of Styles of Handling Interpersonal Conflict", Academy of Management Journal, June, 1983, pp.368-376; used in S. Robbins and N. Langton, Organizational Behavior, (2000), Toronto, Canada: Prentice Hall.

For scoring directions and key, refer to the end of this unit.

5 Negotiation

Negotiation is a technique often employed to manage conflict. In fact, negotiation is something that we do every day of our lives. We negotiate with our peers, our parents, our children, our superiors, the car dealer, our subordinates – the list is long and negotiation never goes away. If you are recognised as someone who can negotiate

successfully, you are remembered as a person who can make a real difference in emotionally charged situations, or situations where the outcome is going to be very important to your organisation. And negotiation, like presentations, is something that you get better at over time, with experience.

Simply stated, negotiation is an attempt to resolve potential or existing conflict, by creating a decision among interdependent parties who do not share identical preferences.¹¹ In reality, it does not always turn out that way, however, in most negotiations, one's aim is to create a win-win outcome for the parties involved. There are two primary negotiation tactics that we will examine: Distributive negotiation and Integrative negotiation.

5.1 Distributive Negotiation

Distributive negotiation is also referred to as 'position' negotiation in that each party has taken a position, and believes that they have to claim specific components of a 'fixed pie' of resources.¹² Also known as a zero-sum game, the assumption in this type of negotiation is that whatever gain I make is your loss. Often parties are not concerned with creating or sustaining an amicable relationship; rather they are most concerned with getting as much as they can from the other side. This is most common in union-management negotiations where wages are often the issue, and the union is trying to get as much as possible in terms of a wage increase from management. Any amount of financial gain made by the union is an increased cost to management.

There is typically a bargaining zone that is defined as a range between one party's minimum reservation point and the other party's maximum reservation point.¹³ The union may want a 5% wage increase, however has determined that it can settle for 3% as a minimum increase. Management might have determined that it has a preference for a 2% wage increase but will go as high as a 3.5% increase. In this case, the bargaining zone is between 3% and 3.5%.

5.2 Integrative Negotiation

With integrative negotiation, the parties do not assume a zero-sum game; rather they focus their attention and energy on how to best utilise the resources, with a view to working toward a win-win solution. Unlike distributive bargaining, integrative bargaining is characterised by trust, information sharing, and the willingness and desire to work toward a solution that is satisfactory for all parties.¹⁴ Fisher and Ury, in their book 'Getting to Yes,' argue that there are a number of strategies that parties can focus one in order to facilitate success in integrative negotiation.¹⁵

5.2.1 Separate the People from the Problem

You may have heard this expression before. It becomes critical in a negotiation that the parties try to focus on the substantive issues at hand rather than the failings or weaknesses of the other party. If the parties are not able to focus on the issues, the potential for further conflict increases. It is critical that each party try to consider the

feelings and needs of the other parties, and that they attempt to build a foundation during the negotiation that can be used to build and maintain a relationship. Remember that more often than not, we negotiate potential outcomes with parties we must work with on an ongoing basis. Therefore, maintaining the relationship is usually critical.

5.2.2 Focus on Interests, not Positions

If we were to focus on positions, which is the position we have decided on, it is likely that we will ignore the more important factor: the interests of the parties. Interests are desires and concerns; they are not *what* the parties want, but *why* they want a specific outcome. Imagine that a number of parents have been invited to a meeting in a non-profit organisation that advocates on behalf of a specific disability. The purpose of the meeting is to determine how best to spend economic resources which have become available for their disabled children. Many of the parents will attempt to argue or negotiate based on their positions, i.e. what they want for their child (and this will be based on many things, such as the severity of the disability, the age of the child, the existing resources available for that child, etc.). But it is argued that the most effective resolution will emerge if the parents focus on their interests, which refer to improving the quality of their children's lives. The 'bigger picture' focus is likely to foster more ideas, and keep emotions at bay.

5.2.3 Invent Options for Mutual Gain

Often parties in a negotiation assume that the 'pie' is fixed, and that it must be divided in such a way that the parties get some portion of that. However, if negotiators are creative, they might invent more options that enhance the number of possible outcomes. Ury and Fisher provide a useful example: children might quarrel over an orange. After they agree to divide the orange in half, the first child takes one half and eats the fruit after throwing away the peel. The second child throws away the fruit and uses the peel for baking a cake! The best possible scenario here was for one child to have *all* of the fruit, and the other to have all of the peel. Often negotiating parties fail to brainstorm together or think about new, creative ways to increase options for potential solutions.

5.2.4 Insist on Using Objective Criteria

Despite the potential benefits of the strategies discussed above, one cannot ignore the fact that interests do conflict --- you want a 10% salary increase and your boss is willing to give you a 5% increase. Therefore, it is important that you rely on objective criteria to reach a solution based on principle rather than will or egos. For example, if you want to negotiate a 10% salary increase, you must build an argument based on the fact that you have met and/or exceeded performance measures. Perhaps your job description has changed in a way that merits an increase; maybe you have done some research on pay for similar positions in other organisations; or there might be someone else within your organisation that has a very similar job for comparison purposes. It is easier to strengthen your case when you can emphasise how the matter should be dealt with based on objective data, rather than on positions of the parties.

Integrative negotiating is a negotiation strategy designed to establish a process for managing differences. This strategy encourages each party to focus on the substantive

issues objectively, and to search for mutual gains that emerge from identifying and relying on fair standards. This will hopefully result in a positive outcome for all parties, where they feel they have succeeded in resolving substantive issues as well as maintaining important relationships.

6 Case Study 12.1

In The Shadow of the City (Optional Submission)

Please read case study 12.1 the 'In The Shadow of the City' in Block 13 of your study material and analyse this case using the written case format provided in the introduction unit. Your paper should be no longer than 8 pages.

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Scoring for 'What is Your Primary Conflict-Handling Intention?'

To determine your primary conflict-handling intention, place the number 1 through 5 that represents your score for each statement next to the number for that statement. Then total up the columns.

Competing	Collaborating	Avoiding	Accommodating	Compromising
1.	4.	6.	3.	2.
5.	9.	10.	11.	8.
7.	12.	15.	14.	13.
Total	Total	Total	Total	Total

Commonwealth of Learning Executive MBA/MPA

C2 Management and Organisations

ADDENDUMS

A1 Functions of Management

and

A2 New Public Management

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ADDENDUM 1 FOR C2 MANAGEMENT AND ORGANISATIONS FUNCTIONS OF MANAGEMENT

A1.1 Objectives

After going through this unit you should be able to:

- Discuss the relevance of planning as a management function
- Describe the different approaches to planning
- Understand the steps in the planning process
- Develop effective plans
- Explain the importance and process of organising
- Identifying the factors influencing design of formal organisations
- Understand the principles involved in designing effective organisations
- Appreciate the significance of control as a management function
- Explain the process of controlling
- Design and manage effective control systems

A1.2 Introduction

You have already, as part of this course, been exposed to the managerial functions of decision-making, communication, leadership and managing change in organisations. In this unit we will focus on the critical functions of planning, organising and control, which characterise all forms of organised activity. Planning and control are natural complements of each other, as planning is the process of identifying where you want to go and deciding upon a course of action to get there, while controlling is the process of ensuring that your plans are indeed on course and taking corrective action wherever needed. Organising, on the other hand, is the function of ensuring systematic usage of all resources within the management system by relating all resources and functions through working and effective relationships.

The function of organising assumes critical importance as organisation, the outcome of the organising activity, is the mechanism through which plans must be activated and

implemented. In this unit we will go through the processes used for developing plans, organising and controlling, and identify the mechanisms used for developing effective plans, useful control systems and efficient organisations.

Together with coordination and commanding, these functions form what was introduced by Henry Fayol as the traditional framework for functions as managers. Each of these functions is explained as given below:

Planning

Is the determination in advance of what should be accomplished and how should it be accomplished. Planning thus would require that managers must set up goals and objectives and select courses of action that would enable the accomplishment of these goals.

Organising

Consists of determining relationships between organisational resources, including people; and arranging activities and resources in logical groupings to enable the accomplishment of goals.

Commanding

Refers to influencing the behaviour and actions of other organisational members to work effectively towards attainment of organisational goals.

Coordinating

Consists of taking systematic action taken to harmonise the functions and activities of various units of the organisations into unified organisational effort, so that the goals of the organisation can be achieved. Coordination is essential to ensure that all the independent units in the organisation work in a manner that contributes effectively to the organisation.

Controlling

Consists in comparing actual performance with established standards or planned action, identifying variations and taking corrective action.

As you are aware from your exposure to your course material, significant work on management thought, theories and principles has been carried out subsequent to Fayol's framework of management functions.

Let us begin by trying to understand the planning function.

A1.3 Planning as a Management Function

One of the core functions of management, planning, has been defined as the process of identifying the goals of any given activity or system, including organisations, and designing the best course of action to achieve those goals. In the context of formal organisations, the process of planning would thus include identifying organisational objectives and deciding upon how to achieve these, in the context of the organisation's capabilities and resources.

Certo and Appenbaum define planning as "Planning is the systemic development of action programs aimed at reaching agreed business objectives by the process of analysing, evaluating and selecting, among the opportunities which are foreseen by the organisation."

Planning characterises all organised activity. The present day manager faces the challenge of developing and implementing dependable plans in the face of a very dynamic business environment, where the rate of change has accelerated and uncertainties abound. You would have often faced the situation in your own organisation where your marketing plan or financial resource mobilisation plans may have been modified on account of change in the external business environment. Planning is the initiation of any managerial activity, the identification of organisational, departmental and functional objectives and the determination of courses of action for these objectives set into motion the managerial efforts of organising, decision making, implementation and control.

While the fundamental purpose of planning is to enable organisations to select and accomplish their objectives, it has been suggested that organisational planning has both protective and affirmative purposes. Planning fulfils the protective purpose by seeking to reduce the uncertainty surrounding business conditions, by identifying a course of action from among the several alternative courses, through a process of careful analysis and evaluation. The affirmative function is fulfilled by aiming to increase the degree of organisational success through the selection of the best course of action and committing the organisation resources to the same. Planning also enables effective coordination of the organised activity.

A1.4 The Planning Process

The planning process, whatever the level of the plan, has the following sequential steps:

Define organisational objectives

In order to direct action, organisations, whether private or public, commercial or non-profit, must have a clear, unambiguous idea about what to achieve as outcomes of their organised activity. Objectives should be specifically, clearly defined in terms of desired results and outcomes. Clarity, while setting objectives, is also needed to have an

unbiased idea about the organisation's strengths and weaknesses, and about what the organisation is and where would it like to go.

Identify alternative ways of reaching the objectives

Once the objectives have been identified, organisational resources of analytical thinking, creativity and available information should be used by the manager to identify alternative courses of action through which the set goals can be achieved. You may like to list all possible alternatives that seem to have the potential of enabling you to achieve the goals identified by you.

Develop premises for future scenario

The alternatives identified by you have to be evaluated on the basis of the premises on which the alternative is based. Let us assume that one of the objectives that you have kept for yourself is increasing your market share by 2%. The two alternatives that you have identified are – you could increase market share by entering new markets or by introducing new products. The first alternative is based on the premise that you as a company have sufficient unexplored markets where a significant number of potential consumers would be willing to buy your existing products, and where your competition may not already have an established presence. The second alternative is based on the premise that the new product developed by you will generate a sizeable market interest and create new consumers for you. A manager must generate premises for all identified alternatives and develop scenarios for future state of affairs if a given alternative is followed.

Analyse action alternatives and select the best alternative for reaching objective

The premises for each alternative action identified by you must be clearly analysed in terms of factors that will hamper or hinder a given action, and the variables that may help it. You may, on analysis, find some of the premises unavailable, and therefore eliminate the alternative that is based on such premises. The process of elimination, as well as that of evaluation of the pros and cons of each alternative has been more fully explained in the section on decision-making. This process of analysis will enable you to identify the most suitable course of action to achieve the objectives of the organisation. In pursuance of these courses of action, you would need to develop strategic (long term) and tactical (short term) plans.

Implement the plan

Putting the plan into action requires identification of specific responsibilities for results, and provides direction to the operating units of the organisation in terms of what is expected of them.

It is, however, important to understand that planning is not an exercise performed by managers and/or consultants in isolation, and at specific points in time. Planning is an ongoing activity of forever identifying directions of growth, analysing opportunity and seeking to evaluate where the organisation should be headed to, combining not only systematic analysis but also intuition and judgement. More often than not planning is also a participative exercise, involving people in almost all the steps described above.

Activity 1

1. Look at the planning process involved to develop annual plans in your organisation. Outline the steps that were used in the planning process.
 2. Do you think on the basis of your experience, you would like to add something to the description given above? Discuss with fellow student what you would like to contribute.
 3. Obtain information on the National Planning Process. How does this process differ from the operational level planning that you addressed in Activity 1A? Try to explain the premises on which the plan is based.
-

A1.5 Advantages of Planning

The modern organisation exists in times where change is the only constant. A number of variables in the environment are constantly undergoing change. These include consumer tastes and preferences, competitive practices and economic cycles while there are other variables which define the framework within which the organisation has to function. These would include the government policy, laws of the land and trade practices. Internally, the organisation has the challenge of managing its resources most optimally and meeting the aspirations of its human resources. Planning, by taking stock of these forces to develop premises and selecting the appropriate course of action results in several benefits to the organisation.

Planning leads to better coordination

Plans, based on organisational objectives lead to a hierarchy of objectives at divisional, departmental, functional and ultimately at activity level, thereby weaving the different subsystems of the organisation into coordinated action. This hierarchy of objectives with each higher-level objective, being supported by one or more lower level objectives creates an effective mechanism of inputs and outcomes as an integrated network.

Planning facilitates control

Control, as mentioned earlier, is the process of measuring performance results against goals and taking corrective action in case there are deviations. Planning makes this process possible by defining the outcomes that are expected to be achieved and also laying down the actions that are required to be taken, within a timeframe. If the state

literacy policy suggests a plan to improve adult literacy by 10% at the end of a three year period through mobilisation of unutilised buildings of primary school in late afternoons or evenings, for this purpose, and commits an outlay of resources for achievement of these goals, the control process would be facilitated by the clarity with which annual outcomes and outlay have been defined. You must, however, appreciate that planning and control go hand in hand and corrective action in the control activity may sometimes involve modifying the plan when it becomes apparent that one or more of the premises on which the plan was based have not turned out the way they were expected to.

Planning provides focus and flexibility

An organisation while setting its objectives, deliberately chooses a certain direction in which all its energies will be directed for a defined period of time, which is the plan period. Planning, thus provides focus by identifying the goal and the course of action to which organisational resources would be committed. Planning also requires managers to constantly be proactive and foresee change rather than be overtaken by it. It thus allows an organisation to choose its options and retain flexibility in the face of change.

Planning ensures time management

As you would have realised in your work life, a plan is a commitment of resources in pursuit of a certain goal for a period of time. Planning requires that expected outcomes should be accomplished in given periods of time if the overall objectives are to be achieved in the plan period. By setting the time lines for all levels of outcomes, planning ensures time management.

A1.6 Diversity of Planning

From your own experience, you would recognize that at any given point in time a manager deals with a whole diversity of plans, which could be differentiated, on the basis of level, time span and their scope. To briefly summarise:

Strategic Plans

Strategic plans relate to the long-term needs of the organisation and suggest comprehensive direction for future action. Essentially a top management responsibility, strategic planning involves determination of objectives for the overall organisation and the deliberate choice of direction that the organisation must take. Moving from a functional organisation structure to a project team based structure to achieve operational efficiency and flexibility is a strategic choice that an organisation may make, and the course of action used to achieve this will have organisational long-term implications.

Operational Plans

Operational plans, on the other hand define what operations in specific domains of organisational activity need to be carried out in order to achieve the objectives set out in the strategic plan. The strategic plan thus gives rise to a hierarchy of operational level plans, for example, financial plans, marketing plans, human resource plans and production plans, which must be undertaken so that the overall strategic direction can be achieved.

Long Range and Short Range Plans

Plans are also defined as long term or short term depending upon the time horizon they cover. Anything covering one year or less is generally termed as a short-term plan while intermediate plans could have a range of one to two years. Anything from five years or more is deemed to be a long-term plan. The longer the time period involved, the smaller is the capacity of people to accurately predict how the plan premises would behave in future. It is therefore a common practice to revise, periodically, very long-range plans.

Policies and Procedures

Policies and procedures represent standing plans that are used to guide action in recurring situations. The compensation plan, recruitment and layoff policy, employee discipline are all examples of policies that guide managerial action in situations that constantly recur. Increasingly, managers find it very useful to have standing policies on issues that may have implications for managing people and other resources. Gender discrimination is an issue that most organisations find easier to deal with if a general policy is in place; rather than handling it on a case-by-case basis. While policies are general guidelines enabling interpretation and action, procedures are more precise, prescription guidelines, often leaving no scope for individual discretion. Organisations, both public and private, have fairly well defined disciplinary procedures, procurement procedures, tendering and grievance handling procedures, etc. In order to be effective both policies and procedures need to be effectively communicated to and understood by people whom they affect.

Budgets

Budgets represent financial plans, which commit financial and other resources to functions, activities, programs and projects. As managerial activities often are concerned with allocating scarce resources among alternative and usually equally compelling choices, budgets become useful tools of both planning and control, by helping the identification and communication of priorities and facilitation of performance.

Schedules

Schedules are operational plans that define a set of activities required to be performed according to time targets in order to achieve specific objectives. A production schedule to meet a delivery date or annual production targets, a delivery schedule to meet distribution objectives, a supply schedule to ensure zero stockout conditions at Christmas

are examples of operational schedules. You have in your course C4 on Operations Management have studied many scheduling tools like the Gantt chart and CPM and PERT as scheduling techniques.

Contingency Plans

Planning by nature defines a future course of action. The more uncertain the environment, the lower is the predictability of the future. As the environment and the uncontrollable variables in it change, some of the basic premises of the plan may become invalid. Managers thus decide upon contingency plans which are alternative action plans to be used if the original plan fails.

A1.7 Developing Effective Plans

The effectiveness of the planning subsystems depends significantly on the information bases that have been used to develop planning premises as well as the organisational support throughout the implementation of the plan. As the size and the operational diversity of an organisation increases, the planning function becomes more complex, requiring information across continents, requiring more people and resulting in more complex decision making. Consider the case of a global company like *Proctor and Gamble*, who for developing strategic long term plans would require information from worldwide operations, across their various markets and business environments to help them develop plans. Managers must therefore follow certain safeguards to ensure that plans retain their effectiveness, in the face of the complexities and uncertainties of present day business environment. The foundations that support effective plans include the following:

Effective Forecasting

Forecasting, the process of making rational assumptions about the future, supplies the basis on which planning premises are developed. Business publications like *Fortune* and *Business Week* regularly publish forecasts of economic indicators like GDP growth rate, interest rates, trade deficits, etc., which can be used by managers as likely scenarios for their plan periods in question. These forecasts could be based on qualitative, focus group or expert opinion outcomes or could be the result of statistically analysed trend projections, experimental or survey data. Forecasters often apply advanced econometric tools and probability analysis to predict long-term consumption or demand data.

Managers, while using these forecasts, must be careful as the reliability of the forecasts is a function of the accuracy and validity of the underlying research methodology used to develop the forecasts. Managers, on the basis of their experience and judgement, exercise choice in using the source of data or the forecasting agencies they would like to use. A good forecast enables the manager to have a vision of the future, and the conditions under which the plan would need to be implemented. Managers use several time scales and likely scenarios over varying time spans, which are regularly revised as the plan period rolls on.

Use of Alternative Scenarios or Contingency Planning

A feature of long-term planning, development of alternative likely scenarios enables managers to retain operational flexibility in a dynamic business environment. Should a certain set of premises not materialise, the contingency plan makes it possible for the organisation to operationalise resources on an alternative course, without loss of time and without a need to resort to ad hoc efforts; which may lead to suboptimisation.

It must be pointed out that the higher the degree of uncertainty in the planning environment, greater would be need to revisit plan performance to assess whether the plans are on course and whether the underlying premises still remain valid. This is imperative in the present day business environment with high rates of change, creating high levels of uncertainty for planners.

Support of the Top Management

Top management support to the planning effort, the objectives identified and the course of action chosen, throughout the plan period is crucial to the success of a plan. The support of the top management to the planning exercise and the plans that result from the exercise, ensures resources needed for implementation and sets into motion the task of preparing people for changes that usually result from the plan. It also reflects the seriousness under which the rest of the organisation is expected to take the plan. At the outset, through a process of either their involvement in the planning exercise or a system of approvals and sanctions, plans must demonstrate top management support.

A Well Designed Planning Organisation

You must have, in our own experience with planning, recognized the continuous effort that goes into the planning exercise. A clearly identified organisational responsibility for planning at different levels is a prerequisite for the continuity of the planning effort. Some large organisations prefer to have a separate, formal planning division, with responsibility for involving the relevant people from other functions for the planning exercise. Large complex systems like national and provincial governments also have found it necessary to entrust the responsibility of planning to separately designated departments or commissions. In other organisations, planning is part of the responsibility of managers who in addition to their functional or staff responsibility, participate in the planning exercise. Specific accountability for various levels of plans is, however, specifically defined.

Participation and Involvement of the Right People

Planning needs to be a participative process as it should include in the planning process all those who would have the responsibility of implementing them. Participation of the functional level managers who are closer to operational activity and may be the chief implementers of the plan helps the plan to be more realistic and acceptable and also enriches the information available for planning. Participation of a large number of

people in the planning exercise, directly or indirectly, affects seriously the level of commitment the affected people feel towards the plan.

Focus on Implementation

In Peter Drucker's opinion, a plan is effective only if its implementation helps in attainment of organisational goals. All plans should be oriented at effective implementation. Barriers to effective implementation should be recognised as the plan is being finalised and should be an important consideration for final approval of the plan. Very detailed and seemingly good plans have failed to contribute towards success, as the implementation was either faulty or the plans were poorly executed. Plans based on disposable income data, by automobile companies like *Hyundai* and *Ford* to produce their luxury cars in South Asia had to be revised as the sales targets in these segments did not materialise on account of the small percentage of consumers willing to make the huge outlay needed for such cars in spite of having disposable incomes to afford the price of the car. In their perception the continued cost of running these expensive cars was unacceptable. The production plans that had not seen such barriers to purchase clearly, had to be modified. The mid size car segment on the other hand showed far more promise than the luxury car segment.

Activity 2

Critically evaluate the effectiveness of at least three planning exercises in your organisation. Prepare a report on:

1. How successful these plans were in achievement of their stated objectives?
2. What was the planning organisation used to evolve the plan?
3. What was the contribution of the implemented plan towards organisational objectives?
4. What were the gaps, if any, in the effectiveness of the plan? How, with your understanding of the planning function, would you rectify these gaps?

Planning is a core function that all managers perform. Planning, as indicated earlier in this unit, works in sync with the management functions of coordination, organising and controlling. Having understood the planning function, we will now discuss organising as the other key function of management. You would recall that a discussion of the various types of organisational structures has earlier been made in the course material, the discussion here would thus not duplicate that input.

A1.8 Organising

Organising as a management function is the process of establishing working relationships between all resources of the organisation that would lead to their optimal contribution towards the goals of the organisation. The basic aim of organising is determining what the individuals will do in an organisation, how will they relate to each other and how the output of their effort would be best combined to contribute to the organisational goals. Each organisation resource is a potential input from which the organisation should get a return and an appropriate organisation of all resources should result in the overall efficiency and effectiveness of their contribution.

A useful way of understanding the organising function is to look at the basic rationale for which the organisations are formed. A transport company is formed to fulfil the consumer need for movement of people and goods. In order that people and goods can be transported, several activities in a certain sequence have to be performed and scheduled. In order that the output of the company satisfies the people whom it chooses to serve, decisions must be taken who will do what, when and how, and who will be held accountable when acts to be performed have not been performed. The managerial function of laying down all these systems is referred to as organising.

A1.9 The Organising Process

In its most simple form, organising seems to be based on the building blocks of activities or operations or functions that must be performed if the organisation is to fulfil its objectives. All formal and informal group activity is characterized by organising, with the process consisting of the following basic steps:

1. Identify the functions/operations/activities that must be performed.
2. Clearly assign responsibilities of carrying out these functions, either to internal or external agencies.
3. Divide the whole work pile into logical segments called jobs. A job typically consists of a collection of one or more related operations, such that it is possible to identify the human skills to conduct that job, and to train and recruit people specific to the job.
4. Define authority and responsibilities associated with each job.
5. Create working relationships defining how each job will relate to other jobs identified – the relationships would include the chain of command that would arrange jobs in a hierarchy of relationships, and the communication and coordination systems through which the various departments are expected to interact in carrying out specific functions.

6. Lay down a system of reporting, communication and coordination between internal and external agencies such that organisational goals are effectively achieved.

As organisations grow from small sizes and simple operations to large size and complex operations, sometimes across geographical territories, the diversity of operations along with the diversity of people within the organisation, brings in concepts of specialization, project based teams and temporary, time bound interdisciplinary structures like the task force. Governments, seeking inputs from a variety of departments for developmental goals often resort to interdepartmental task forces. No matter what is the type of organisation and whatever its size, the essential elements of all organisations comprise the following:

1. A well identified and accepted source of executive authority, capable of taking charge and ensuring the participation of the rest of the members in a willing team effort.
2. The availability of a sizeable managerial manpower (proportional to the size of the organisation) desirous of achieving and promoting the objectives outlined for the organisation.
3. Clear, unambiguous identification of the operations to be performed and the sourcing of requisite skills required to perform these.
4. A structure allocating specific tasks to specific individuals and defining the authority commensurate with each level of performance. Clear, unambiguous identification of the operations to be performed and the sourcing of requisite skills required to perform these.
5. Clear definition of reporting, accountability and communication relationships between all levels of operations.

Activity 3

From your work with different organisations, you would be aware of the great diversity under which organisations create the structure of their functions, and relate their operations to each other. Describe any two such structures and state why, in your opinion, different approaches to organising have been undertaken.

A1.10 Elements of Organising

The classical organisation theory suggests that all organisations, in one form or the other, use some basic considerations in their organising efforts. These considerations or elements include structure, division of labour, span of control and scalar relationships.

Structure

All organisations in terms of relationships between people and activities to be performed need to choose a structure suitable to their own requirements. Structure is the formalised, defined relationship connecting all the organisational resources into a working productive system.

Organisational structure is usually explained by means of organisational charts clearly depicting the hierarchy between positions, reporting relationships and communications flows. Basically two types of structures exist within all organised systems, the formal structure is the structure that is formally defined by the management as the framework through which the organised activity would be accomplished. The informal structure is, on the other hand, reflective of the relationships that develop on account of informal activities of people in the organisation, and is strongly affected by the personal nature, values, attitudes and social interactivity of people.

Organisation structures can display a great diversity and can be organised based on functions, products or product groups, customer groups, geographical location or manufacturing processes. You have already studied the various types of organisation structures as part of this course.

Division of Labour

Fundamental to the activity of organising is the understanding that all individuals in the organisation need to be assigned tasks or portions of a task, that are commensurate with their skills and capabilities; and that efficiency can be maximised where several individuals perform portions of a given task rather than when one individual is expected to perform the entire operation. The commonest example to illustrate division of labour is the assembly line production in an automobile factory or at a construction site. At the latter, different people performing the tasks of masonry, carpentry, plumbing, electrical fittings and so on work in a specific sequence so that the total activity of building is more efficiently performed. Discussion of labour lays the foundation of specialisation and allows people to attain very high levels of proficiency in their own particular field of activity. The benefit of all such related specialisation can be enjoyed by the organisation if the assignment of work matches the specialised skills of people in the organisation.

Span of Control

For establishing organisation structures, managers are often faced with the decision of how many individuals should a manager supervise or control. The number of individuals

reporting to a manager constitutes the span of control for that manager. The span of control significantly affects how managers perform their responsibilities and also has implications for the functioning of the individuals within that span.

The determination of an optimum span of control has been a subject of intense management discussion. Depending upon the uniformity of function, the proximity, the complexity of the task to be performed, the competence of the supervisor and the subordinates, the span of control for a given set of variables may vary from twenty-five to thirty in the case of a production floor to as few as four to eight in the case of a project control manager. The span of control can be large when subordinates have similar functions, perform simple tasks requiring little coordination or when they are in close proximity while performing the assigned tasks. Conversely, when the tasks to be performed are complex, subordinates perform varying functions requiring high levels of coordination, or where they are in distant locations, and when the manager is required to allocate significant time in planning and control, span of control should be small to enable the work teams to contribute effectively.

Scalar Relationship

Based on the principle of unity of command, the scalar relationships reflect the premise that authority in the organisation follows a scalar chain with the people at the top, starting with the chief executive, having the highest authority. This authority is successively scaled down according to the relative position of people on the organisation chart such that the people at the lowest level in the chart would have the lowest level of authority.

The principle of unity of command suggests that for organisational efficiency, each individual should have only one authority that commands him. Originally introduced nearly eight decades ago, the principle is still in application and is often the subject of management discussion in the era of contemporary structures which are flexible, more flat than tall and where multiple specialisations may relate people in a variety of staff, line and staff specialist positions. Unity of command, however, is still regarded as critical to unambiguous, clear direction to the employees.

A1.11 Factors Affecting Design of Formal Organisations

Organisations today display great diversity of design and flexibility. The emergence of the knowledge economy, the dynamics of the business environment, the imperatives of globalisation and the overriding impact of technology are some of the important environmental influences which affect organisational design, because all these factors require the organisation to be proactive and remain highly attuned to changes in the environment that could affect their competitiveness. Among these factors, development in technology has been the single most important influence of organisational design. Phenomenal capacity of data compression and interchange, faster communication, knowledge and information management have compressed organisation sizes, made

transnational operations far easier to manage, and created possibilities of networking and widespread outsourcing. In addition, advances in production technologies, electronic commerce and online trading, and transportation mechanisms have forever changed how production operations are organised and retail operations conducted.

In addition, there are factors specific to and internal to the organisation which would determine the design of the organisation. The first among these is the nature of the task. Organisations vary in structure depending upon the nature of the task to be performed. A software development firm, highly dependent on the creativity and competence of individual software engineers would need to have a more flat and flexible structure built around developmental projects as compared to a pharmaceuticals drug manufacturing company where on account of the diversity of operations, a far more complex and departmentalised structure would be more appropriate.

Degree of technology used within organisational operations or type of people skills utilised in a given task also affects the organisational design. The management culture within a given organisation also has a profound impact on how organisations would be designed. The top management's views and values regarding sharing authority and accountability, sharing information, maintaining hierarchy, as well as delegation of authority profoundly affects the way organisations will be structured as all these variables determine the way organisational problems and relationships are perceived by the top management.

The networked organisation is a typical product of desire for growth and possibilities of collaborative structures becoming real on account of development in technology.

Advanced computing and communication technologies have made it possible for organisations today to have a virtual presence in multiple location, create networked structures with extra-corporate entities across distances and organisations with different core activities to come together to form a composite entity. These organisations demonstrate the flexible flat synergistic relationships that allow different corporate units specializing in a particular function to develop mutually beneficial networks to survive a particular market or exploit a strategic advantage. Examples of such modern structures abound in broadcasting and publishing businesses, global financial companies and the massive retail operations worldwide, built through networks of franchisees.

As discussed earlier under span of control, the skill levels, competence and numbers of various employees required to perform various activities would also affect organisation design.

Activity 4

Critically appraise your own business environment to assess in how many ways technology has affected the organisation design and structure. Prepare a note based on your observation and discuss it with your peers in the next counselling session.

A1.12 Controlling

One of the most challenging functions of management in today's highly dynamic business environment is the function of control. The sheer diversity and complexity of activities undertaken by the modern organisation, especially if they are large and geographically spread, has provided a critical importance to the function of control, as the task of keeping the ship of corporate activity on course through turbulent waters.

Simply defined, control consists in ensuring that things happen as they were planned to happen. In case there are variations from the planned action, the control activity undertakes corrective action to bring the action back on course or to suitably alter the path if the parameters have so changed that the planned action has become nonviable or non effective.

To be effective control has to be a continuing activity. Efficient managers consciously plan for a control mechanism while developing their plans, through a system of checkpoints and performance measures to check plan output at defined points of time. Control then becomes a function of comparing actual activity with planned targets at every control point.

Observed deviations from planned activity, detected through the control process indicate required analysis. Managers must analyse the cause of variation to understand whether the basic planning premises were erroneous, the forecasting applied was faulty or there were gaps in implementation. Such analysis is invaluable in taking corrective action as well as in improving future planning. Sometimes, however, your analysis may reveal that the variations are on account of changes in external environment that have rendered your planning premises invalid. Sudden changes in economic variables, changes in consumer preferences and the competitive scenario, changes in legal and political environment sometimes affect planning parameters in a way that they no longer are valid under the changed circumstances. Corrective action, through control then has to be exercised in either putting contingency plans into action or altering the plan to be reflective of the changed environment.

A1.13 The Control Process

Following from its definition, the control process consists of three essential steps of measuring performance, comparing performance to stated standards and taking remedial or corrective action.

Measuring Performance

Organisational goals, as earlier discussed in the section on planning, give rise to a hierarchy of goals at divisional, departmental and functional levels down to the level of activities. These goals define the outcomes at each level of planned activity against which performance can be measured. Efficient planning systems create built-in performance indicators at various levels of organisational activity against which plan performance can be assessed and measured. The first step in the control exercise is to measure performance against planned targets or goals for all levels of activity within the organisation. This measurement would enable the management to understand the extent to which actual performance matches fails to match or exceeds planned targets.

Comparing Performance Against Planned Standards

Managers may use organisational goals or outputs as standards or may develop a set of standards of desired performance levels, which if attained would lead to accomplishment of overall objectives. A variety of standards can be created around productivity, market share, growth in market share, human development, employee work attitudes, organisational climate, employer turnover, profitability, etc., reflecting the levels of performance that is considered desirable. Comparison of actual performance to such standards and the detection of variations, if any, would lead to the next step of taking corrective action.

Taking Correction Action

Corrective action in the control process is the step to undertake action that would put the actual performance up to the level of the standard or that of the planned action. Corrective action is, as indicated earlier based on the analysis of the causes of variation between the planned performance and the actual performance.

Corrective action may take the form of addressing problems that impede plan performance. This could result in looking at human performance levels, productivity of various resources, cost behaviour under actual situation as compared to the scenario envisaged under the plan, etc. Problems that impede plan performance are, however, seldom simple or straightforward. They may have many causes and sometimes show a high degree of internal correlation. It is important for those made responsible for control, to be able to clearly isolate the problems and the causes thereof, to be able to take effective corrective action as well as to prevent the recurrence of the same problems in future.

Organisations vary in the type of control systems they follow. For a brief period in the not so distant future, management imagination was caught by MBO, management by objectives, the philosophy that used objectives both as targets and as self-fulfilling control standards. Some organisations use feed forward control systems, where control parameters in the form of procedures, rules and targets to be followed are set before the organised activity is initiated so that anticipated deviations from planned activity are minimised. Feedback control, on the other hand, is the system that undertakes control activity as a post performance exercise, measuring performance after the plan period is near completion and is generally based on analysis of historic data relating to the performance.

Increasingly large numbers of organisations, however, use some form of concurrent control, which consists in taking continual control action while the performance is ongoing. While sometimes resented by line managers, who may like to await completion of certain phases of their activity before they would like to be measured, as in the case of sales promotion campaigns or new product launches, concurrent control becomes highly useful in identifying problems before they become barriers in plan performance.

A1.14 Designing Effective Control Systems

While controlling is a function all managers perform and are subject to, the very nature of the control exercise of measurement and resultant action, often culminating in organisational rewards or the absence thereof, makes people wary of control. While developing control systems managers must be conscious of the fact that excessive controls can demotivate, can cause emphasis on short term outputs rather than long term results, can create mistrust of standards if standards not seen as objective or in the case of qualitative measures, when evaluation is perceived to be not free from bias. Managers, in order to design effective control systems, must make efforts to ensure that:

1. Performance standards or goals used as standards are perceived as being fair and objective.
2. The various control mechanisms used to control the diverse range of activities and functions are appropriate to the activity or function concerned – your standards for evaluating inventory turnover would be vastly different from your standard for determination and measurement of employee morale or for that matter, employee turnover.
3. The processes and mechanisms used for control are widely communicated and well understood by all who are responsible for controlling as well as by those who are being controlled.
4. The objectives of the control activity should be clearly communicated and their understanding ensured. For example, the objectives of a quality control exercise vary widely from those of measuring and controlling the effectiveness of your

market development plan in a new overseas market. It is imperative to the success and the receptivity to control processes that employees understand for what purpose is the output of control likely to be used.

5. Corrective action is taken timely – the very essence of control activity is to ensure that the deviation from the planned performance is arrested and rectified before organisational effectiveness is seriously compromised. Corrective action should thus be swift and timely to cut losses and mitigate the loss of effectiveness on account of deviant performance.
6. The flow of information to the control system is timely and accurate – control systems are major users of performance related information coming in from a variety of activity centres. Managers should ensure that the information flow is reliable as well as timely, a failure on any of these parameters is likely to make the control exercise redundant.

Activity 5

With respect to your own organisation, identify the barriers to effective control that you have come across. On the basis of what you have studied in this unit, what suggestions do you have for making the control process in your organisation more effective.

A1.15 Let Us Sum Up

This unit has tried to acquaint you with the functions of management, other than those already covered in your course material for Management and Organisations. The functions discussed include planning, organising and control, the basic functions of all managers according to the classic theory.

Planning, the identification of where the organisation must go and what should it do to get there, is fundamental to any form of organised activity. The unit discusses the importance of planning, process of planning, the diverse types of plans and the elements of effective planning.

Organising, the function that imparts structure to the entity within which managerial action would take place, consists in creating working relationships between all the resources of the organisation so that its goals can be achieved. The unit briefly describes the process of organising and the essential elements of organisation.

Control is essential if continued effective performance of organised activity is to be ensured. We took you through the process used for controlling, the various types of control and the factors essential for designing effective control systems.

A1.16 Self Assessment Questions

1. Why is planning essential for organisations, especially when changes make planning premises redundant very fast?
2. How does planning help the manager in the exercise of his responsibilities? Take examples from your own environment to illustrate.
3. Organisations are becoming more impersonal as the pace of activity in business becomes more hectic. Do you agree? What are the implications of such developments for organisation design?
4. The best form of control is self-control. Would this philosophy work in business or public organisations? Why and why not?
5. Explain the process of control and discuss how the steps taken would vary in content from activity to activity by taking examples from your own organisation.

ADDENDUM 2 FOR C2 MANAGEMENT AND ORGANISATIONS NEW PUBLIC MANAGEMENT

A2.1 Introduction

The discipline and practice of Public Administration, that had a traditional emphasis on principles and procedures, is undergoing transformation. The influence of the 'New Public Administration' movement was a turning point in the change process.

In the late 1960s, American society witnessed a severe social crisis. The Vietnam War, an exploding population, environmental problems, and increasing social conflicts led to a grave concern among the younger generation of intellectuals regarding the efficacy of response by the political or administrative systems to handle the crisis. It was felt that the dissatisfaction arising from the turbulent environment needed a restoration of values and public purpose in government, instead of reiterating the traditional goals of 'efficiency' and 'economy' in administration. A need had been felt to inject the goals of being responsive to the needs of clients and ensuring social equity in service delivery. The 'New Public Administration' intended to provide a new philosophical outlook for Public Administration.

A2.2 New Public Administration

The significant landmarks in the emergence and growth of New Public Administration include:

1. The Honey Report on Higher Education for Public Service
2. The Philadelphia Conference on the Theory and Practice of Public Administration
3. The Minnowbrook Conference – I
4. The Minnowbrook Conference – II

The Honey Report on Higher Education for Public Service (1967)

John Honey of Syracuse University, in a 1966 evaluation of Public Administration as a field of study in the American universities, highlighted certain problems confronting the discipline. These included:

- Inadequate funds at the disposal of the discipline;
- Uncertainty and confusion over the status of the discipline;

- Institutional shortcomings;
- Lack of communication between the scholars and practitioners of Public Administration.

In spite of shortcomings within the report, it laid a basis for examining the role of Public Administration in generating social awareness.

The Philadelphia Conference on the Theory and Practice of Public Administration

In 1967, the American Academy of Political and Social Sciences under the Chairmanship of James C. Charles Worth organized a Conference on “The Theory and Practice of Public Administration”. The major viewpoints emerging out of the conference included:

- Flexibility in the scope of the discipline would facilitate its development;
- The dichotomy between policy and administration was considered meaningless, keeping in view the policy making and implementation functions of the administrators;
- Emphasis on hierarchy, internal processes in public organisations results in organisational rigidities that hamper organisational and managerial flexibility, which is very much needed in the changing environment;
- Public Administration, as a discipline and practice, has to focus more on social problems like poverty, unemployment, environment and so on;
- Ensuring social equity, along with other values like efficiency, accountability, administrative responsiveness, people’s participation in decision-making, is critical.

The Minnowbrook Conference (1968)

Young scholars of Public Administration in the Conference held at Minnowbrook in 1968 voiced concern aimed at making public administration a change agent. The emphasis was on four major goals of Public Administration:

Relevance: Traditionally, efficiency and economy had been the major concerns of Public Administration. The conference emphasised the need to make the discipline relevant to contemporary issues and problems with emphasis on making it deal with the political and administrative implications of administrative action.

Values: The earlier value – neutral orientation of public administration - was rejected. The conference made a plea for more concern with the values and issues of justice, freedom, equality and human ethics.

Social Equity: The protagonists of the New Public Administration considered the achievement of social equity to be the primary goal of public administration. The objectives of distributive justice and equity were to be the basic concerns of Public Administration.

Change: Public Administration as practiced, the conference felt, was concerned more with the status-quo and needed to adapt to changing circumstances and bring about necessary economic and social changes. The proponents of this 'New Public Administration' have since propagated injecting new ideas and innovations in the management of public organisations.

In summary, the Minnowbrook Conference of 1968 made a significant contribution in the theory and practice of public administration by advocating client orientation, social sensitivity, and normative concerns.

Minnowbrook Conference II (1988)

Two decades later, the second Minnowbrook Conference was held under different circumstances. In the late 1980s, the prevailing conditions favoured a lesser role for state and government, more privatisation, contracting out and an increased role for non-state actors in the governance process. No doubt, the continuity in pursuance of key themes was still there, such as ethics, social equity, human relations and so on. Simultaneously, certain new areas like technology, and economic perspectives were also highlighted.

Due to the globalisation scenario, governmental cutbacks and privatisation moves, the second Minnowbrook Conference favoured public administration taking the best from business as well as the non-profit public sector. Concerns were shown for higher productivity and innovative personnel practices to promote the best employees. The New Public Administration movement paved the way for changing the complexion of public administration. It generated intellectual debates, experimentation with new types of organisation, managerial methods and techniques to handle the complex governmental functions, and increased public participation in the administrative systems. Yet some of the normative concerns considered important during the 1970s like social equity, ethical behaviour, seem to have taken a back seat, during 1980s and 1990s, due to the increasing emphasis on managerialism in public organisation management. The key concerns of Efficiency, Economy, and Effectiveness gained new orientation as a result of the impact of yet another development – New Public Management.

The beginning of the 1980s witnessed a rethinking of the appropriateness and efficacy of the state's expansion in various areas and the need to reduce its size and roll back in certain spheres. Margaret Thatcher in Britain and Ronald Reagan in the USA favoured the ushering in of a new market environment and diminishing the role of the state, which they considered would reverse the failures of the past and ensure a bright future. Debates and discussions centered around making a conscious choice between 'old' public administration relying on bureaucratic efficiency and public administration with a significant management orientation. The efficacy of the 'traditional' state, model to

implement appropriate policies and deliver effective services to the citizens was questioned.

A series of reforms under the label of New Public Management (NPM) were initiated with the major objective of bringing about changes in the governmental systems, institutions and processes.

These reforms, originated in the developed industrial economies such as U.K. and U.S.A., where political pressures were on to keep down the levels of taxation and public expenditure, while maintaining high standards of welfare and other public services. These coupled with poor public perceptions of government, failure of public welfare programmes, globalisation pressures with increasing private sector participation, technological revolution, gave impetus to the reforms. Improvement in the quality of services being provided, maintaining efficiency and curbing public expenditure were the key guiding factors in the reforms process. Concepts such as efficacy of state vs. market, managerial orientation in public activities, promotion of privatisation, contracting out, gained popularity in the theory and practice of public administration.

A2.3 New Public Management – Genesis

A global revolutionary wave, which introduced a series of methods and techniques in the governmental system, beginning early 1980s, acquired the label of New Public Management (NPM). The objective of such vast contemporary changes was to make the public service efficient, economical and effective through the application of managerial concepts and techniques borrowed from the private sector. The entire focus was to devise new ways of governmental functioning in the globalisation scenario. Some saw as efforts towards government renewal. The core values around which the reforms centred are the three Es' – Economy, Efficiency and Effectiveness.

The major impact on the change process arose due to key factors as highlighted below:

Rising Public Expenditure

In many countries, the economic crisis of the 1970s and 80s, that was accompanied by an inexorable growth in public expenditure, raised serious concerns about the

- Poor performance of government
- Poor performance of government
- Wastage, inordinate delays, mismanagement coupled with corruption, inefficiencies in governmental operations
- Lack of accountability
- Increasing debts on the part of several governments.

These compelled governments to confine activities only to core responsibilities and examine the options of delivery of public services with less public money.

Neo – Liberalism

The neo-liberal political ideology had a powerful influence on the emergence of New Public Management. The efficiency of markets, competition, supremacy of individual decisions over collective decisions had gained value. Neo-liberalists favour market forces determining the production, distribution and consumption of goods and services with minimal government interference. Neo-liberalism made a case for a roll back by the state and the space created by it to be filled by the private sector. The state's role was confined to facilitating the efficient functioning of markets. This perspective had a global impact in generating a consensus about the efficacy of market forces.

Public Choice Approach

The public choice approach also, in a way, had influence in developing a new framework for governmental functioning. The central tenet of this thinking was that all human behaviour is dominated by 'self interest'. Hence concepts like 'public spirit', 'public service' do not reign supreme. The basic premise of this approach is the individual as a utility maximiser, in search of increasing net benefits from any action or decision. Due to such inherent nature of the individual, the collective interests of society could also suffer. The vote maximizing behaviour of politicians and self-aggrandising nature of bureaucrats would jeopardize the public welfare. According to the public choice theorists, such attitudes could lead to the increase in size and costs of government, and inflated departmental budgets. The 'concept of remodelling government' as per the market concepts of competition, efficiency, and decentralized service delivery gained supremacy as a consequence of this approach.

The discipline and practice of public administration gradually came under the influence of management philosophy. Beginning from 1980s, the impact has been quite pervasive, resulting in the creation of new agencies, restructuring, privatisation, contracting out and so on.

The focus of NPM is basically on:

- Restructuring the operations of the government along market lines;
- Moving towards privatisation, and quasi-privatisation of organisations and services;
- Contracting out of services;
- Responsive service delivery and ensuring value for money for the citizen;
- Emphasising performance, its measurement, quality improvement, monetary incentives;

- Promoting entrepreneurialism in public organisations, with emphasis on autonomy;
- A steering role for government rather than a direct provider of goods and services.

Osborne and Gaebler's Model of Entrepreneurial Government

In 1992, in the United States, Osborne and Gaebler, in their work on 'Reinventing Government' 'How the Entrepreneurial Spirit is transforming the Public Sector', propagated a new model of 'enterprising government'. This, according to the authors, is one that responds to the needs of the citizens in a more market – oriented manner. The entrepreneurial government is one that is not so much concerned with what government does, but how it does it. Hence a market-oriented government was preferred to, that provides good quality services and products and is responsive to the needs of citizens.

This model has been conceptualised in the following ten forms:

1. Catalytic government: providing not only services, but also catalysing all sectors into action in the solution of problems.
2. Community–oriented government: empowering of citizens in service delivery.
3. Competitive government: promoting competition amongst various service providers.
4. Mission–driven government: being driven by missions and not rules and regulations.
5. Result–oriented government: measuring the performance of organisations on basis of their outcomes than on inputs.
6. Customer–driven government: redefining clients as customers and offering them choice in service delivery.
7. Enterprising government: mobilising efforts towards earning money instead of just spending.
8. Anticipatory government: being proactive in the sense of preventing problems before they emerge.
9. Decentralised government: resorting to decentralizing authority with a view to taking decision making close to the citizen.
10. Market–oriented government: relying on market mechanisms in the provision of services rather than bureaucratic mechanisms.

Osborne and Gaebler consider that these fundamental changes are necessitated by crisis situations, which require people with vision, leadership qualities and support by all parties – business, government, and societal organisations.

In the USA, the ideas of Osborne and Gaebler made an impact on the American public policy. In 1993, a critical investigation of the functioning of the American governmental machinery was done under the leadership of then Vice-President Al Gore. This was the National Performance Review (NPR), the basic objective of which was to transform the culture of federal organisations, by making them performance based and customer-oriented with consumption of fewer resources.

It had four basic goals: a) cutting red tape, b) putting customers first, c) empowering employees to get results and d) cutting back to basics.

The NPR proposed a series of measures, which included:

- Abolition of unnecessary rules;
- Deregulation of government agencies at the state and local levels;
- Rewarding better performance;
- Operating government organisations as business enterprises;
- Promoting client-oriented attitudes amongst government employees;
- Decentralising decision making authority;
- Replacing management principle of command and control with responsibility for results;
- Introducing the profit principle, even in public activities;
- Reformulating programs to save costs.

Research studies indicate that the implementation of some of the measures led to significant improvements in federal services and that result-based and customer-oriented initiatives gained prominence.

Business Process Re-engineering

The concept of Business Process Reengineering (BPR) acquired significance with the work of Hammer and Champy in 1993. Though many of its principles were developed for application to the private sector, it has equal relevance to the public sector also. BPR advocates radical redesign of business processes to achieve improvements in measures of performance such as cost, quality, service and speed.

The basic tenets of Reengineering include:

- Developing key processes and examining their outcomes.
- Outsourcing some of the processes.

- Flattening organisational structures and hierarchy.
- Redesigning work systems through use of information technology and also facilitating the task of decentralised decision-making.
- Promoting customer orientation with a result-oriented and team-based approach.
- Introducing rewards linked with achievement of results.

The reform measures proposed under the New Public Management had distinct characteristics such as:

- Assigning only steering functions to the government.
- Devolving authority with provision of flexibility.
- Promoting competition and choice.
- Providing of responsive services.
- Ensuring performance, accountability and autonomy.

A2.4 New Public Management Reforms – A Global Perspective

Literature indicates the implementation of a series of NPM strategies in various countries. A market orientation in the management of public organisations is leading to the adoption of various strategies, which include:

- Public service restructuring.
- Introduction of competition in public services.
- Efficiency in public service / Improving quality services.
- Collaborative partnerships in service delivery.

Public Service Restructuring

Public service restructuring is one of the strategies for implementing NPM, which gives prominence to bringing about changes in organisation structure as well as performance. Hence, measures are initiated on various fronts like managerial autonomy, performance appraisal and measurement. The objective is to make the public service entrepreneurial.

In the UK, in 1991, the White Paper *Competing for Quality* stated ‘public services will increasingly move to a culture where relationships are contractual than bureaucratic’. To begin with, the Office has done a major restructuring of organisations at the central level of the Public Service. A key procedure was adopted, known as the ‘Prior Options

Review', under which all the ministries were to critically appraise their respective activities and examine the options of:

- Abolishing redundant activities.
- Privatising certain activities.
- Contracting out to the private sector.
- Decentralising certain services to other agencies.

Research studies have indicated that this exercise has led to good results and in 1996; the government has claimed to have made a 20 percent saving of the total work reviewed. NPM favours flattened organisational structures, bureaucracy to be entrusted with smaller policy core activities, and movement towards fragmented implementation structures and mechanisms. Another landmark in this effort was the creation of 'next steps' or executive agencies in Britain. These were set up after a review of various activities under the 'Prior Options Review', which has been already discussed. These agencies are

- Autonomous, set up to pursue specific set of activities. For example around 138 agencies have been constituted till now (Prisons, Court Services, National Statistics).
- Primarily staffed by civil servants.
- Headed by chief executives recruited on the basis of open competition
- Operated on the basis of a five-year framework agreement that sets out clearly the objectives and responsibilities.

The assessment of performance is one of the key goals of NPM. This also constitutes one of the components of public service reforms. In contrast with the traditional view of public administration that concentrated on the quantum of finances spent on services and other activities, the new approach focused on the effectiveness of expenditure, indicating the value for money.

Performance management emphasises:

- Determining in clear terms the performance objectives and targets for programmes.
- Providing autonomy to the personnel to implement the processes in consonance with the objectives and targets.
- Measuring performance against the targets and reporting such to the concerned authorities.

The introduction of performance related pay and other incentives is also a significant NPM strategy. In Singapore, senior public servants are paid salaries commensurate with

international standards. In Malaysia, efforts are towards giving due recognition to organisations and individuals who are innovative and make efforts to improve their performance to provide quality services. This includes providing Public Services Excellent Service Awards to individuals for rendering outstanding services above the normal responsibilities of their job. Similarly, in South Africa, to encourage personnel to be more efficient and effective, a comprehensive performance based compensation system is in vogue.

Introduction of Competition in Public Service Delivery

The public organisations are rigid bureaucratic structures with adherence to procedures, rules and regulations, which do not really keep in view the preferences of the citizens in service delivery. Injecting competition, by bringing various market players in the service delivery, is said to permit greater consumer choice. This is taking the form of deregulation, privatisation, contracting out and so on. Flexibility and value for money are the key guiding concerns.

In the UK, the principle of Compulsory Competitive Tendering (CCT) (contracting out) was introduced in the 1990s, covering a range of services such as cleaning of schools, streets, waste collection, and computer services.

In New Zealand, though education and health services are publicly funded, the governance of schools has been vested in locally-elected boards of trustees who have complete authority to manage the schools. But there is a charter of agreement entered between the board and the Minister of Education, which indicate the locally negotiated goals and requirements.

Improving the Quality of Public Service

NPM stresses striving towards efficiency in public services, by cutting costs, avoiding wastage and increasing the productivity of personnel. In 1979, the UK created the Efficiency Unit, with the objective of improving the efficiency and effectiveness of central government and enabling various government departments to ensure value for money for the resources that were spent. The departments and agencies drew up annual efficiency plans where they indicated the measures they proposed to take for three years to cut costs, and ensure efficient and effective operations. These were then subject to the review of the Efficiency Unit.

The Citizens Charter programme in UK was a key initiative towards the creation of standard quality of service to the citizens. In 1991, this was introduced to encourage public organisations to draw, and make public, a clear set of service standards. A charter had to:

- Set standards for the performance of services and assess performance against the standards.
- Provide clear information about the services.

- Treat customers with courtesy and helpfulness.
- Ensure easy access to complaints procedure.
- Ensure value for money.

In addition a ‘charter mark scheme’ came to be in vogue, giving awards for excellence in the delivery of public service by putting the users’ interests as first priority. Around 43 main charters have been formulated for key public services as well as privatised utilities.

India and Malaysia also made efforts towards formulating citizen’s charters. In addition, some of the Commonwealth countries have been striving towards improving the quality of services through improvements in Human Resource Management with emphasis on leadership and teamwork. For instance, Singapore was the first public service to introduce Work Improvement Teams (WITs) on the basis of quality circles employed in private sector companies. These teams met regularly to discuss and deliberate upon the obstacles to quality and to devise practical solutions for service improvement.

Collaborative Partnerships

One of the tenets of NPM being developing service delivery arrangements through decentralization, various forms of collaborative partnership between government, private, non-government organisations, community have emerged. Japan is experimenting with NPM reforms with more empowerment and partnership of citizens. For example, in the city of Mitaka (population 1.6 million) located in the Western Suburbs of Tokyo, many activities are being undertaken in partnership with citizens. In the UK, area based programmes are being undertaken in partnership with local government agencies, community organisations and private sector companies.

The developing countries, including India, also introduced managerial reforms as a part of aid conditions imposed by the World Bank, the International Monetary Fund, etc. The Structural Adjustment and Stabilisation Programme (SASP) initiated in 1991 aims at government concentrating on core activities, reducing budgetary support to public sector enterprises, disinvestments, corporatisation, outsourcing of activities and so on.

A2.5 New Public Management Approach – An Appraisal

The New Public Management has no doubt triggered intellectual discourse on evolving ways of optimising resources and the introduction of market mechanisms in the delivery of public services, with focus on performance measurement, autonomy to the organisations and individuals. It intends to replace the Orthodox Welfarist model of the state. But the basic question is: can private sector interests and initiatives replace the pursuance of social concerns? Market philosophy cannot substitute for the ‘public interest’, which is the core of governmental operations.

Public service is characterised by certain basic norms like impartiality, equality, justice, and accountability. In the ongoing change process, these seem to have been replaced by market values such as competitiveness, profitability, efficiency, and productivity. This could lead to the weakening of public interest, challenging the legitimacy of public service.

New Public Management is an overtly individualistic philosophy that does not take cognisance of the collective demands of the society. The market-oriented restructuring is bound to affect certain categories of the society, particularly the poor, peasants, and labourers, as the reforms are aiming at the withdrawal of subsidies, reductions in the work force, and the cutback of welfare programmes. This can lead to a loss of confidence in the ongoing reforms.

Some thinkers consider the current theory of state minimalism as a form of 'recolonization', especially for the developing countries, as they are compelled to usher in changes as part of the conditions to qualify for aid, imposed by the international funding agencies.

NPM has emerged as a management technology for achieving goals for state action. Now there is still a growing concern about the government's crucial role in creating a sound environment for society and the economy to function smoothly. It has to steer the socio-economic system and find alternative ways of providing services and facilities. There seems to have been some reversal in the theory of the roll back of the state propagated in 1980s. In the UK research studies indicated the market forces could not make a dent in areas such as education and training, leading to problems in basic education and employment programmes. Hence, the state is again re-emphasising its role in these fields. In Germany also, slower economic growth and high unemployment ratios are necessitating state subsidization. In France, instances of state intervention and subsidization are evident in the creation of employment opportunities and training of personnel. In present times, the negative perceptions towards government is on the decline with an increasing realisation of its crucial role in creating a sound policy framework for society and economy.

No doubt, the new public management philosophy with strong management orientation has compelled government to evolve alternative ways of delivering public services. This has brought in its wake the need for creating a synergy between public and private sectors. Another shift in the paradigm is recognizing the involvement of civil society organisations as the key third element in realisation of goals. This has been reiterated in the Conference of the Commonwealth Association for Public Administration and Management (CAPAM) held in Canada in 1994. Empowering the citizens assumes significance in the present context. The focus now globally is at the grass roots where people are striving hard to build a democratic space for themselves.

Public administration in the present times, with its complexities, needs to take cognisance of economic, political, social, cultural, and environmental aspects. The new approach is

giving a wider connotation to the task of administering, i.e., ushering in the concept of governance. It is much more than just good or effective government. It is the co-existence of government, market forces, civil society organisations, which in a way emphasises policy formulation and implementation as a co-operative endeavour.

There is an emergence of creating and sustaining different kinds of co-arrangements based on the sharing of responsibilities. This is a distinct shift from one-way steering and control to a multi-way framework.

Governance has changed the complexity of traditional public administration by integrating the state, market and civil society. There is a widening of the task of governance with emphasis on collaborative partnerships and networking to strive towards balancing economic with social values.

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Commonwealth of Learning Executive MBA/MPA

C2 Management and Organisations

CASE STUDIES



Cultural Change at Nissan Motors

Nissan must recognize that the first commitment is to customer satisfaction. We must look outside rather than inside. By "outside" I mean the market, customers, and competitors. . . . All employees of Nissan must concentrate on the vital objective of promotion of sales. Let's create a new corporate environment and change the course of our business activities.

—Yutaka Kume, Inauguration Speech as President, July 3, 1985

The most challenging task I faced [when I became president five years ago] was to reform the corporate culture. I consider it the most formidable challenge I faced because Nissan's business performance suffered not only because of the external conditions which existed not only for Nissan, but also for a whole set of other companies. I decided that the major reasons for that suffering or business predicament lay within Nissan itself.

—Yutaka Kume, August 30, 1990

Background

Nissan's roots could be traced back to 1911, when Masujiro Hashimoto, an American-trained engineer, founded the Kaishinsha Motor Car Works in Tokyo. Lacking capital, he gained the financial support of three men whose last names began with the letters D, A, and T. He honored them by naming his first car the DAT, which literally means "escaping rabbit" in Japanese. In 1918, he produced the son of DAT, or the Datson, which was renamed the Datsun because the word "son" in Japanese means damage or loss. In the 1920s, Hashimoto's company merged with several other firms and eventually, in 1933, became Nissan.

By most measures, Nissan did exceptionally well in its early years. On the eve of World War II, it had grown to be the second-largest auto maker in Japan. After the war, it struggled initially, but

Research Associate Nancy Rothbard prepared this case under the supervision of Professor John P. Kotter as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

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then grew rapidly again (see **Exhibit 1**). At first, almost all the growth was in Japan, although the firm did embark on a joint venture in the United Kingdom in 1955 and had experienced some success with its small trucks in the United States in the early 1960s. But by the late 1960s, Nissan was exporting over 300,000 vehicles, or 26% of its total production.

As the firm's extraordinary growth continued in the 1970s, it began to suffer from what future Nissan President Yutaka Kume has called the "big corporation disease." With growth came an increasing number of layers in the chain of command, and as a result, issues did not come quickly and efficiently to the attention of top management. This affected decision making at the board level, reducing its efficiency and accuracy. Growth also greatly increased specialization and departmentalization, as well as sectionalism and parochial decision making. To keep the increasingly large organization under control, the personnel department came up with elaborate rules and regulations, which buried employees in an organizational structure that often drained their willingness and readiness to work hard.

These problems were compounded by trade union difficulties. The company took a hard-line stance against its strong leftist union in 1953, employing lockout techniques and other measures. Workers responded with a 100-day general strike. Katsuji Kawamata, who later became president of Nissan in 1957, was assigned to control the laborers at that time. He relied upon Ichiro Shioji, a union leader, to settle the dispute, and thereby became obligated to him. Kawamata's debt to Shioji grew when the labor leader took care of Prince's union when Nissan merged with that auto maker in 1965. After Takashi Ishihara became president in 1977, he tried to regain managerial control from Shioji, stepping up tensions between management and the union. However, Shioji successfully retained power at Nissan until 1986, when he retired as the leader of the labor union. Many Nissan managers felt that Shioji's influence was destructive and that a number of the firm's problems in the 1970s and 1980s stemmed from these disputes and the bad relationship between management and the labor union. Trying to resolve these problems encouraged Nissan's management to focus inwardly instead of looking outward to the changing market and customer needs.

These problems of size and labor relations began to show up after 1972 in declining market share statistics and four years later in a flattening of net income (see **Exhibits 2 and 3**). Domestic market share slid from 33.7% in 1972 to 25.6% in 1985. Meanwhile, Toyota's market share increased from 39.6% in 1972 to 42% in 1985. The gap in share between the two companies rose ominously, from 5.9% in 1972 to 16.4% in 1985.

For the most part, Nissan's difficulties grew incrementally and slowly, like the gap in domestic market share. One visible exception was the failure of the Stanza in 1981. This was Nissan's first strategic front wheel drive car. Its disappointing showing in the marketplace led to more conservative styling and design decisions, which, in turn, attracted few young customers. The lack of a successful car aimed at young drivers in conjunction with rumors about the problems at Nissan led to a slide in the firm's ranking as a desirable employer among college students, from fifteenth to fortieth place.

During this period Nissan watchers became increasingly critical of the firm's corporate culture, which was described as too inward looking, bureaucratic, and autocratic. Some wondered whether such a culture could be changed, and whether Nissan would therefore continue to wither in an increasingly competitive worldwide auto industry. Others believed that change was possible with the right leadership at the top. And in mid-1985, they saw evidence that such leadership was taking command.

The Kume Era Begins

In June 1985, Yutaka Kume assumed the presidency of Nissan, replacing Ishihara, who then became chairman. Kume was born May 20, 1921 and graduated in 1944 from the University of Tokyo with a B.E. in aircraft engineering. He joined Nissan in 1946 and began working in the production control and engineering area. In 1964 he became general manager of production control and engineering at the Zama Plant, and in 1971 was made general manager of the Yoshiwara Plant. In 1973 he became a director and member of the board and concurrently served as general manager of the Tochigi Plant. In 1977 he became managing director in charge of the office of product and engineering strategy and remained as general manager of the Tochigi Plant until the end of 1978. In 1979 he took charge of the office of product and engineering strategy. Throughout the late 1960s and 1970s, Kume was an instrumental figure in the modernization of the company's manufacturing facilities, including the rationalization of production and the improvement of productivity. In 1983, Kume became the executive vice president in charge of research and development, diversified operations, and the corporate planning office, and concurrently served as the general manager of the quality assurance division. In 1984, with his backing, some of the management at the Nissan Technical Center (NTC)¹ started to develop a new design process that would foster greater creativity.

Both Kume's education and his career path contrast sharply with his two predecessors. Ishihara (president from 1977-1985) was trained in law and spent his early career years at Nissan working in accounting, finance, and sales. Kawamata (president from 1957-1973) worked for the Industrial Bank of Japan for nearly twenty years before coming to Nissan.

In August 1985, two months after Kume was named president, 13 middle-level managers from the NTC's development department, in collaboration with an outside consulting firm, McKinsey & Company, formed a task force called the Product Market Strategy Group (PMSG). Zenzo Sonoda, the head of R&D and a friend of Kume, supported their concept of changing the atmosphere at the NTC and influenced top management to agree to such an investigation. Concerned that the culture at the NTC was stifling and bureaucratic, and that workers spent most of their time trying to coordinate activities and pushing paper rather than focusing on trying to produce a good car, these middle-level managers set out to create a better environment—one that would support a certain degree of independence, encourage delegation of authority and responsibility, and remove any hesitation lower-level management might have about questioning rules and promoting open communications.

As a result of the discoveries and the suggestions of the PMSG task force, the R&D department began introducing organizational change starting in January 1986. Until then, R&D managers were responsible for at least three car models. Under the new system, a manager looked after only one model, allowing that person to follow the car through all stages of development—from design to planning for production, marketing, and then sales—and to focus his or her attention on building a car that would satisfy customers for the least possible expense. To further encourage a customer orientation, R&D general managers were put into three market-oriented groups. To cut down on design time and to increase quality, simultaneous engineering was introduced—where each department was asked to pass on information at the earliest possible stage to all other departments.

With the encouragement of the PMSG task force, managers at the NTC developed a number of additional ideas, which were then implemented over the next few years. One scheme called for a

1. The NTC, located in Atsugi (about 2 hours from Tokyo), is the center for design and technology at Nissan. Most of Nissan's R&D activity in Japan takes place at the NTC.

yearly event in which the center would open its doors to the public to show off the design studio, show crash tests, and give driving demonstrations. Another called for an essay competition and a new business concept contest, both designed to reward and promote innovative ideas. To reduce the status difference between bosses and subordinates, NTC management agreed to abolish the serial numbers (indicating rank) displayed on the name badges worn by all Nissan employees. NTC managers also decided to make uniforms optional, believing that freedom of dress and expression would also add to creativity and innovation in their work as stylists and designers. To further promote an atmosphere of increased creativity, they introduced the idea of "flex time," where people were required to be at work only from 10:30 a.m. to 3:30 p.m. and could arrive early or leave late depending upon their lifestyles and workstyles.

To help employees pay more attention to the competition, NTC management introduced a policy allowing design employees to own a competitor's car. In the past, Nissan employees could not own competitors' cars. In fact, Nissan did not allow any outsiders to come onto company grounds if they were driving a non-Nissan car. To help employees become more interested in the "big picture" of car making, management at NTC set up a program called the Challenge Creation Club to fund certain kinds of activities (e.g., the Italian Car Club) that would provide employees with "extracurricular" ways to meet other people and exchange ideas.

At the same time that these concepts were being developed at NTC, Kume began to bring his senior management together in "top forum" meetings to discuss the larger issues facing the company. About 80 people participated in these bi-annual sessions, each of which lasted three days and two nights. The earliest of these meetings occurred while Nissan reported a first-half operating loss for fiscal 1986-87 of 19.7 billion yen. The last previously reported loss was in 1951.

Against this background, in December 1986 Kume issued a statement of "corporate philosophy." In an unusual and obviously important communique to all Nissan employees, he emphasized four principles: 1) "We must keep in touch with the global market, creating attractive products through our innovative and reliable technology, 2) We must be sensitive to customers' needs and offer them maximum satisfaction based on steadfast sincerity and ceaseless efforts to meet their requirements, 3) We must focus on global trends, making the world the stage for our activities, and nurture a strong company that will grow with the times, and 4) We must foster the development of an active and vital group of people who are ready and willing at all times to take on the challenge of achieving new goals."

To help make this philosophy a reality throughout Nissan, in January 1987 a new coordinating division called the Product Market Strategy Division was established at headquarters. The main purpose of this group was to facilitate the integration of the disparate functions and divisions involved in designing, producing, testing, and marketing a car. In the past, planning had been split between sales and design; sales planning had been a part of the domestic sales department and design planning had been a part of R&D. These groups had different agendas, leading to conflicting design and marketing plans. According to Takashi Hisatomi, the general manager of the Product Market Strategy office, "the Product Market Strategy office was established in the middle of the sales department and the R&D department. We now manage the power struggle between the two. . . . We have to decide everything from the viewpoint of the customer. That is the point of our department."

The 100 people in this Product Market Strategy Division were split into four sections. The first, the Product Market Strategy office, coordinated the activity within the department and initiated long-term planning and strategy. Workers in this office researched general markets and tried to spot

developing trends. When they discovered a trend, they would develop a concept to fit the market need and conceive long- and middle-term planning for that concept. The three other sections specialized in short-term planning and the logistics of car development. They were divided according to product/market type. The Z10 group handled the family cars or sedans such as the Bluebird (Stanza) and the Cedric. The Z20 group developed small cars like the Micra and the Pulsar. The third group, Z30, focused on specialty cars or sporty models like the Silvia (240sx) and the 300zx. The product manager system created in 1986 at NTC was used in all three groups; one manager followed a car starting in R&D and continuing through manufacturing and sales.

The combination of this reorganization and Kume's philosophy statement sent a powerful signal throughout Nissan that change was needed and expected throughout the organization. Kume personally began carrying this message in visits and speeches to employees with a volume of communication that was unprecedented for a Nissan president.

Changes at the Plants and Elsewhere

Starting in 1987, shortly after the establishment of the Product Market Strategy Division, Nissan headquarters began to delegate more authority to the plants. Over a period of five years, the amount of money that plant heads could control without the involvement of headquarters increased ten times. In return, each plant was asked to devise its own system of promoting performance and the "customer first" philosophy.

At the Zama facility, managers created a sophisticated management information system that measured quality, delivery, and cost factors on a common matrix at the section level (a typical section might have 300 employees). This accounting system allowed for more delegation because it gave section managers a meaningful bottom line that was under their control--a bottom line that took into account variables relevant to both profitability and customer satisfaction. With the help of this system, costs at Zama decreased by 20 percent from 1985 to 1988, while quality increased by 70 percent, and delivery time also decreased by 70 percent.

At the Zama Plant, managers also attempted to bring Nissan closer to the customer in direct ways. They hosted events called Open Days, when people who were not associated with Nissan were free to walk around the plant grounds. According to Haruyoshi Takagishi, deputy general manager, production control and engineering department, "We have usually used the open space in front of the building. We ask the local people to open up shops and sell food and clothing for the day. It is like a bazaar." The plant also sponsored small sports team events, such as the boys' soccer team matches, baseball games, and mothers' volleyball teams, and invited those teams to use the facilities within the Zama Plant grounds. Through endeavors like these Zama management felt they were better received in Zama city and that this even paid off in increased car sales. Nissan's market share in 1985 was 25% in Zama city, while Toyota's was 40%. In 1990, Nissan's share increased to 40% while Toyota's had dropped to 25%.

Corporate personnel made two significant changes in their efforts to implement Kume's new philosophy. First, they increased the amount of interdepartmental rotation of employees (Kume felt that shuffling managers created more action-oriented people). Second, they changed promotion and pay policies based traditionally on seniority to ones based more on performance (Kume felt that evaluating performance rather than seniority would place the proper emphasis on action and merit).

Nissan's sales organization was not as aggressive in trying to create the new culture as some other parts of the firm, but sales management eventually made two important changes. They established a customer complaint desk in every dealership in Japan. They also began financing the construction of new show rooms for their dealers to create a more attractive, inviting environment.²

By 1990, as these efforts gained momentum, departments throughout Nissan began to change how they operated, even those at lower levels in the organization. The case of the Nissan Vehicle Experiment department may be typical. This group test drives new cars. According to department head Kenzo Hirashima: "We are now intensifying our efforts to learn why what we thought was good has received complaints from customers. For instance, in the U.S. there is a certain road surface which does not exist in Japan. Because of the way the highway is built, it has a sequence of small bumps over a long distance. We had simulated such a road surface here at our test grounds, but only for a shorter sequence of bumps. We thought our U.S. cars were satisfactory based on our simulation. However, when driving on that road surface in the U.S., we learned that it becomes unbearably uncomfortable for the driver, which is why we received complaints. Therefore, we have decided that we should actually drive on that surface in the U.S. to test the comfort of those cars." The idea of making sure that the tests they performed had meaning in the real world of the customer represented a basic transformation in the way this department approached its dealings with the market.

The Silvia

The first product to really benefit from the changes at Nissan was the Silvia (called the 240sx in the United States). Launched in May 1988, this sporty compact coupe with comfortable seating for four was targeted at 25-year-olds and sold for a little less than two million yen (or \$12,000). Winning the 1988/89 Japanese car of the year award and the good design grand prize awarded by the Ministry of International Trade and Industry (MITI), the Silvia combined innovative styling and technology, captivating the nation's youth.

Silvia's previous model had been an unsuccessful part of Nissan's lineup, selling only about 200 units per month in 1987. Because many felt that sales could not be any worse, managers felt more comfortable taking a chance and letting young designers have free rein over the new Silvia model. Challenged by the failure of the 1985 Skyline and the fiscal losses of 1986, a consensus developed to let young employees alone work on the Silvia because the car was targeted toward a young market. The average age of the people who eventually became involved in the Silvia project was 28.

Discovering that pure market research dictated that they develop a car that would have been an exact replica of the Honda Prelude, the dominating car in its class at the time, designers instead tried to think about what the category and the car provided to the customer. They concentrated more on the emotions and the feelings of the customers in attempting to create the perfect car for their needs. Because the young staff could provide a better understanding of the young customer, they became vital to the project. Koichiro Kawamura, the manager in charge of the Silvia, stated: "I frequently told our young designers and sales department staff to create a car that they would want to buy."

2. Nissan offered to pay the interest rate on the loan the dealer took out to finance the remodeling. In other words, the dealer got a "free" loan.

Kawamura tried to generate an atmosphere of creativity and individual expression among those who worked on the Silvia. Allowing the young designers to discuss the product and make decisions about it without the interference of top management was an important step in this process. According to Kenji Shimokaze, a manager in the business research department, "The Silvia was the first example where young managers really made decisions and also where we invited an outside fashion designer to help with the model."

The new Product Market Strategy Division coordinated all aspects of the Silvia's development from inception to sales. One manager, Koichiro Kawamura, oversaw the entire development of the product, thus ensuring the consistency of the designer's vision throughout the process. This form of decentralized decision making represented a break from tradition in Nissan's centralized bureaucracy. According to Satoshi Matsutomi, who worked as a designer on the Silvia, "Mr. Kawamura, the manager at that time for the Silvia, had the final decision concerning all aspects of the Silvia's design. Since he was older, he would ask young staff members including me for advice. Usually, he implemented the results of such young people's opinions." Top executives with no official role in the model were not allowed to influence the design of the product. Mr. Matsutomi remarked on the previous practice: "I have experienced a few occasions in the design room when we had to change the headlights of a car because some executive came and said: 'I don't like that one, change it.' These last minute changes no longer occur. With the old culture, subordinates were always looking at those above them in the hierarchy. No matter the content of the issue, they would just say 'yes' to whatever they were told to do." This change was reinforced by Kume himself, who backed away from choosing the final model of the Silvia.³ According to Matsutomi, "Mr. Kume came, looked at the two clay models, and just walked away. We literally had to run to catch up to him. We told him which one of the models we preferred and asked if that was all right. He just nodded. On previous occasions he would probably have told us which model would go into production. But this time he didn't say anything."

The Silvia was produced at the Kyushu Plant, which had been desperate for work. Since Nissan as a rule did not fire or lay off workers when times were tough, over a thousand employees (at least a quarter of the work force) at the Kyushu Plant had been transferred to other plants to work, many leaving families behind. Other workers were occupied with tasks such as cleaning the plant grounds and the factory. When the chance came to produce a new and potentially important car, the workers were generally very enthusiastic. They were further encouraged by visits from Kume and senior managing directors. Because Kyushu was far from Tokyo, such visitations were very unusual.

The Silvia was not only designed by young employees, it was also sold by them. One young employee commented, "What was unique with the Silvia was that when discussing sales promotion in the meetings, we did not have to have the presence of older managers. All of us younger employees could get together and discuss freely what we thought about the car. All we had to do was to report the results to our manager. So we were free to say whatever we thought. These free discussion sessions led to new ideas." In addition, young people worked on direct sales of the Silvia in the dealerships. According to Masaharu Tomosada, deputy general manager of the Product Market Strategy Office, "Unlike the conventional way, we requested that each of these dealers come up with a 'Silvia Leader' who would be the main person responsible for Silvia sales toward the end users.

3. Designers usually made at least two different clay models of a car to be submitted for final approval by the president. Previously, there were times when the president liked one model and the chairman liked another, so designers would have to compromise and combine disparate parts of the two models.

We also asked that those 'leaders' be in their twenties." Concentrating responsibility on these young people to sell a car aimed at a young market represented a new approach to sales.

After the announcement and launch of the new Silvia model, ten "caravan" teams of two people, a young man and a young woman, left the Kyushu Plant in new Silvia cars, taking ten days to reach Tokyo. Along the way they promoted the car and visited thirty dealers, encouraging them, expressing pride in the vehicle, and trying to make a personal appeal to the dealers to sell the car. They received a very positive response. Toshiya Yamamoto recalled: "On our way [to Tokyo], many people would approach the campaign car and say 'what a wonderful car, please give us a catalogue on this car.' The young couple would hand out business cards and catalogues to whomever seemed interested. Those people who drove the Silvia campaign cars cannot forget the sensation of being received as stars. Even now they still get together and hold Silvia group parties. . . . A problem we had during this caravan was that one of the cars developed a transmission problem at the Yokohama Chinatown. The Shizuoka prefecture plant supplied the new transmission, but the technology was only available at the technical center at Atsugi. The sales department was in Tokyo at the headquarters, and assembly was conducted at the Yokohama Plant. People from these four different locations all got together and repaired the car overnight so that the car was ready to go at about 6:00 the next morning. When it started, everyone applauded. . . . On the tenth day, we arranged that these cars would arrive in front of the Nissan Headquarters building around lunchtime so all the employees could gather and greet the car. We were planning to have Mr. Saito, who was the executive in charge of this caravan project, make a speech. But somebody suggested that we should have Mr. Kume make the greeting. In the morning we went up to his office and asked him. He accepted such a proposal and appeared in the uniform for the caravan project to make the speech."

After a successful launch, the young people making the Silvia decided to increase customer follow-up. When the Silvia received the car-of-the-year award, they sent a letter of gratitude to those who had originally purchased the car. They felt that word-of-mouth promotion was an important aspect of the Silvia's marketing.

When the new Silvia model was introduced, President Kume publicly announced that it would beat its direct competitor, the Honda Prelude. In fact, it immediately captured 3.3% of the domestic (Japanese) market, selling 26,279 cars in the first half of the year, while the Prelude sold 30,353 cars. In the second half of 1988, Silvia's market share rose to 3.8% (34,705 cars) while the Honda Prelude dropped to 1.1% (10,282 cars). By the second half of 1989, sales of the Silvia were 44,143 compared to the 16,979 Preludes sold by Honda (see **Exhibit 4**).

The Situation in 1990

How much had Nissan changed? In 1990, managers at the firm gave varying estimates. Some believed Nissan had come about 30% of the way toward the culture they needed. Others thought the company had come as far as 60% of the way. However, no one felt that the job was completed. According to President Kume, "Six years have passed and I believe we are now about halfway through this process of changing the corporate culture. I think it might take more than six more years to finish the job. Working out the problems of the first stage is easier; after that it becomes more difficult. In the process of change, we have reached a plateau. During this early stage, people think that Nissan has changed a great deal, but we shouldn't take what they say at face value."

Takashi Hisatomi, general manager of the Product Market Strategy Office, concurred with Kume's assessment. He also noted that the sense of crisis that had motivated a great deal of the

change had passed. He commented: "Five years ago we used the fact that we were on the verge of crisis to gain energy to change. This time we can't use such a strategy. Previously it was a fight for survival; now we are fighting a more offensive, aggressive battle."

In terms of measurable results, the picture was mostly characterized by positives. In 1990, Nissan dominated *Road and Track* magazine's list of the ten best cars in the world and its list of the ten best car values, with seven of the twenty overall spots. In the previous decade, Nissan had failed to appear even once on these polls. Nissan also captured two of the top ten spots in the individual model category of J.D. Power & Associates' Initial Quality Survey of new cars. After decreasing almost steadily for 15 years, Nissan's domestic market share also rose in 1988 and 1989 (but not by much, from 23.6% to 23.7%). U.S. market share also increased, from 4.8% in 1988 to 5.2% in 1989. More dramatically, between 1987 and 1990, net income rose from Y 20 billion to Y 116 billion (\$165 million to \$940 million).

Exhibit 1 Nissan Sales in Yen (000s)

<u>Years</u>	<u>Revenues</u>
1935	4,359
1940	80,532
1945	42,826
1950	13,364,828
1955	14,247,257
1960	54,800,916
1965	213,418,000
1970	669,000,000
1975	1,429,600,000

Exhibit 2 Nissan Motor Company—Domestic Market Share

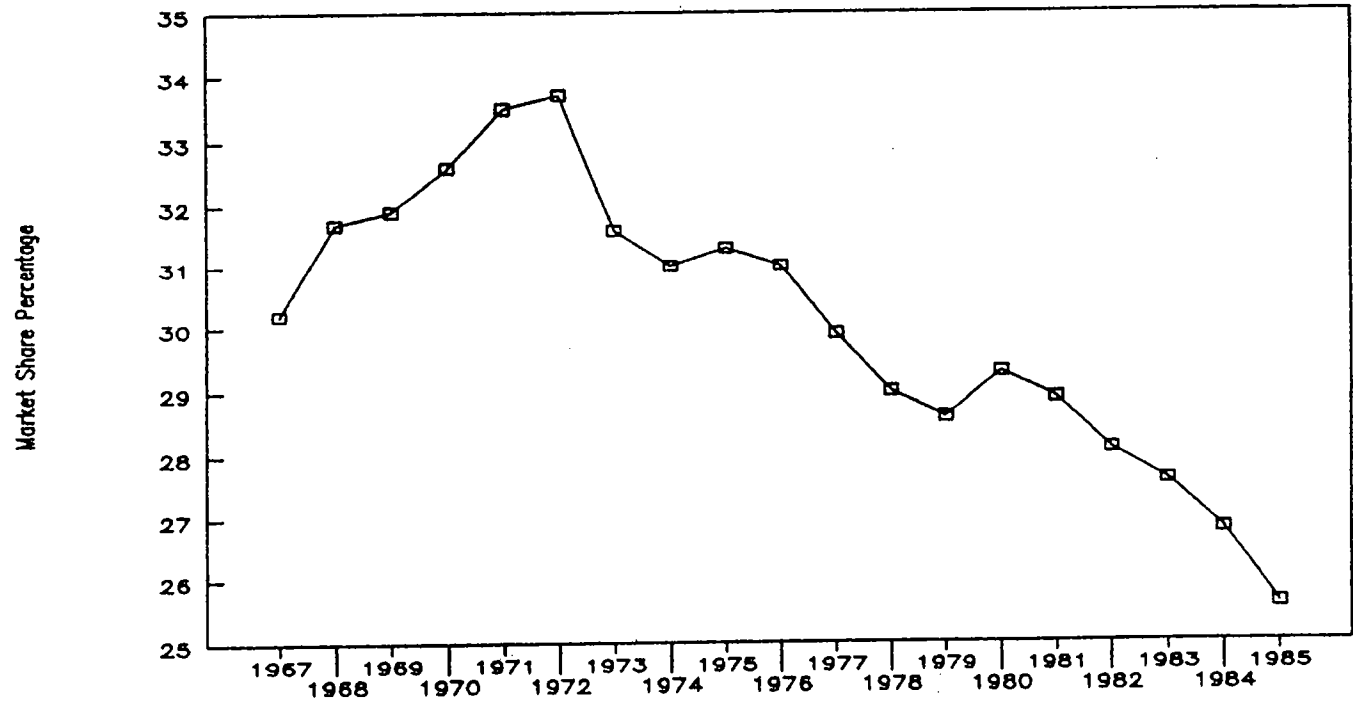


Exhibit 3 Nissan Net Income (U.S.\$): 1970-1985

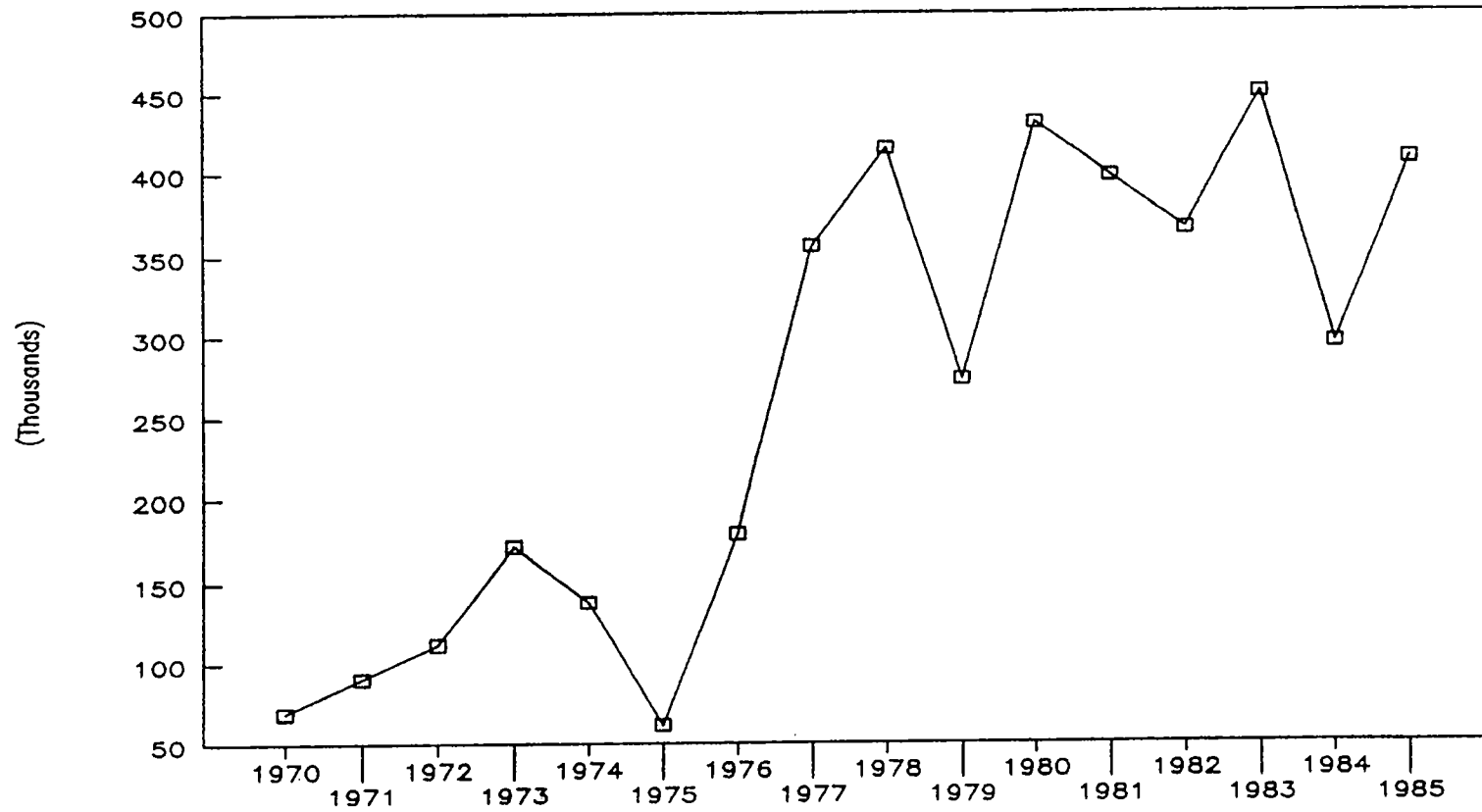


Exhibit 4 Comparison of Sales Figures for the Nissan Silvia and the Honda Prelude

		1980		1981		1982		1983		1984		1985	
		1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half
NISSAN SILVIA		3.3 21,765	2.7 17,374	2.6 16,905	1.7 12,380	2.1 13,171	1.3 8,415	1.1 7,031	1.2 8,287	0.9 5,540	0.5 3,662	0.3 2,227	0.3 1,978
HONDA PRELUDE		0.8 5,317	0.6 3,948	0.6 3,950	0.3 2,266	0.3 2,107	1.6 10,478	2.5 15,888	2.9 19,796	3.5 20,994	3.5 24,675	3.7 23,337	3.0 22,058
TOTAL (Compact Passenger cars)		655,672	655,266	642,999	709,667	628,194	654,836	625,100	692,587	606,921	705,295	638,299	736,149
Notable Events	SILVIA	●		★ (May)		●		□ (Aug)			●		★ (Feb)
	PRELUDE	★ (Apr)			★ (Oct)		(Nov)		●		★ (Oct)	●	●

		1986		1987		1988		1989	
		1st half	2nd half	1st half	2nd half	1st half	2nd half	1st half	2nd half
NISSAN SILVIA		0.3 2,188	0.2 1,366	0.2 1,053	0.1 783	3.3 26,279	3.8 34,705	4.2 42,377	3.8 44,143
HONDA PRELUDE		2.9 19,832	1.4 10,745	5.0 35,131	3.5 28,660	3.9 30,353	1.1 10,282	2.1 21,177	1.5 16,979
TOTAL (Compact Passenger cars)		690,738	773,317	700,816	811,360	788,066	921,628	1,010,788	1,164,583
Notable Events	SILVIA		●	●		□ (May)			●
	PRELUDE		●	(Apr)	●	●	●	● ●	★ (Nov)

Note) 1. Numbers on the upper left corner indicate the percentage of market share in the total market for compact passenger cars.

2. Captions for notable events:

□: Model change (full)

★: Minor change

●: Partial improvement or addition of models

3. Figures for 1980 through the first half of 1985 include sales figures for GAZELLE which is a sister model of SILVIA marketed through a different channel.



JOHN HANCOCK MUTUAL LIFE INSURANCE CO.
THE INFLATION STRATEGY TASK FORCE (A)

I have never worked in an effort that was more frustrating. It isn't that Paul Murphy isn't an intelligent person. He just doesn't know how to manage something like this. Senior management needs to step in. After all, you set this whole thing up. Can't you do something, Jack?

Vice President Sam Hendricks was unhappy and thought John Hancock President John G. McElwee should know it. In Sam's judgment, the Inflation Strategy Task Force, established by the powerful eight-person executive committee, was stuck. Hendricks felt that the stakes were very high, and that senior management should be aware of the problems. The task force was created on October 30, 1980 with Sam as one of its members. It was now early February of 1981.

The Inflation Strategy Task Force was made up mainly of third- and fourth-level managers. It had been set up by the executive committee which said that it wanted new ideas and visions on future strategic directions for the John Hancock Company. Sam liked the idea, but felt that it was also time for senior management to take more active leadership in the company's future.

At first, Hendricks couldn't pinpoint the problem. The task force's assignment was a complex and tough one: what should the company's future strategy be assuming that the runaway inflation of the 1970s would continue along with, a) soaring interest rates, and b) the consequent falling sales of standard life insurance products as customers sought higher investment returns? Cash flow problems had become so severe in the spring of 1980 that John Hancock had been forced to borrow (\$300 million) from the banks for the first time in its 120-year history. By 1980, there was also a dramatic increase in competition within what was coming to be called the financial services industry. In addition, several members of the executive committee were new along with Jack McElwee and Jim Morton who were to take office as CEO/chairman and COO/president at the end of the year. McElwee and Morton said that they wanted to shape the executive committee into a different and less fragmented force in the company. The executive committee had a history of often being a corporate battleground. Hendricks had heard that McElwee had even said that members would be asked

Professor Louis B. Barnes prepared this case as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

to resign from the committee if they couldn't work effectively together. Hendricks wondered if the task force's problems were just a case of poor delegation and follow-up by the executive committee. Or maybe it was simply the people on the task force. Here were seven aggressive mid-career vice presidents, each seeking change in a conservative company under a conservative task force chairman who was a senior vice president. Despite talk of freed-up time, most members had taken on the task force duties on top of their regular work. Each member also came from a different area of the company and was backed up by several eager junior staff people who were supposed to do the initial research and staff work.

These might all be contributing factors, but after thinking it over, Sam Hendricks had decided that the crux of the issue lay in another direction. He concluded that task force chairman Paul Murphy's style of leadership was a major problem. Murphy seemed too slow to act and possibly in over his head. In Hendricks' judgment, Paul Murphy just hadn't moved the task force or gotten it organized to get the job done. Furthermore, task force member Jim Thompson seemed to agree with Hendricks. Sam finally decided that he should go to company president and CEO designate, Jack McElwee with his concerns. He had talked informally with McElwee about his concerns on a number of other occasions. Sam knew that the task force was very important to McElwee, to retiring CEO/Chairman J. Edwin Matz, and to operations vice president, and president designate, E. James Morton. Now, as he faced Jack McElwee, he wondered how to proceed further.

Background

The John Hancock Mutual Life Insurance Company was the nation's sixth largest insurance firm with total assets of \$18.8 billion under management in 1980. The company was founded in 1860 and had a work force of over 20,000 people. Over 5,000 of these employees worked in the head offices in Boston, Massachusetts, many in the famous glass tower in Copley Square. Historically, the company had built its early reputation on sales of individual life insurance policies. As recently as 1974, 92% of individual sales had been whole life insurance products. Using prudent investment policies, the company had become a leader in its own sector of the industry.

By the late 1970s, however, much of this traditional leadership seemed to be eroding under pressures from inflation, high interest rates, competition, alternative investment opportunities, deregulated institutions, high costs, and obsolete products. Similar problems faced the whole life insurance industry. Indeed, the major mutual insurance companies had been losing market share of discretionary spending for three decades. The combination of forces seemed to particularly threaten and reduce John Hancock's time-honored position as an industry leader. Although the company had long since branched into other insurance product lines, its overall business had become highly competitive. By 1980, there were some 40,000 firms competing in what was being called the financial services industry. Some competitors, critics, and even Hancock employees felt that the company's best days were over. With a senior management that included six executive vice presidents, 20 senior vice presidents, and over 40 vice presidents, the company had become known in some circles as a top-down,

conservative, and somewhat ponderous bureaucracy. Turf battles and dissension had become part of the company's history (see Exhibit 1 for a partial organization chart), and there seemed to be no clear sense of strategic direction. As one observer noted, "It's like rejuvenating an old elephant." Yet, according to the company's 1980 Annual Report:

John Hancock's 119-year history is one of adapting to meet new needs--with new or refined products, appropriate technologies and, where called for, organizational change. We began our corporate existence offering life insurance protection to individuals; vastly broadened that market with the introduction of small debit policies; extended the group business in the 1920s; and played an active role in the great expansion in pension and employer-paid health coverages in the postwar era.

Since the late 1960s, we have evolved from a relatively simple organization offering individual and group coverages into a complex structure of subsidiaries offering a much extended range of financial services. The evolution continued in 1980 with the formation of a holding company, John Hancock Subsidiaries, Inc., to coordinate more effectively the policies and operation of our subsidiaries.

Nevertheless, behind the scenes, some members of senior management were concerned about the company's future. Messrs. Matz, McElwee, and Morton had been talking about the issue for several years. With J.E. Matz retiring at the end of 1981, both Jack McElwee and Jim Morton were determined to define a new corporate sense of direction with less departmental self interest and factionalism. In addition, Matz, McElwee, and Morton all believed that something specific had to be done to help John Hancock get out of its bureaucratic posture and new strategic directions. But as Jack McElwee noted:

Nobody really knows what the financial services industry will be in the future. We all admit to that. We are all trying to be flexible. We know we all are not doing everything right, and the jury is still out as to which companies will have the right combination and the wisdom and courage to remedy the situation as it evolves. When will this happen? When will the paradigm of the new FSI be in place? In my view, it won't be before 1990.

The Task Force

After considerable debate, discussion, and several position papers written by members of the executive committee, the Inflation Strategy Task Force was set up by the executive committee which chose the task force members to represent a broad cross section of the company. Excerpts from the task force's assignment read:

Under the assumptions of continued high inflation, intensified consumer and regulatory pressures, and new

nontraditional competition, the task force is to determine: (a) the best eventual configuration for our product organization, both Home Office and Field; (b) the main outlines of the products that this organization will most likely sell and administer; (c) the principles of an appropriate compensation profile for such products.

Finally the task force is to devise the best strategy for transition from our present organization and product lines to those formulated by actions described in the paragraph above.

The eight men assigned to the task force represented different special areas of interest and expertise. The only senior vice president on the task force was the chairman, Paul Murphy, who at 51, had an MBA, an LLB, had worked mainly in the administrative side of Field Sales, and had served on many corporate committees. Some employees wondered why McElwee and Morton had chosen Paul Murphy to head the task force. One manager recalled that Murphy had chaired one task force some years earlier which had been "torn apart" by a previous executive committee when the task force made its recommendations. Murphy was considered bright, thoughtful, doggedly determined, and sometimes reticent to push his own views. The youngest member assigned to the task force was Jim Thompson, who had a PhD in physics and at 30 years old, was described by one manager as; "If not the finest mind on the committee, at least the most creative. He's very junior when it comes to corporate tenure, but he's generated respect at all levels." The other six members were:

- Sam Hendricks.** Age 45. Bright, articulate, sometimes needling. A passionate advocate for his own positions. Hendricks had a PhD in Economics and served as corporate economist. He had sometimes spoken of his desire for line responsibility.
- Joe Brown.** Age 37. Described as ambitious, articulate, a workaholic, and an occasional, abrasive devil's advocate. Brown had broad company networking experience as a key member of the firm's legal office.
- Al Crosby.** Age 46. From marketing. Wide experience in large-scale management functions. A Wharton MBA, he had recently managed a highly successful, cross-corporate cost reduction program. Hard driving and highly respected.
- Don Dorman.** Age 54. Worked in a pivotal position in marketing research. Articulate, witty, and considered a burr under the saddle of every boss he'd worked for, yet highly respected for his ideas.
- Frank Welch.** Age 48. Described by one executive as "a quiet catalyst and an exceptional resource because of his grasp of comprehensive corporate issues--an actuary-philosopher." He sometimes irritated senior managers with his advocacy of "enlightened change." Currently head of the corporate planning office.

Gerald Long. Age 46. A bright, thoughtful, actuary who sometimes hesitated to present his own ideas. Highly respected for his quality of mind, Long had a national reputation in his own sphere of investment-related insurance products.

During November, the task force members tried to identify the topic areas to be covered in their assignment. As one member said, "The executive committee gave us the charge, and then they walked away." On November 21, the task force submitted an Initial Report of the Inflation Strategy Task Force to the executive committee outlining their future plans. The November 21 report said that the task force would submit its work in three additional phases. Phase I would consist of a report on: "certain factors/subjects which are material to our task (and) have been identified. Each topic area was assigned to a Task Force Member as follows:

1. Today's Purchaser of Financial Products and Services. Project Leader--Sam Hendricks.
2. The Purchaser Demographically Defined. Project Leader--Frank Welch.
3. Financial Products and Services Used by Tomorrow's Purchaser. Project Leader--Frank Welch.
4. Tomorrow's Customers' Attitudes Toward Financial Products/Services Especially as Influenced by Persistent High Inflation. Project Leader--Don Dorman.
5. Government Involvement in Financial Sectors. Project Leader--Joe Brown.
6. How Will Competition in Consumer Financial Markets Be Different 5-10 Years Hence from the Present. Project Leader--Gerald Long.
7. How Will Technological Developments of the Present and Future Affect Financial Products, Distribution Systems, and the Like in the Mid and Late 1980s. Project Leader--Al Crosby.
8. Other Companies' Approaches to Preparing for the Future. Project Leader--Jim Thompson.

The November 21 report went on to say:

In Phase I, each project leader will draw upon his department's resources and other Task Force members to develop preliminary answers to: a) a more complete definition of the subject, b) an estimate of available source data and outside resources that are needed, and c) a target conclusion date for that segment of the study.

During Phase I, project leaders will make interim progress reports on each factor to the task force for purposes of communication and advice. The Task Force will then attempt to synthesize the various presentations in order to develop an overview for marketing our products.

In Phase II, the Task Force will attempt to define what markets and products seem most advantageous for John Hancock in the late 1980s. This involves two kinds of considerations: a forecast derived from Phase I of future markets; and a selection for John Hancock from among these. The selection process will involve applying to various products the criteria which have been developed. In the course of Phase II, the Task Force plans to work as an entity rather than in subgroups.

. . . We would propose making this report on or about April 15, 1981."

Finally, Phase III was to provide an outline for implementing the steps recommended in Phase II.

By early February of 1981, each topic leader working with his own department's staff members had completed the individual project assignments and circulated a considerable mass of information to the other members. Some debate occurred within the project teams as junior staff members presented their own ideas for change. Task force members met 21 times during this period. One of Sam Hendricks' key staff members sat in on a number of these early meetings when Hendricks did not attend. She recalled that the task force got off to a poor start and noted that:

It was a group management problem. The issues were all there, but nobody was directing anyone to face up to them. There were three or four people who had a list of issues, and then all the people whose departments were affected--I suppose you could think of it as staff vs. line, but it wasn't quite that clear. To some extent, the people who had the major questions tended to be the more junior people, although that wasn't 100% true either. Then there was a chairman who, from my perspective, didn't ever force or structure things so that there was ever a resolution. Things were brought up, and then other things were brought up, and it was all kind of left hanging. I felt that the chairman needed to bring things up for a vote or a resolution. Instead, it just kept going and going and going in agonizing detail with strong opinions on all sides.

Member frustrations continued to grow. One observer commented that each project leader sometimes seemed caught between his own department's traditional interests, the desires of his staff member subordinates, and the task force directives. Another noted that:

The staff members were on the average 10 to 12 years younger in age and tenure than the task force members. This pattern produced an effect wherein the younger tigers inundated the task force members with data and recommendations which were in many cases quite radical. The task force members, who saw themselves as "radical" vis-à-vis the executive committee members, were in an interesting position. They had to moderate without emasculating the work of their respective aides and still incorporate the end product into the overall report.

Chairman Paul Murphy also commented upon some of the task force's problems:

We began to run into difficulty in preparing the Phase I report in late January. The members of the task force completed their assignments but had difficulty in collectively synthesizing all of the material and relating it to our charge. The turmoil in the task force troubled me considerably, because I was not particularly sympathetic to the methodological difficulties experienced by some of the younger task force staff members.

By early February, Sam Hendricks knew that not only he but several other members of the task force were worried about lack of progress. His meeting with Jack McElwee was his own response to that frustration. He was encouraged to learn that Jim Thompson apparently had similar concerns. Thompson showed Hendricks a memo which Thompson planned to circulate at the meeting on February 6, 1981. The memo said:

WE DO NOT HAVE A PROBLEM WITH WHAT WE ARE TRYING TO DO AS MUCH AS WE HAVE A PROBLEM WITH HOW WE ARE TRYING TO DO IT.

WE HAVE A PROCESS PROBLEM. THERE IS NO MECHANISM FOR

1. IDENTIFYING THE 5, 10, 15, OR 20 ISSUES VITAL TO OUR STUDY.
2. BRINGING SUCH ISSUES BEFORE THE TASK FORCE IN AN ORDERLY FASHION FOR EFFECTIVE DISCUSSION.
3. POLLING ALL MEMBERS FOR THEIR OPINIONS TO DETERMINE THE EXTENT OF CONSENSUS OR POLARIZATION.
4. RECORDING THE STATUS OF EACH ISSUE.

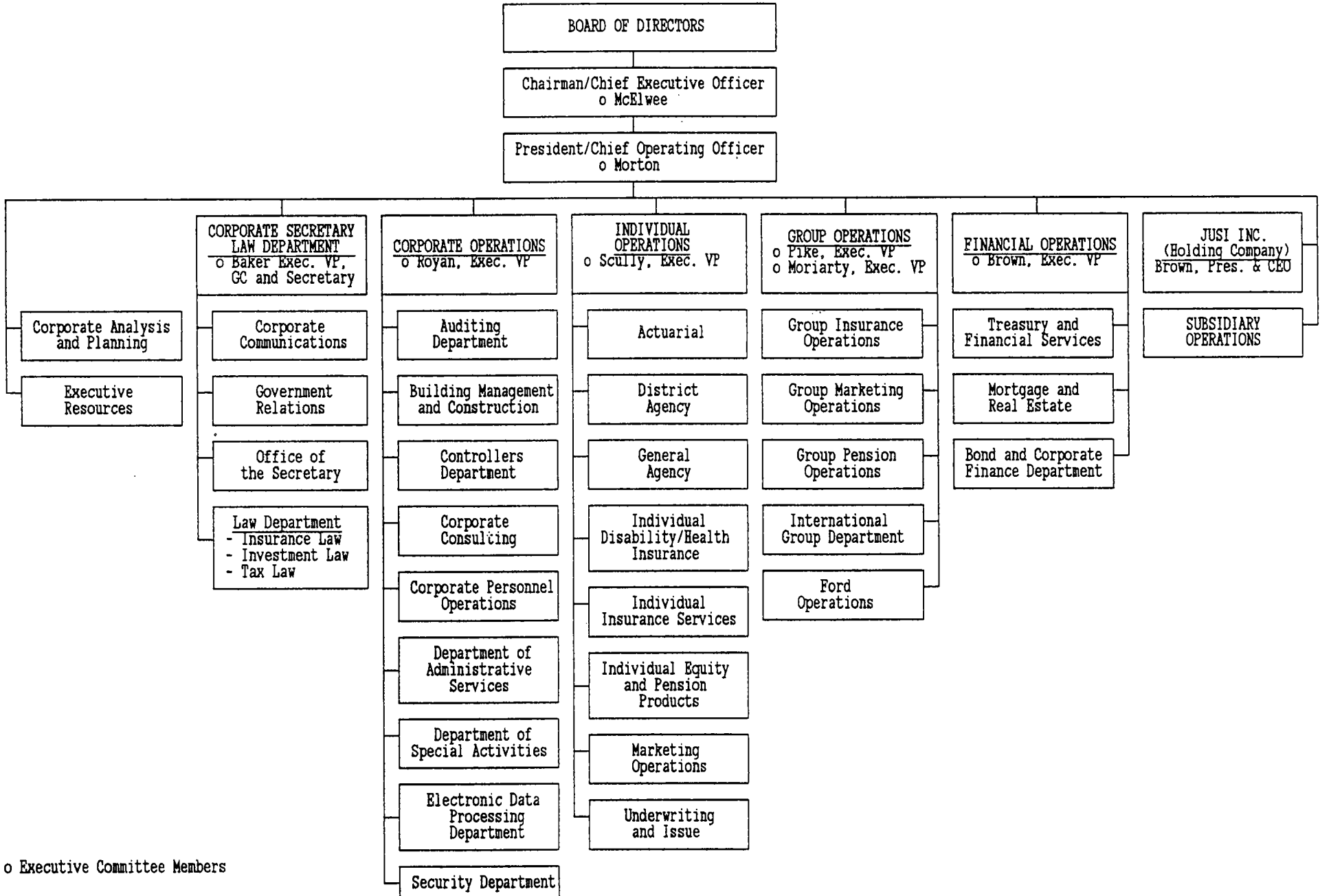
WITHOUT SUCH A MECHANISM, WE

1. CANNOT LOCATE INCONSISTENCIES IN INDIVIDUAL MEMBERS' OR THE ENTIRE GROUP'S VIEWS.
2. CANNOT IDENTIFY THE SIGNIFICANT DIFFERENCES OF OPINION THAT LEAD TO MULTIPLE SCENARIOS.

3. CANNOT PROCEED EFFECTIVELY TO FLESHING OUT THE ISSUES AND SYNTHESIZING THEM INTO A WRITTEN EFFORT.

Sam Hendricks knew that Paul Murphy had received a copy of Thompson's memo. He wondered what Murphy would do with it, if anything. He also hoped that his and Thompson's concerns would encourage Jack McElwee, Jim Morton, and the executive committee to step in. He wondered what else he should say, or how he should pursue these concerns with Jack McElwee at the moment.

Exhibit 1
 JOHN HANCOCK MUTUAL LIFE INSURANCE CO.
 THE INFLATION STRATEGY TASK FORCE (A)
 Organization Chart
 Effective April 1, 1983



o Executive Committee Members



In the Shadow of the City

Jember Teferra, Coordinator of the Integrated Holistic Approach Urban Development Project (IHAUDP) had arranged to meet Alec Reed, a British entrepreneur, in Addis Ababa, Ethiopia's capital city. Jember was the founder and head of the development project which aimed to improve the living conditions of slum dwellers in a section of Addis. Alec Reed was the principal donor. The purpose of the meeting they had scheduled for 1 January 1990 was to discuss the project's progress to date and plans for the future.

Jember and Alec had recently worked together to raise £1 million (\$1.6 million) for the development of three severely depressed slum neighborhoods (known as Kebeles) situated on the fringes of Addis's main market district. The consortium of donors they had organized included the British government's Overseas Development Administration (ODA), the UK based charities Water Aid and Help the Aged, Bob Geldof's Band Aid and Reed Charity, Alec Reed's family charity that had shares in his business Reed Executive PLC. The money raised was to be spent on replacing condemned housing, improving primary healthcare and sanitation facilities and creating new enterprises and employment for the poorest people in the slum.

Six months had passed since the first funds arrived from the UK. The project office had been built, a comprehensive survey of the slum had been completed and the project's management staff had been employed. Alec was visiting Addis to make a preliminary audit of the organization. He felt some apprehension about how he would be received and what he would find. A number of disagreements over operating procedures had produced tension in what had previously been a very pleasant working relationship with Jember.

Ethiopia Background

Located in the Horn of Africa (see *Exhibits 1 and 2*), Ethiopia is a land of great geographical contrast and rich ethnic diversity. It has a population of 46 million (1987 UN estimate) and a surface land area of 1.2 million square kilometers (twice the size of Texas). The landscape varies from scorching deserts in the Danakil Depression to temperate forests and highland pastures in the provinces of Tigre and Shoa.

James Reed and Nicholas Richardson prepared this case under the supervision of Professor Anne Donnellon as a basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. In the Shadow of the City, No. 890-023, a video depicting the project is also available for use with this case.

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Ethiopian history goes back more than 2000 years; "In Africa, only Egypt has a more ancient civilization," wrote the British explorer, Wilfred Thesiger.¹ The Ethiopian people were early converts to Christianity in the fourth century AD, but the rise of Islam in neighboring Arabia in the seventh century served to isolate Ethiopia from the rest of the Christian world. Thereafter, in the words of the historian Gibbon, "encompassed on all sides by the enemies of their religion, the Aethiopians slept near a thousand years, forgetful of the world by whom they were forgotten."²

The Emergence of Contemporary Ethiopia

The European powers were reminded of Ethiopia's existence when the Emperor Menelik soundly defeated an Italian army at Adua in 1896 thereby ending an Italian attempt to colonize the country. Undeterred, the dictator Mussolini resolved to avenge the defeat. In 1936, in defiance of The League of Nations, he ordered the Italian army to invade Ethiopia. The Ethiopians were eventually defeated after Mussolini's forces made decisive use of air power and mustard gas. The Emperor Haile Selassie was forced into exile in England.

The Italian occupation of Ethiopia was brief. In 1941, a joint Anglo-Ethiopian force successfully defeated the Italians and restored Haile Selassie to the throne. The Italians withdrew and Ethiopia secured its status as the only African country never to have been colonized by a European power.

Haile Selassie dominated Ethiopia as Crown Prince and Regent from 1916 to 1930 and as Emperor from 1930 to 1974. He was regarded as an innovator in his early years but by the early 1970s his government was in difficulties. The Economist reported that "obvious corruption among senior officials, sharply rising prices and a shortage of jobs for graduates all emphasised the government's incapacity. Widespread criticism was brought to a head with revelations of the famine of 1972-74, in which perhaps 200,000 people died. A wave of strikes and mutinies broke out in the armed forces, starting in January 1974."³

The ageing Emperor was finally deposed by the military in September 1974. The government that replaced him dismantled the imperial order, nationalized land and established a network of peasant associations from the kebele (local administrative unit) to the national level. In 1977, Chairman Mengistu Haile Mariam became the country's President.

In early 1990, the government faced similar problems to those that confronted the Emperor Haile Selassie. Provincial unrest had worsened. The Ethiopian army was engaged in an escalating civil war with "liberation fronts" in the provinces of Tigre and Eritrea. The threat of famine persisted. The great famine of 1984-5 affected 10 million people and may have killed as many as 1 million. Following the failure of the rains in the north of the country in 1989, the United Nations had again appealed for massive international aid to avert a repeat of the tragedy. Poverty was endemic. With an annual GNP per capita of \$130, Ethiopia was Africa's poorest country. Foreign exchange, fuel, foodstuffs, and basic raw materials were all in short supply.

The City of Addis Ababa

In 1990, Addis Ababa was a busy but not prosperous city. The market, Africa's largest, bustled with activity and Addis's population had grown close to 2 million. The city center was developed and Addis commanded a unique role in African political life; the Organization of African

¹ Wilfred Thesiger

² Edward Gibbon

³ *The Economist Intelligence Unit.*

Unity (OAU) was based there as was the United Nations' Economic Commission for Africa (ECA). But while the downtown area of Addis was relatively modern, the great majority of the city's residents lived in the shadow of the city; their homes were in the sprawling slums that surrounded the center. The houses were cramped and crowded together; sewage flowed freely down the narrow paths and alleys; hawkers, beggars and street children were everywhere.

It was in three of these slum neighborhoods—the Kebeles 30, 42, and 43, in the district of Kefetegna 3—that Jember Teferra had established her urban development project. The project targeted the poorest segment of the population—women, children and single parent families—for special assistance. The conditions necessitated a multifaceted, integrated approach to help alleviate the social and economic problems of the poor. The integrated approach aimed to provide assistance in the areas of health, housing and community development (see *Exhibits 3 and 4*). The rationale was that there is little value in vaccinating children if they live in insanitary, condemned housing and their mothers are alone and unable to earn enough money to support them. Ethiopia has no system of social security.

Tesfaye's Story: Everyday life in the Kebele

Tesfaye lived in Kebele 43; his story was tragically illustrative of a child's life in the poorest slums of Addis Ababa. He was the youngest of four children in a family headed by his mother. Tesfaye's father had to leave home to find work. This was a common occurrence in the kebeles where 75% of the households were run by women who earned on average 1 Birr (US 50 cents) a day mostly through food peddling or begging.

The family house was built in the early 1940s with plastered wooden walls and corrugated iron sheet roofing. It was falling apart, leaked water and was unfit for human habitation. Their latrine, which was shared by six other families, was falling down and the latrine pit overflowed into a pool outside the house which was in the area where Tesfaye played with his friends. The family kitchen was located next to the latrine and was constantly plagued by flies.

When Tesfaye was a baby he frequently suffered from diarrhea and vomiting because of the unhygienic conditions in the kebele. When he was three years old he fell seriously ill and he was mentally retarded. His teeth never developed fully and his runny nose attracted so many flies that his eyes were permanently infected.

Tesfaye's family lived in similar conditions to the other 22,837 people in the project area which contained 4,086 houses. A 1989 survey of the area found that 53% of the houses and 76% of the kitchens were either condemned or in need of major repair. Sanitary conditions in the kebeles were particularly bad. 59% of the latrines were condemned or required major repair. Three beggars died after they slept on the wet floor of a condemned house that was next to an overflowing latrine.

Employment opportunities in the area were limited and 65% of the working population earned less than 100 Birr (US \$50) a month. Food peddling was the most common source of income. The women and children displayed their goods such as dried peppers and lentils on the roadsides of the Kebele.

History of the Integrated Holistic Approach Urban Development Project

The Integrated Holistic Approach Urban Development Project (IHAUDP) was an extension of an earlier development project in Kebele 41, Addis Ababa, that ran from 1981 to 1986 and was funded by Redd Barna (Norwegian Save the Children). Jember Teferra had been a project officer for Redd Barna where she had helped to develop the Integrated Holistic Approach which she symbolized with the triangle and circle motif that is found on the project's letterheads. "Each side of the triangle

represents one component of the program," said Jember, "while the shape represents the fact that they cannot work in isolation from each other." (See *Exhibit 5*.)

The approach was based on current research on community development which maintained that the most effective way to produce sustainable social change was through a bottom-up approach. This approach, espoused by Paulo Freire, required involvement of the community in specifying their needs and in planning how aid would be utilized.⁴ In the case of the Ethiopian slum-dwellers, considerable education was required before they could participate in such efforts, as Jember explained:

The people who lived in the kebeles were beggars, food peddlers, and other socially disadvantaged people. These people had been perpetually left out of society and denied opportunities to better themselves. They were forced to live a hand-to-mouth existence, there was no structure to their lives, only a kind of fatalism. To produce change in this society, to improve health conditions, and the housing, to teach them how to be part of an enterprise, one needs to change their whole way of thinking. You need to instill self-esteem, self-respect, and to inspire a sense of responsibility and discipline. You need to help them reconstruct their lives. That doesn't happen overnight. To get people to think about next month is a major accomplishment, to get them to a state where they are producing income requires an emphasis on human development.

By many accounts, the Redd Barna effort in Kebele 41 had a significant impact on the community; however, the costs were much higher than anticipated and the progress in building was not as fast as expected. In 1985, the Norwegians brought in a consultant to conduct an evaluation of the project. The feedback was critical; in particular, the expert faulted the income-generating programs for lacking a profit-orientation. Subsequently, one of the programs was closed and Jember's position was phased out. Once again in a life marked by significant changes, she was faced with the question of what to do next.

Jember Teferra

Jember Teferra, a distant member of the Selassie family, was born in 1943 into the aristocratic class of Ethiopia. The Christian faith was a very strong influence on her from earliest childhood. Her mother was concerned about issues of social justice and took pains to teach her children about the extent of poverty and deprivation that existed in the country. Jember's father, though one of the major landholders in Ethiopia, was also a progressive.

Jember was educated in England in the same public boarding school that was attended by members of the Ethiopian Royal Family. While there, she formed a deep, lasting relationship with the headmistress—her "second Mom"—who encouraged her to prepare herself "to do something worthwhile with her life." As a result, Jember trained to be a nurse, and followed this with post-graduate training in community health.

Upon returning to Ethiopia, she took a position as ward sister in a hospital for the poor. She was dismayed to find that it was run more like a poorhouse than a medical institution, so she went to the foundation which governed the hospital and protested the conditions and lack of care given to patients. Soon thereafter, she was named matron of the hospital and after three years, had made significant changes in the infrastructure of the organization. Eventually, she became discouraged by

⁴ Freire argued that to help the oppressed in the long run they must be liberated from what oppressed them. He maintained that the experience of repeated failure and the fear of not being accepted led to a fatalism about the future.

the persistence of attitudes that inhibited permanent change and she decided it was time for her to move on. She took a part-time job with the Red Cross, where she created a new department of health and social services which provided nursing training in hospitals and in community care. She also became very involved in fund-raising for the organization.

During those years, Jember had married and given birth to four children. She began to feel the pressures of balancing the demands of her job with her responsibilities as the wife of an important member of the government. Her husband Haile Giorgis, a U.S. trained engineer, was Minister of Public Works when they married. In 1971, he became the mayor of Addis Ababa.

In 1974, after the revolution that overthrew Haile Selassie and installed a Marxist government in Ethiopia, Jember's husband was imprisoned. Two years later, she was also charged with being "a possible hindrance to the revolution" and was put in prison. During the five years of her captivity, she established a medical practice treating inmates, as well as a health assistant training program which had graduated 87 students by the time she was released.

After her release from prison Jember was offered a number of jobs, some of which were high-paying positions with international organizations and private companies. At this time, she also learned of the position with Redd Barna which paid relatively less than others had offered, but it provided the opportunity to work with other like-minded people on community development. Despite the considerable financial hardship the extended family was experiencing, Jember was encouraged to take the aid project position. Her family and friends viewed her as a person with a mission, as "one who goes where angels fear to tread," and who liked to explore new things. "Members of our class, the professional class, see myself and my husband as 'repairers of a rotten system'. I see myself as someone who tries to live fully in fulfilling the vision God has given me wherever I am. I call my husband the husband of the century because he has fully supported and encouraged me in all my activities, even when he has been inconvenienced by them."

In 1986, Jember went to England to continue her education, planning to take an M. Phil. at Manchester University in a program of study on the integrated approach to community health. During her studies, she was encouraged by her tutor to use her development experience as the basis for her master's thesis. In her efforts to obtain financing to cover her research expenses, Jember was referred to Alec Reed, a successful businessman who had recently established a charity for women.

Alec Reed

Born in 1934, to a lower-middle class family in Hounslow, West London, Alec attended the local state-run grammar school and grew up with a healthy respect for work and a keen ambition to make something of himself. He left school at the age of 16, but he later trained to be an accountant by attending night school.

In 1960, Alec founded Reed Executive, an employment agency business, opening his first branch in Hounslow. Through focus and control, Alec steadily built the company by opening offices throughout the country. By 1989, with Alec Reed as its Chairman, Reed Executive was a publicly quoted company with a chain of 200 agencies across the UK that reported sales of £120 million and profits of £9 million.

An active Christian, Alec had managed throughout his adult life to make time to do voluntary work for the social causes that concerned him. As a young man in the 1960s, he worked as a volunteer helping to rehabilitate drug addicts in London. When he discovered that finding work was a major concern for these people, he started a special employment agency for them. His staff of three people first recruited sponsors for each addict, a sober "twin," who would provide the personal encouragement necessary to keep addicts employable. Then jobs were found. The agency operated quite successfully for four years.

In 1980, Alec was appointed to the board of Royal Holloway College, London University and in 1985 he was named Chairman of Andrews and Partners, an ailing firm of estate agents that was wholly owned by a charitable trust. At the time Andrews was in financial difficulties and Alec agreed to take a sabbatical from his own business to work as "company doctor." He successfully managed a turnaround at Andrews in which the company moved from a loss of £297,000 in 1985 to a profit of £1,008,000 in 1986.

He managed a similar rescue for the Canadian branch of the charity Help the Aged, which had been operating at a continuous loss for a number of years. After learning of their difficulties, he called upon Betty Gittens, a Barbadian-Canadian woman who he had met through the International Employment Association to help him reorganize the charity. Alec credited their success in turning around the organization to Betty's business acumen.

Alec thought of his business as "a vehicle for creativity." He stressed that he had originally gone into business by himself because it meant that he could avoid the frustrations associated with persuading other people that his ideas were good. Alec described himself as "a pain" to work with. He added that he was very demanding at work; he was always looking for an added twist, asking people for more and wanting things to be that bit different.

Figuring out how to organize and manage an operation was also intriguing to Alec. He saw the turnarounds he had managed as a matter "of getting the organization right." He believed that,

In controlling a business like mine with 200 field offices, you had to have agreement and understanding. You had to be sure people wouldn't change the rules. I became accustomed to wrestling with problems at arms' length, which gave me forewarning of what I might experience with Jember on the Ethiopia project.

A New Partnership

In 1987 when Alec met Jember, he was very impressed by what she had to say and by her personal charisma. He agreed to sponsor her research immediately. They then talked at length about conditions in Ethiopia and about Jember's studies and plans to return to Addis. Alec's curiosity about the region had already been piqued by his elder son's interest in reggae music and the Rastafarian religion which reveres Haile Selassie. As the conversation with Jember progressed, he thought that he would like to visit Ethiopia to learn more. He recalled his son's suggestion that if he was going to sit on charity boards and talk about the Third World, then he should go there. By the end of their conversation Alec had accepted an invitation from Jember to visit Addis Ababa in the fall of 1987.

When Alec first visited Addis he was more interested in fact finding than in financing any specific projects. But in the event, he and his wife Adrienne were so disturbed by the living conditions that they witnessed in the Kebeles that he decided to donate a suction truck to empty overflowing latrines and £7000 to reopen the garment making factory that had been closed by Redd Barna.

As word spread of Jember's continued interest in slum improvement, she was encouraged to extend the project to other kebeles. The staff from the original Redd Barna project urged her to pull the group back together and donor agencies encouraged her to submit requests for their assistance. She also learned that the British government's Overseas Development Agency (ODA) would match funds raised from non-governmental organizations (NGOs) for such projects.

In 1987-88, she prepared documentation and submitted a £1,000,000 proposal for a project to develop three kebeles over two years. The proposal recommended adoption of housing, health and community development projects similar to Kebele 41's, plus other projects that might be recommended by the communities of the target kebeles. It also included provisions for funding to

cover a baseline survey that would determine community needs (Jember based her preliminary forecasts of housing needs on a 1985 World Bank survey and on the data from Kebele 41).

In preliminary talks, the ODA suggested that they may give £500,000 over five years if Jember could raise matching funds from private donors in the UK. Although this was the largest commitment the ODA had ever made to a project, raising the requisite private funds proved to be a laborious process. Several NGOs seemed willing to pledge to the project but they were slow to make firm commitments and the amounts offered fell far short of the £500,000 sought.

An early and enthusiastic contributor to the project, Alec joined Jember in her discussions with other potential donors. He wanted to be an "active investor" in the project and hoped to use some of the knowledge and skills he had acquired in business to maximize its effectiveness. He said that he had not been interested in simply writing checks to charities because he felt he could never know how the money would be spent or what portion would go on overheads.

Jember was impressed by Alec's dedication to the cause. "The ODA," she said, "was insistent that I appoint a donor coordinator through whom their funds would be channeled, I decided to nominate Alec for this role." The understanding was that funds would be channeled through Reed Charity which would have overall responsibility for coordinating the consortium of donors.

Jember continued her efforts to raise additional money. Alec soon found the fundraising process frustrating and decided to act; to enable the project to start quickly and to obtain the ODA money he agreed to underwrite the entire NGO portion of £500,000 with the intention of reducing his commitment as the other NGO's decided on the extent of their funding. He had recently sold off a major subsidiary of his business and was interested in using some of the windfall to support charitable projects. He had also transferred 10% of the shares in Reed Executive to Reed Charity to support aid projects in the Third World. Jember gratefully accepted his offer.

The proposal was well-received by the ODA, which agreed to fund £500,000. "Because we had made the largest commitment, Reed Charity was given responsibility for coordinating the consortium of donors," said Alec. The ODA stipulated, however, that their contribution would be paid out over five years rather than the two years indicated in Jember's original proposal. This condition was a disappointment to Jember. She knew that meeting the needs of the designated kebeles would probably require five years; with a real inflation rate of 20% annually,⁵ she felt she would have to raise considerably more money just to accomplish the preliminary plans. Alec's subsequent concern with the ODA stipulation was that the equal distribution of funds over the five years did not recognize that start-up projects often required greater investment in the first year.

By the end of 1989, funding commitments had been obtained from Water Aid, Help the Aged, and Bob Geldof's Band Aid (see *Exhibit 6* for donor commitments). Initially, relations between the donor consortium and Jember were good although the donors had been concerned that they would not receive timely and accurate reports on the financial status of the project. This problem was addressed at a meeting in London at the Band Aid offices on July 21, 1989. Jember arranged the meeting to discuss cash flow difficulties, fundraising and financial reporting issues (see *Exhibit 7* for excerpts from the minutes of the meeting). Penny Jenden, the director of Band Aid, chaired.

At the meeting Alec stipulated that he would require weekly accounts from the project and Jember complained that the project had been starved of cash. "On the assumption that we were ready to begin, I had hired a staff, set up an office, and conducted a survey, but with the exception of £10,000 in April, I had received no funds from Alec," said Jember. After heated discussion between Alec, Jember and the other donors it was eventually agreed that cash would be released to Ethiopia on a rolling basis upon the receipt of monthly accounts. The donors agreed that they would visit

⁵ *The Economist Intelligence Unit.*

Addis regularly to audit the project. This was the objective of Alec Reed's trip to Ethiopia in January 1990.

The First Meeting in Addis

When Jember, Alec and the entire project management team met as arranged on 1 January, it was a warm and humid afternoon in Addis. The air was heavy with expectation as they crowded into Jember's office in one of the newly converted shipping containers. All the staff had been invited so that no one would feel excluded and to avoid any future misunderstandings about what had actually been said.

They began by addressing some of the project's start-up problems and operational details. The conversation was relaxed and informal. Gradually the discussion moved on to the project's objectives and management philosophy. The tone changed, the atmosphere grew tense, the staff listened in silence. An hour after the meeting had begun, it was clear that there was a serious difference of opinion about the proposed scope and scale of the project. . . .

Jember: You see this initial budget for £1 million is not for five years, it is only for the first two years. This is really a £5 million project (referring to *Exhibit 8*, the survey of physical upgrading needs).

Alec: [Surprised] That's not how I understand it at all. We are committed to funding a £1 million project.

Jember: The original proposal for £1 million funding did not specify for the full five years.

Alec: The agreement clearly specifies a total budget of £1 million. [He refers to the minutes of the July 1989 meeting between Jember Teferra and the donors in London and quotes], "Reed Charity has opened an account for holding UK funds and has agreed to underwrite the program for half the total budget of approximately £1 million."

Jember: It also says that we can raise funds elsewhere. We intend to raise what is necessary to help the poorest in the Kebeles.

Alec: Jember, you and I both speak English and total means total, at least in the English I speak. I don't believe you have the capacity to multiply the workload by five.

Jember: This is not the view of the other donors, they appreciate that we are permitted to raise money elsewhere. [She too refers to the minutes from London and reads] Jember should be able to seek other funding for additional components to the program as it develops, above those covered in the £1 million budget, as long as new initiatives do not overstretch the staff and capacity of the program to function successfully.

Alec: I don't know how you can say that multiplying the project size by five will not overstretch the staff. You haven't built a single house yet and nobody here has experience of a £5 million project. [He turns to the staff.] "Who has worked on a £5 million project before, who has experience of something this big?" [There is silence, no one responds.]

Jember: We have worked on the Kebele 41 project. This is an extension of that, we have the experience, it is well within our capabilities. Why do you not have confidence in us?

- Alec: What we are talking about now is much bigger than the Kebele 41 project. It is not that I don't have confidence in you, I would be saying exactly the same thing if this was my own business. It is very difficult to manage something this size. In my book, small is beautiful.
- Jember: This is not business, this is development, it is different. You can't apply rules of business, we are working with the poorest, the oppressed. In business you take the best.
- Alec: This is business, we are in the house building business and it is our job to do that as efficiently as possible. I don't believe we have the management capacity to do something five times as big. No one here has the experience. . . .

The discussion continued heatedly until dusk. The meeting eventually broke up without any agreement or compromise being reached. The mood was subdued, the staff seemed depressed.

Jember's Perceptions of the Disagreement

Jember felt that Alec was not listening to the Ethiopian staff. "I was saying to him, 'can you listen to what we are saying, not to what is playing in your mind?'"

Alec sees this misunderstanding as a cultural problem, but I see it quite differently. I mean, I was educated in England; high school, health training, and higher education. For eleven and a half years, I lived in England. I speak perfectly good English, so it's not that. I speak English perfectly but I'm not a mind reader.

We were working on two plans/two budgets: what the donors would give and what the community wanted. The purpose in the latter being the involvement of the community in the planning, which is the heart of the integrated, holistic approach. The project's goal was to meet the felt needs and top priorities of the communities. The idea was 'if we get more funds, this is what we could do.' This was very disturbing to Alec. He took it as a demand. His response was to ask what was the maximum we would need. I responded that we did not expect this from him, but if we were to satisfy the community's felt need, it would take 4-5 million pounds.

That's when he became abusive. He said we upscaled the project but that as native people, we were not capable of managing such a project. I told him that we did not upscale it but that this was entirely consistent with the two-year project.

She also believed that Alec was troubled by the 18% administrative costs in the budget. "He thinks we were there just for what we get out of it. But we have all had many, and better, offers. He doesn't realize how business is done here. How long it takes to get the supplies you need. We sent someone out to buy wood, he was gone to the country for a month, someone had to be here to get the work done. To get permits from the government takes forever. In Ethiopia, you must smooth the way for everything, it takes time. You have to allow time and accommodate to the situation, and that means the work needs more money and time."

Alec's Perceptions of the Disagreement

Alec felt shocked and deceived to learn that the project was now being characterized as a £5 million effort. He was also slightly disappointed to see that little had actually been accomplished yet. Although more than £50,000 (see *Exhibit 9*) had been spent, not a single house had yet been built; so this significant expansion seemed quite premature.

In his business, he had been successful by maintaining focus. He wanted to see the same standard applied in the Kebeles. Success in this project was important to him, not just for the satisfaction of accomplishing the goals of the project, but also because he hoped to be able to go back to the British government for more funds for other aid projects. He knew that the ODA had rigid accounting and reporting standards, and he was concerned that these were not being met. "In my business, I expect to see weekly accounts, I don't think it is unreasonable to see the same from an aid project."

I'm not sure whether our differences are mainly cultural. There is also a significant difference between business and social work. Jember wants to meet everyone's needs, but in Ethiopia that's a limitless task. That task is impossible, it's not the right way to think of aid. It shouldn't be a case of top-down versus bottom-up; a good project will be side by side, it will contain elements of both.

Jember's particular skill is fundraising; she's a fantastic fundraiser for Ethiopia. I think she should spend more time raising funds for other projects and not focus all of her efforts on the three kebeles.

A Second Meeting in Addis

On January 3, two days after their original meeting, Jember Teferra and Alec Reed met again. This time only the more senior staff members—the project manager, assistant manager and income generating supervisor—were present.

Jember outlined the history of their association and the importance she attached to the integrated holistic approach to urban development. She clarified her understanding of the agreement of February 1989, whereby the £500,000 donated by Alec Reed underwrote the £500,000 donated by the British government and would be reduced accordingly as commitments were made by other donors. She said that she had kept to that agreement and had only raised funds in the UK through the consortium account.

Jember emphasized that her priority was to meet the needs of the community. She pointed out that her previous employer Redd Barna, the instigator of the slum upgrading project in Kebele 41, had not set rigid budgets. Quarterly budgets were set and accounts reported (see *Exhibit 10* for IAHUDP's accounts for the period ending December 1989), but adjustments were made to accommodate urgent felt needs. She therefore considered the controls and constraints proposed by Alec Reed to be unreasonable.

Jember: My mission is to meet these people's needs. I am not in a business, I am here to do a job. I have an academic, humanitarian and Christian interest in helping this community. We are not dishonest, untrustworthy or crooks.

What we are proposing will not overstretch the staff or the capacity of the program.

The staff were humiliated by what you said the other day. I told them that their humiliation is nothing compared to the humiliations suffered daily by the poor people they are here to serve. It is only because we are Ethiopians that you say we are not capable. We do not want to be beggars, we do not like being beggars. No one by choice raises funds or begs for money. It is our poverty that has equated Ethiopia with begging, but we do it for a purpose and not for its own sake. We should not be humiliated as recipients.

Clearly you have no confidence in us. After the meeting of the donor consortium in London last summer when you tried to make me sign the undertaking to submit weekly accounts some of the consortium people said, 'this man has no confidence in you.' The other day the staff said the same thing.

Alec: I do have confidence in you. Would I give £1/2 million to someone I didn't trust? This is my own money. I am not an employee of some charity, I worked hard for this money. I want to see that it is well spent.

Jember: We are grateful to you for what you have done and we know that because this is your money, your needs and interests are different to other donors. But you must understand that development is different to business. You are new as a donor, we know what we are doing.

Alec: My concerns are simple. I have three things to say and three things only.

One, I don't want to be a donor, I want to be a partner. It was a shock to be told that you wanted to make the project five times the size I had expected and that applications for funds had been sent to other people. It would have been embarrassing if they had approached me and I had not known that you considered this to be a £5 million project. I would have been humiliated.

Two, I object to the implication that I am a racist. I am not a racist, I have great admiration for the Ethiopian people. But I am sure that multiplying the project size by five will overstretch the team enormously. This would be as true of my business in England as it is here.

And three, if you do manage to raise the funds and you replace my underwriting, then you have no argument with me.

It would be really criminal if we allow our arguing to break up this relationship because it will only be the poor, the people we are supposed to be helping, who will suffer.

Jember: I am confident that we can raise the £5 million we need. Our priority is to upgrade the poor. God willing, we will succeed . . .

What Next?

The next morning Alec Reed departed for London. From the window of the Alitalia Airbus he could see the steep escarpments and gorges of the Ethiopian highlands and the great expanse of the rift valley below. The outlines of tiny, distant villages were the only signs of life in an otherwise timeless wilderness. It had been a busy week and Alec felt tired and emotionally drained.

The flight attendant offered him a drink and peanuts; already the teeming slums of Addis seemed far away, as if in a dream. He reflected on the scale of the deprivation he had seen in the kebeles and on the enormity of the challenge for the project. While impressed by the caliber of the management team that Jember had brought together, he remained unconvinced by the proposal to multiply the project size by five.

What, he wondered, should he do next? He felt that the most important contribution he could make to the effort was to offer his business skills. His management experience told him that things could get out of control in Addis. Perhaps they should distribute all the funds Jember requested but

hold back wages so that there was sufficient in reserve until the next payment. Maybe it would be better for Jember to focus her efforts on fundraising for a whole new project.

But he also wondered if he had got it right. Or was he being pig-headed for the sake of it? Perhaps he would talk to Penny at Band Aid, she seemed to understand both him and Jember well and to be fair to both sides. Maybe he should consider communicating with Jember in a different way. If he started sending her short, focused letters, would she follow his example and stop sending him such long letters that didn't really tell him what he needed to know?

As Jember Teferra watched Alec's plane make its wide turn northward, she sighed deeply. She thought Alec had understood the principle of integration, yet it seemed that for him it was merely an academic ideal. He seemed to equate the project itself with something tangible, something you could count. How could she make him understand? What could she do to address their differences? How could she work under his constraints and demands?

She felt she was always the one making concessions. But she was now feeling she'd reached her limit. Perhaps someone else could talk to him—his son and wife seemed more sympathetic to her point of view than he did; could they be asked to mediate? Penny at Band Aid also might be of help in explaining to him how things needed to be done in such a project. Should she try to enlist the assistance of the other donors, who seemed to better understand the nature of development work, to get things done in other ways?

Exhibit 1 Map of Ethiopia



Source: *The Africa Review*. NTC Business Books, 1989.

Exhibit 2 Comparative International Data: Key Facts on Ethiopia

Official title: People's Democratic Republic of Ethiopia

Population: 46 million (1987 estimate)

Currency: Birr

Official Language: Amharic

	GNP Per Capita (U.S. dollars)		
	1985	1986	1987
China	320	300	290
Egypt	640	650	670
Ethiopia	110	120	130
Japan	11,270	12,840	15,760
Mexico	2,200	1,900	1,820
Nicaragua	770	730	830
Poland	2,120	2,080	1,920
Sudan	280	300	330
Turkey	1,080	1,110	1,200
United Kingdom	8,470	8,990	10,430
United States	16,800	17,560	18,530
Zimbabwe	640	590	590
Low Income Countries	290	280	290
Developing Countries	720	710	720

Sources: *World Tables 1988-89 Edition*, The Johns Hopkins University Press, 1989; and *The Africa Review*, NTC Business Books, 1989.

Exhibit 3 A Blind Woman Employed in the IAHUDP Basket-Making Program



Exhibit 3 (continued) The IAHUDP Garment-Making Unit

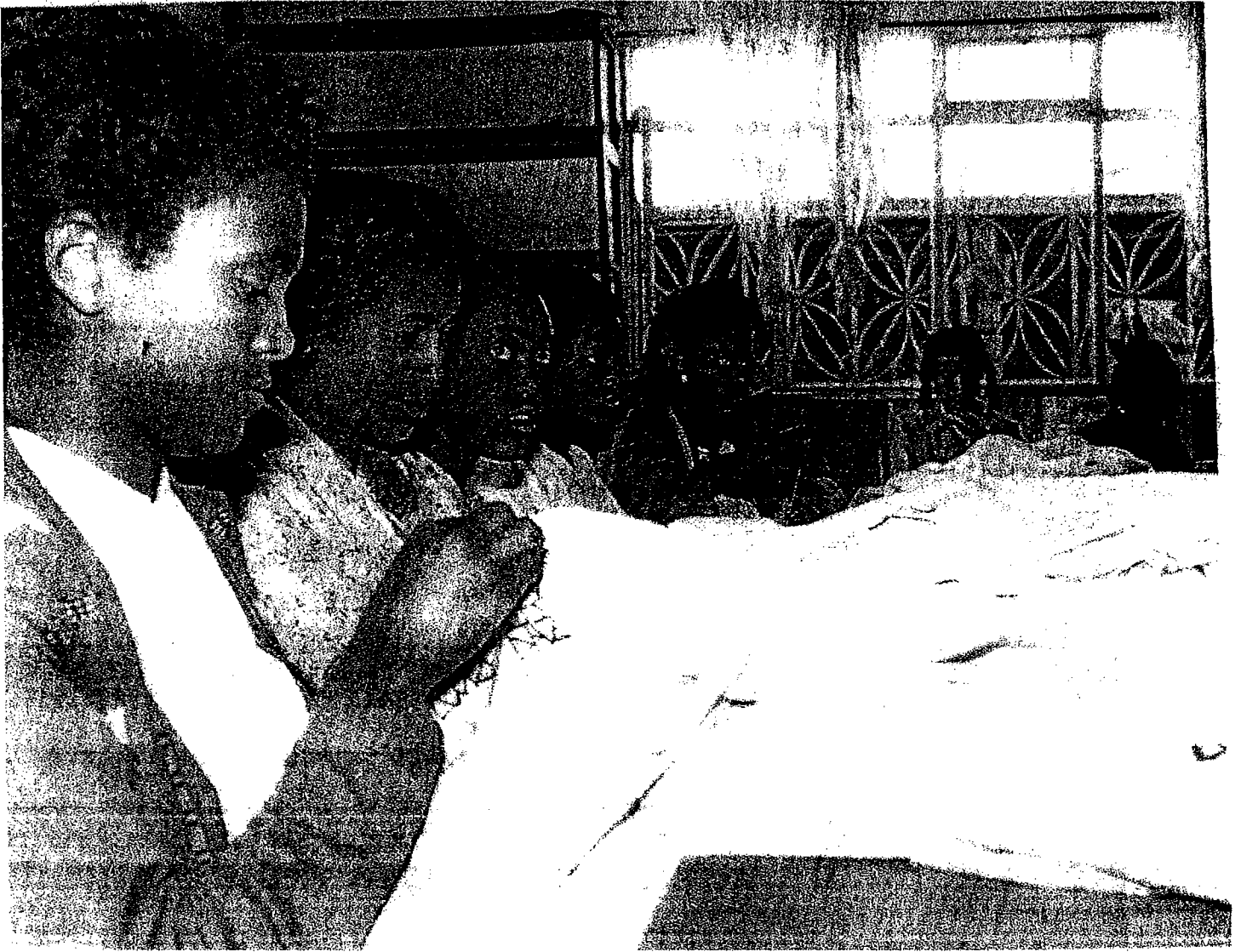


Exhibit 4 Description of the Components of the Integrated Holistic Approach Urban Development Project

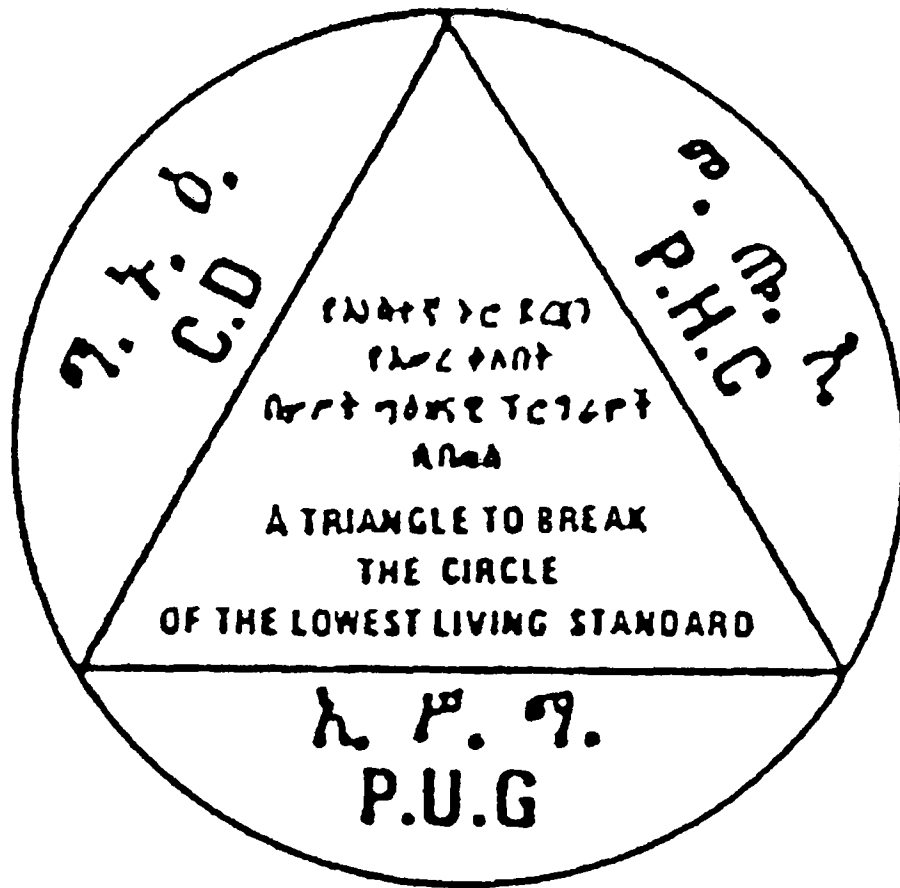
The new project consisted of three components: health, physical upgrading and community development. These were integrated into a community-based approach which was designed to tackle the root causes of poverty and disease in the slums.

The health component was a comprehensive program of primary health care and education. This included vaccination, family planning, mother and child clinics, first aid and a variety of health and nutrition education programs. Sanitation problems were being addressed by the building of latrines and water posts and with the purchase of a suction truck for emptying the latrines.

The physical upgrading component focused on rebuilding and repairing homes, kitchens and latrines in the Kebeles. A comprehensive survey of the project area had indicated that 2166 houses required extensive work. The project staff had begun to purchase building materials but faced frequent delays because of serious shortages of wood and corrugated iron sheeting.

The community development component included food processing and garment-making programs which had previously been run by Redd Barna as well as a newly established basket-making operation. These programs employed over 100 women all of whom were either young mothers or older women who were previously unemployed. Abayneh Berhanu, the income generating consultant, was evaluating opportunities to begin production of briquette fuel from recycled garbage and plans to expand the food processing operations into spice-making.

Exhibit 5 Symbol of the Integrated Holistic Approach Urban Development Project



Source: IHAUDP letterhead

Key:

P.U.G. Physical Upgrading

P.H.C. Primary Health Care

C.D. Community Development

Exhibit 6 Donor Commitments

	Birr	Sterling	Percentage
Donor Commitments			
ODA	1,674,241	507,346	50.0%
Reed Charity	780,859	236,624	23.3
Band Aid	350,833	106,313	10.5
Water Aid	325,083	98,510	9.7
Help the Aged	217,470	65,900	6.5
Total	3,348,486	1,014,693	100.0
Components			
Administration	257,136	77,920	7.7
Income Generation	90,581	27,449	2.7
Health	397,610	120,488	11.9
Physical Upgrading	2,603,159	788,836	77.7
Total	3,348,486	1,014,693	100.0

Source: Band Aid accounts

Exchange rate: 3.3 Birr to £1 sterling

\$1.6 US to £1 sterling

Exhibit 7 Selected Minutes of Meeting Held at the Band Aid Office in London on July 21, 1989

Overview and Current Situation

The program had recently suffered a cash flow problem at a critical time and this along with some problems related to fundraising and financial reporting had prompted the request for the meeting.

(A) Fundraising

1. (Reed Charity) have agreed to underwrite the program for half the total budget of approximately sterling £1,000,000.
2. It was agreed that any further funds raised in the UK for the project should if possible go through the Reed Charity account so that Reed Charity can reduce its commitment.
3. Reed Charity should also be informed of any other non UK based agencies who are interested in funding the program since their contributions will reduce both Reed Charity and ODA's liabilities.
4. It was felt that Jember should be able to seek other funding for additional components to the program as it develops, above those covered in the £1,000,000 as long as the new initiatives do not overstretch the staff and capacity of the program to function successfully.

(B) Financial Reporting

1. It was agreed that the project staff should draw up a budget for each year of the program and in addition separate budgets should be provided to show quarterly projections related to quarterly work plans.
2. It was agreed that monthly accounting to show expenditure on the project should be sent to Reed Charity . . .

(C) Transfer of Funds

1. It was agreed that the transfer of funds should be made from the Reed account based on the quarterly projections of the annual budget . . .

Source: Band Aid records

Exhibit 8

Proposal for Physical Upgrading		Survey of Actual Physical Upgrading Needs	
November, 1987	Birr	December, 1989	Birr
Staff salaries	34,800	House building	9,041,893
Provident fund	3,480	Kitchen building	1,834,864
Medical insurance	2,000	Latrine building	385,718
Transportation Expenses	52,000	Water supply	81,000
Office expenses	3,620	Road construction	1,166,528
Survey expenses	30,000	School building	655,200
Vehicle	150,000	Youth center	562,500
House building	2,164,220	Kebele Hall	120,000
Kitchen building	326,000	Shower and laundry	120,000
Total	2,766,408	Handicraft building	37,500
		Library building	33,500
		Weaving center	37,500
		Total	14,076,203

Source: IHAUDP proposal and Physical Upgrading survey
Exchange rate: 3.3 Birr to £1 sterling

Exhibit 9 Income and Expenditure for the Period Ended December 31, 1989

	Birr	£ Sterling
United Kingdom Income		
Reed Charity (cash)	38,115	11,518
Reed Charity (goods and vehicles)	359,950	108,776
Help the Aged	109,065	32,959
Water Aid	19,426	5,870
Band Aid	195,498	59,079
Other	<u>16,546</u>	<u>5,000</u>
	738,600	223,202
Bank costs of exchange	<u>3,028</u>	<u>915</u>
	735,572	222,287
Local Income		
Canadian Embassy and Ms. S. Gudz	<u>6,813</u>	<u>2,059</u>
	742,385	224,346
Expenditure		
Administration	39,973	12,080
Community Development	15,786	4,770
Physical Upgrading	55,564	16,791
Health	38,775	11,718
Income Generating (admin.)	33,645	10,113
Basketry loss income (donation)	(14,074)	(4,253)
Suction truck loss	8,653	2,615
Garment making loss	1,630	493
Cotton processing loss	<u>49</u>	<u>14</u>
	<u>179,821</u>	<u>54,341</u>
Balance carried forward to the balance sheet	562,564	170,005

Exhibit 9 (continued) Balance Sheet as of December 31, 1989

Fixed Assets		
Buildings	61,362	18,543
Furniture	1,168	353
Office Equipment	378	114
Tools and Equipment	7,074	2,138
Vehicles	<u>92,698</u>	<u>28,013</u>
	162,680	49,161
 Current Assets		
Cash	120,789	36,602
Goods in transit	255,009	77,063
Stock (raw cotton)	24,552	7,420
Prepayments	<u>6,234</u>	<u>1,884</u>
	<u>406,584</u>	<u>122,869</u>
	569,264	172,030
 Current Liabilities		
Creditors	6,700	2,025
 Fund Account		
Net funding	<u>562,564</u>	<u>170,005</u>
	569,264	172,030

Source: Reed Charity accounts

Exchange rate: 3.3 Birr to £1 sterling

Exhibit 10 Income and Expenditure Report for the Period Ended December 31, 1989

Account Name	Birr
Income from the Consortium (Reed Charity with ODA, Bank Aid, Help the Aged and Water Aid)	362,087.78
Miss Suzaan Gudz (earmarked for Health)	484.50
Canada Embassy (earmarked for garment-making)	6,323.00
Netherland Embassy (earmarked for basketry)	15,000.00
Hedley Trust (earmarked for youth programme)	16,567.00
Other income	0.14
Suction truck income	7,800.00
Income from basketry	<u>336.00</u>
Total income	<u>408,598.42</u>
Expenditure	
Administration	38,703.37
Community Development	15,785.99
Physical upgrading	53,772.36
Health	37,446.10
Income generating	32,246.53
Basketry	671.25
Suction truck	17,115.13
Garment making	1,630.00
Cotton processing	<u>812.70</u>
Total expenditures	<u>198,183.43</u>
Net income/balance carried forward to the balance sheet	<u>210,414.99</u>

Exhibit 10 (continued) Balance Sheet as of December 31, 1989

Current Assets	Birr	
Petty cash	500.00	
Cash at bank	16,708.88	
Cash on hand	158.41	
Work advances	1,622.08	
Accounts receivable from Emmanuel Baptist Church	103,422.23	
Prepayments	20,483.40	
Stock	<u>22,660.30</u>	
Total current assets		165,555.30
 Fixed Assets (net book value)		
Office building	72,218.60	
Suction truck	116,147.38	
Office equipment and furniture	1,750.40	
Kitchen utensils	1,157.95	
Tools and equipment	7,228.36	
Medical equipment	<u>109.75</u>	
Total fixed assets		<u>198,612.43</u>
Total assets		<u>364,167.73</u>
Accounts payable	6,700.10	
Capital	147,052.64	
Net income	<u>210,414.99</u>	
Total payable and capital		<u>364,167.73</u>

Source: IAHUDP accounts

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CASE STUDY 2.1

Chang Koh Metal Ptd. Ltd., in China

Chang Koh Metal Engineering Ptd. Ltd. was founded in 1982 by Teo Kai San, a first generation Straits-born Chinese. The company's operations were in the production of metal-stamping precision parts. In 1993, the company expanded its operations by establishing a plant in Putian, China, which was the area of China from which Teo Kai San's parents had emigrated. The founder's son, Andrew Teo, was appointed as general manager. Andrew was 29 years old and had an engineering degree from the National University of Singapore. Prior to joining his father's company, Andrew had worked for an American multinational company in Singapore and had progressed to the rank of line manager, a position with substantial authority and responsibility. Andrew joined his father's company because he felt that his success in the multinational was a sign of his skills, indicating that he deserved a senior position in his father's company on the basis of merit rather than family connections. He also felt that the systems and practices he learned there would enable him to bring more updated management practices to Chang Koh Metal.

Since Andrew's father believed it was important to have in a position of authority a person who was knowledgeable about the local area, he appointed a relative from Putian, Jian Wei, as the plant manager to assist Andrew in the plant's operations. A primary reason for choosing China as the site for a plant was the belief that Singaporean Chinese should find it easy to work with the Chinese in China. After all, the two groups shared a common cultural heritage. The other advantages were the readily available supply of labour-Singapore was experiencing full employment, and the company found it difficult to recruit qualified production workers-and the lower operating costs. After a year in China, however, Andrew was not sure the plan to venture there was wise. Although the labour costs were much lower than in Singapore, productivity was disappointing, and a number of management and labour problems had arisen, which he felt were frustrating his efforts to control the plant efficiently.

Staffing Procedure

Andrew had learned from his previous work experience that it was important to hire the right people with the appropriate qualifications and place them in the positions to which they were best suited in order to ensure smooth operations. But his efforts were hindered by Jian Wei's peculiar hiring practices. To fill open positions, Jian Wei would contact city officials and friends and relatives and ask them for recommendations on who to hire. Most of the time the people hired did not have the skills needed to perform the tasks for which they were hired. Andrew vigorously protested against Jian Wei's practices and instituted formalized procedures to follow in recruitment and selection that called for systematic advertising of positions, evaluation of candidates, and hiring based on qualifications. Jian Wei became upset because he argued that his practices were necessary as a way to keep the channels of communication and mutual exchange open with important officials because the company might need their help in future business dealings. This disagreement created tension between the two men.

Productivity and Quality Issues

The plant in China employed about 150 workers. Andrew adopted the same salary system as he had seen used by his former employer and paid these workers a fixed salary based on the number of hours worked. However, their productivity rates were very low, and the workers demonstrated very little commitment to meeting the company's goals. After three months, Andrew scrapped the salary system and instead instituted a piece-rate system in which the workers were paid a minimum base salary supplemented by an incremental rate for each unit produced above a certain number. In other words, if the workers produced at or below the minimum production standard for the day, they received the minimum wage. If they produced above that rate, they received additional money for each extra piece produced.

For the following two months, Andrew was proud of his innovative management as the results were impressive. Company productivity targets were met, the workers were exerting themselves energetically, and they were even willing to work overtime at the same rate as the usual work day in order to make extra money. However, within a short period of time, he began to receive several complaints from customers about the low quality of the goods they were receiving from the company. Parts that should have been rejected were instead shipped to customers.

In response, Andrew had the quality control and manufacturing specifications printed on large posters and posted around the plant for all to see. He set up a quality control department and implemented 100 percent quality checks. However, all these efforts failed to stop poor-quality products from reaching the customers. As he investigated, he discovered that those in the quality control department were inspecting the parts, but they were passing almost everything that they inspected. He held a training session for the quality control inspectors, pointed out defective parts to them, and had them demonstrate to him that they could distinguish poor quality from good quality. Since it was clear that they could do so, he sent them back to the production floor, convinced that they would now begin to perform as a true quality control unit. Yet within a short period of time it became apparent that the unit was not doing the job any better than before the training session.

Andrew expressed his frustration to Jian Wei and demanded that he take action to improve the situation. Jian Wei protested that the quality control members' actions were completely understandable-they knew that rejected parts would not be added to the total that would count toward the incentive rate compensation and would therefore reduce the wages production workers would receive. They would not take money out of the pockets of the production workers. Andrew felt that the quality control workers should be shown that failure to act would take money out of their own pockets, so he suggested that a system of demerit points be set up for the quality control employees which would lead to deductions from their wages. However, Jian Wei strongly disagreed with the idea, arguing that it was unfair to penalize these employees for doing what they believed was right. Finally, a compromise was reached in which more supervisors were hired for the quality control department to provide closer supervision of the workers. In addition, Andrew arranged to have all final products shipped to Singapore for final inspection before being sent out to customers.

Rules and Regulations

About 15 technicians were responsible for the maintenance of machinery. At any one time, one machine would be set aside for maintenance work. Ninety percent of the time, a machine that was designated as "in maintenance" actually sat unused. To Andrew's dismay, he found that the technicians regularly used the "in maintenance" machine to do moonlighting work to make extra income. To Andrew, this practice was a clear violation of company rules and regulations, a fact that warranted dismissal of the supervisor of the technicians, who had not only condoned the activity but had actually participated in it. Jian Wei supported the employees. He argued that the machine would have been left idle anyway so what was the harm? All activities were conducted outside normal working hours and the technicians' jobs were not being neglected. No additional costs were incurred by the factory, except in the operation of the machine. Jian Wei thought that, as boss, Andrew needed to show much more understanding and sensitivity to the issue than he had. It was unfair to single one person out for punishment, especially when the company had not suffered any losses. In addition, Jian Wei was dismayed to hear Andrew talk about dismissing an employee. He said that such practice just was not done in China-no true Chinese person would think about removing a person's "iron rice bowl." Reluctantly, Andrew agreed to Jian Wei's recommendation to resolve the issue by transferring the technicians' supervisor to another department.

Problems like these made Andrew very doubtful that the operation in China could ever be turned into a profitable venture. His father had been willing to grant Andrew some time to get the plant up and running before he expected results, but now he was starting to ask questions about why the plant was still losing money and why no trend in the direction of profitability was evident in the financial performance figures. He had recently asked Andrew to come up with a concrete plan to turn the situation around. Andrew was wondering what he could do.

1. Comment on the fixed salary system that Andrew adopted from his former employer. Why was this system not effective for motivating the plant workers?
2. Do you think that scrapping the fixed salary system and replacing it with the piece-rate system was a good idea? What are some of the strengths and weaknesses of the piece-rate system?
3. Why was Andrew unsuccessful in his efforts to improve product quality? Do you think that a system of demerit points and wage deductions of the quality control workers would have been effective? Will more supervisors in the quality control department and shipping products to Singapore for final inspection solve the problem? What do you think would be an effective way to improve product quality?
4. Were cross-cultural differences a factor in the effectiveness of the salary systems? How effective do you think each system would have been if the plant was located in North America?

5. Discuss the potential effects of implementing an MBQ program in the plant. Do you think it would improve productivity and solve some of the problems?
6. Are there any conditions under which the piece-rate system might have been more effective?
7. What are some alternative ways to use pay to motivate the workers at the plant? Are there alternatives to the piece-rate system and how effective are they likely to be? What does this case say about using money as a motivator?
8. What should Andrew do now?

Source: Begley, Thomas (1998), in Gary Oddou and Mark Mendenhall (eds), *Cases in international organizational behaviour*. Malden, MA: Blackwell.

Johns, G. and Saks, A. (2001), *Organizational Behaviour*. Harper Collins Publishers Inc., USA, adapted.

CASE STUDY 3.2

Computer Services Team at AVIONICS

by Teri C. Tompkins, Pepperdine University

John Johnson, a top executive at AVIONICS who was partially responsible for information systems, was contemplating a government contract directive that called for an integration of the computer information systems into a "service center" concept. He was also aware that management had issued a directive to cut costs, and that he had not been inspired by the service center manager's performance for some time. He wondered if the service contract idea was an opportunity to address all three issues at once.

John was known for his ability to empower people. He was dedicated to continual process improvement techniques, and he had put together a number of process improvement teams, focusing on concurrent engineering and total quality management (TQM). He prided himself on his ability to help teams improve quality and process. People respected John's abilities, and he had moved up rapidly in the organization. His excellent interpersonal skills made him well liked and influential at AVIONICS.

In John's readings of total quality management and process improvement, he had been impressed with the concept of a "leaderless team" or "autonomous work groups." He wondered if the service center concept could be an opportunity to experiment with the idea. After some thought, he decided to lay off the computer information systems supervisor and create a leaderless team. He changed the name from "computer information systems" to "computer service center," and let team members know that their purpose was to integrate their systems to provide quality service to the customers.

As John expected, the laid-off supervisor, Glen Smith, was not happy and immediately filed a grievance, requesting reinstatement. He was allowed to stay as a member of the team until a decision could be made about his status. Even with the grievance, John felt satisfied that he had solved some of his problems. Glen wouldn't be a problem now that he was just a member.

John decided to start the team off right with a two-day, intensive training session. At the training session, he told the team members he was empowering them to change their own destiny. "You have the opportunity to control your own work," John enthusiastically told them. "No one is a leader you are all responsible. That means if you have a problem, don't come running to me-you are in charge!"

Using large sheets of newsprint, the group listed their goals and expectations. They decided they wanted to achieve a collective identity. John instructed them on breakthrough analysis and told them about leaderless teams. Team members were impressed by John's knowledge of the subject. William Ashby, a Macintosh specialist, listened with interest. He really liked what John was saying about total quality management. He had read a few books on the subject and, listening to John, he felt inspired about really doing it.

The First Meeting

Shortly after the off-site training session, team members gathered for their first meeting. Eight people sat at a large rectangular table. William, the Macintosh specialist, looked around the room. He had more or less worked with several of these people in the past; at least they had shared the same large office space. There was Alyne, the VAX systems administrator, and her assistant, Frank. William recognized Russ, the IBM PC specialist and his counterpart. Glen, their former supervisor, was there, trying to blend in. Three other people he didn't know very well were also present: Rachel, the database support specialist, Herald, from business operations, and the assistant business manager, Carol.

A few people chatted with each other. Carol appeared engrossed in a memo. Glen sat with his arms folded, leaning back in his chair. William wondered who was going to get

the meeting started. People were looking uncomfortable, waiting and wondering what would happen next. "Maybe I should say something," William thought to himself. He cleared his throat.

"Well, here we all are," he said. William hesitated, to see if anyone else wanted to take the lead. Everyone except Carol, who still seemed engrossed in her memo, stared at him. "I guess we should get started," William announced, hoping someone would offer a suggestion. He waited again. Again, everyone stared at him.

"Well, I for one was really excited about what John had to say at our off-site training." William looked around the room; a few people's heads nodded. "So I guess we should get started," William repeated, feeling a bit foolish.

Glen, the former supervisor, sat watching the group. "Oh, brother!" he thought. "This is going to be a problem, a real problem." He watched William struggle to lead the group.

William continued: "John suggested that we elect a leader from among ourselves to act as a volunteer leader of sorts. Does anyone have any suggestions?"

"Yeah, let's hurry this up," said Russ, the IBM PC specialist. "I've got 10 people who need to be hard-wired, breathing down my neck." Russ continued, "I nominate you, William. You seem interested, and I really don't care who our leader is."

Some of the people looked at Russ with embarrassment. They had lots of work to do, too, but wouldn't have put it so bluntly. "He sure is a pain," thought Alyne. She turned to William and smiled. "Yes, I think William would be good. Would you be interested, William?" she asked.

"Well, I guess I would. I've never played on a formal team before, and I don't know what to do, but I'm willing to give it a shot." William felt the blood rising up to his ears. "I guess, unless there are any objections, I'll volunteer to be leader." Since no one said anything, William became the leader.

The group spent the next 20 minutes trying to figure out what it was supposed to be doing. They weren't sure what a TQM team was, or what it meant to integrate their various jobs to "create a service team." Most of the people sat and listened while William, Alyne, and Rachel talked. Russ stated again that he really needed to get back to work. The group decided to continue the discussion during the next meeting, a week away.

The Volunteer Leader Prepares

William told his wife that night about his election as leader of the group. "I'm not sure what to do. Maybe I'll check out the bookstore, and see if I can find some books on the subject." William drove to the bookstore and searched through the business section. He found several books on TQM that looked promising, plus one called *How to Make Prize Winning Teams*, which he thought was a real find.

That night, he began reading *How to Make Prize Winning Teams*. He was inspired by what he read, and he thought it was "doable" for his team.

The next week, the team gathered once more around the rectangular table. Russ, the IBM specialist, was absent because of "pressing business," but everyone else was present. William started things off by telling them about the books. He suggested that everyone should get a copy and read it.

"I think we need to begin figuring out how to improve our work," William told them. He proceeded to tell them about how they should look at each of their areas, and look for ways to improve it. William looked down at the notes he had taken from the book. He wanted to make sure he told them all exactly how it should be done; he didn't want to get it wrong.

Alyne interrupted him. She didn't like the way William seemed to be telling them what to do. "I think before we go charging down that street, we need to decide how we are going to decide things. I, for one, don't want people telling me what to do about my area." A few people nodded. "I think everyone should have a vote in these changes."

Computer Services Team at AVIONICS

"Yes, I agree," said Frank, her assistant. "Majority rules; no one should have more say-so than anyone else."

"Fine," said William, but he couldn't help feeling that something had just gone wrong. The team agreed to vote on all matters. People started fidgeting in their seats, so William suggested that they end the meeting. "Everyone should try to buy the books and read them before our next meeting," he said.

During the next few months, William tried in vain to get the group to read the books. He thought if they would read them, they'd understand what he'd been talking about.

He felt pretty disheartened as he spoke to his wife that night. "Everyone wants to just go along," he told her. "We've got all these individuals on the team, and they only seem to care about their own turf. I thought we were starting to make progress last week when a few people started talking about the common complaint their customers had about reaching them, but then it became a discussion about why their customers didn't understand. I've learned you can't dictate to them. I have to win them over, but I don't know how. I'm going for a drive to think this out."

As William drove toward the beach, he thought about his job. He wasn't having much fun. Every meeting was the same thing. Members had to vote on every little thing that was brought up. If someone in the group didn't want to do it, that person just didn't vote. Or the person would go along with everyone else and vote but not follow through. He saw no evidence that anyone wanted to make it work. He wished he could go to his supervisor, John, but John had maintained a strict hands-off approach with the team since the in-service training. He felt that John had cut them loose, to sink or swim. They were definitely sinking.

"Maybe there is too much diversity on this team," he thought. "I need training on how to bring a diverse group together." He decided to see if he could get some training to help him out of the hole he'd crawled into.

William Voted Out

When William approached the human resources department about the training, he was told that his group did not have the budget for that kind of training. William angrily left the office, feeling very discouraged.

Over the next two months, it became painfully obvious that the group wasn't working. Some team members argued constantly, and some avoided conflict at all cost. Carol, the assistant business manager, requested a stress leave. She felt she couldn't take the problems and responsibility any longer. No one could agree on the team's goals, or how they were going to integrate their "service team." They felt frustrated with John, their manager, and thought he was unpredictable. John had a reputation for being a supportive and creative manager, yet with this team he was distant. They wondered why he didn't act like the manager others said he was.

Finally, at one meeting six months after the team began, Alyne, the VAX specialist, spoke up, "Look, William, this isn't working. We need a new leader." Everyone else agreed and, after some discussion, they voted in Glen, their former supervisor, as their "volunteer" leader.

Glen, who had recently won his grievance against the layoff, was ready for the assignment. William felt hurt. "That's it, I give up," he thought. "From now on, I'm looking out for my own group. I've been neglecting the Mac users, but no more."

About the time that Glen became "volunteer" leader, John was transferred to another assignment, and Barbara, the director of business management, became the group's manager. She told team members they needed to get better at serving their customers.

Glen, who had more leadership skills than William, recognized that the team was at a crisis point. He decided to try to build trust among the team members by working on

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continuous process improvement (CPI). He thought they might be able to pull it off if they just had enough time.

After four months, Barbara, the team manager, pulled the plug and ordered the team to go back to the structure it had nearly a year ago. A few people, and particularly Glen, were disappointed. "I was just beginning to feel like we were going to make it. The other team members were right – the company doesn't support teams. They just give a lot of lip service, but there is no management commitment."

The team went back to its old structure. John, their former manager, looked back at what happened. "They are still having problems serving their customers. I ran a bizarre experiment by cutting them loose. I took away all their support systems, and told them they were all equal people. It was a big mistake."

Source: *Cases in Management and Organizational Behavior, Volume 2*. Teri C. Tompkins, Pepperdine University. Prentice Hall, Upper Saddle River, New Jersey 07458

ARCHIMAX SYSTEMS LTD.

Stephen Jack prepared this case under the supervision of Professor Joseph N. Fry solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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Early in June, 1994, Charles Douglas, a recently graduated MBA, and an equally recent employee of Archimax Systems Ltd., met with R.J. Bates, the president of Archimax, to review plans for the company's exhibition booth at SIGGRAPH 94. Douglas was standing in for his boss, Gary Hopkins, who had just left for an extended holiday sailing in the Greek Islands, confident that the plans for the booth were set, and that Douglas would carry through with the implementation.

But Bates was not satisfied with the plans. He was concerned that the exhibit was not impressive enough and didn't fully reflect Archimax's accomplishments and technology. He instructed Douglas to make a number of significant changes in the content and mechanics of the presentation.

Douglas left the meeting with more than a few concerns. SIGGRAPH opened in just six weeks. He wasn't at all sure that the changes could be completed by then. Further, he had been cautioned in earlier conversations with Max Emery, the company controller, that cash was tight, and that holding the line on costs was important. Most recently, as Hopkins was preparing to leave on his holidays, Emery had warned, "no changes without agreement from Hopkins". But a quick guess indicated that the new requirements might add nearly \$500,000 to the original estimates of slightly over \$1,000,000 for the exhibit. Finally, Douglas felt that he had been put in a situation in which his boss's boss had hijacked the project. The changes that Bates had in mind were in significant conflict with the approach Hopkins had been taking to the exhibit. What was he to make of this?

THE VIRTUAL REALITY INDUSTRY

The Technology

Archimax was a fledgling company in the emerging virtual reality industry. “Virtual Reality” was the term given to the effects made possible by the convergence of two technologies, three dimensional (3D) computer imaging and robotics. By ingeniously merging the technologies, subjects in a virtual reality experience were given the illusion of an alternate reality, a world in which manufactured images and sensations were perceived as if they were reality itself. This effect was achieved by immersing the subject in an environment of created objects that looked and acted like real objects; (for example, a subject would feel a bump on visually “walking” into a wall image), and by adding other sensory input such as sound, temperature, and smell. Flight training simulators were an early application of the possibilities of the concept of virtual reality. In current development projects, however, the ambitions of virtual reality were reaching well beyond the limited repertoires of simulators, to encompass a much wider range of user input and experience.

The creation of a virtual reality experience required the integration of a system of supporting equipment and related database, as illustrated in Exhibit 1. The main elements of hardware in a generic virtual reality system were: an 1) image generator, 2) host computer, 3) input device, and 4) output device. The image generator processed input and database information to produce images — objects, color, texture, motion, background, etc. Image generator manufacturers sold their product in units of capability called “channels”, which were currently priced at \$150 to \$200,000 per channel. Image generators usually represented at least half of the cost of a virtual reality installation and were the key to the quality of the experience. Like most electronic equipment, image generator prices were falling, even as they increased in performance.

The host computer housed the custom database and software for the experience and operated to control the system by bringing together the stored data and input device feed to drive the image generator and associated output devices. The required host computer capabilities were on the order of a competent engineering workstation.

Input and output devices were directly dependent on the type of experience being created. The input devices for a car racing experience, for example, would include a gas pedal, brake, steering wheel, and gear shift. The output devices for the same experience would include a head mounted or projection display system and a motion platform that would react to events as they occurred.

The database software was the raw material from which the virtual reality system produced the user’s virtual world. The larger the database, the larger and the more detailed the world in which someone could participate — but also the more powerful and expensive the image generator and host computer/software would have to be. The

minimum cost to create a database of usable size was about \$175,000. Databases could be used in a number of sites and/or experiences if the targeted end results were similar.

The Virtual Reality Market

The market for virtual reality applications was in its infancy and thus difficult to categorize and quantify. In general, virtual reality applications were positioned as an integral part of a broader, \$6 billion, 3D imaging market. Elements of virtual reality were found, for example, in such major 3D imaging sub-markets as flight simulation, entertainment, computer assisted design, and Medical/Catscan. Among the 3D sub-markets, however, the entertainment segment was widely regarded as the most attractive for the near term development of virtual reality applications; with these applications leading, industry observers had forecast sales for virtual reality systems of about \$1 billion in 1996.

The major prospective customer groups or channels in the entertainment business were: 1) mall developers and owners, 2) theme and amusement parks, 3) location-based entertainment centres such as casinos and retail stores, 4) edu-tainment centres such as museums and science centres, and 5) cross promotion prospects, such as beer and athletic shoe marketers. The appeal of virtual reality in these markets ranged from offering a quantum improvement over arcade games in malls and amusement parks, to providing a powerful custom designed package in the case of museums and product promoters, to the possibility of a proprietary range of experiences in a theme park. To this point, however, most customers had had minimal experience with virtual reality and were for the most part testing a promising, but unfamiliar and relatively expensive product. In many cases, and particularly with independent customers such as small amusement parks, prospective customers were seeking manufacturer support for their entry into virtual reality.

The Supply Structure

The supplier structure of the virtual reality-entertainment market was split between specialized producers on the one hand and system integrators on the other. Within each of these categories there was a handful of sizeable companies and a multitude of smaller players. The specialized producers concentrated on one element of the system described in Exhibit 1, such as image generators, or database software. Among these specialized producers, Silicon Graphics Inc. (SGI) was by far the largest and best known company. SGI had been a pioneer in 3D imaging and was best known for its engineering workstations for computer assisted design. SGI was a major supplier of image generators to companies assembling virtual reality entertainment experiences and was known to be working closely on product development with the video-games giant, Sega. Other competent companies, such as Evans and Sutherland and Martin Marietta, sold

image generators; and a wide and changing range of suppliers, most of which were small enterprises, worked on other systems and components such as database software development and robotics.

System integrators designed and assembled a total virtual reality product. The degree of vertical integration among the integrators was quite low, although some, such as Disney Imagineering, encompassed design and software, and others such as Evans and Sutherland, built their own image generators into their products. But even the large firms such as Sega relied heavily on the efforts of a range of independent suppliers.

Among the integrators, the larger firms such as Disney and Sega tended to concentrate on total experiences such as a full game park. Smaller integrators, such as Magic Edge and W Industries, focused on the development and sale of specific experiences. Some integrators had begun to develop the concept of indoor theme parks, called Location Based Entertainment Center's (LBE's). This new concept was a step forward in the value chain for the integrators as the LBE's would be stocked with the integrators' equipment. Some integrators planned to operate the locations and others planned to franchise. There were also independents seeking to design and operate/franchise LBE's. These companies had the theme and location but not the equipment or software.

In spite of its promise, the market for virtual reality products had proven to be a difficult one. As one industry observer put it, "So far the only people who have made money in virtual reality are those who write about it - and SGI who sells to those who try". The shortage of proven products and markets meant that long term financing was difficult to come by. The larger companies, of course, could rely on cash-flows from other product/markets, but many of the smaller companies were forced to operate on a shoestring and to devote a significant proportion of their energy to financial survival.

ARCHIMAX

Archimax was incorporated by R.J. Bates and Greg Raidler in Richmond, British Columbia, in 1989. Bates had just moved west after a successful marketing career which included experience in high tech and entertainment companies and in the operation of his own advertising and PR firm. From this experience he had become convinced that technical developments would make it possible to open new markets in entertainment, but he had been unable to persuade his employers of the potential of his vision. He had met Greg Raidler, an accomplished electronics engineer, at an industry association meeting and after a number of conversations the two decided to pursue a start-up from a new base.

For almost three years Bates worked from his home trying to raise money for a major development project and Raidler did contract work for various companies to keep the company afloat. The dream was to build a unique computer system, dubbed the C21,

which would serve as an image generator and control system specifically for virtual reality applications in entertainment. Several small grants from the B.C. and federal governments had helped to keep the project alive, but the prospects of survival were pretty grim when Bates was introduced to Evan Lee.

Lee was a well known personality in the west coast technical and financial communities. Earlier in his career he had built a very successful disk drive company, only to see it crash as a result of over expansion and industry squeeze. Lee vowed at the time never to expand a project until the money was in the bank, and true to his word, he had used conservative strategies to rescue and rebuild two other computer industry start-ups. He was impressed by Bates and Raidler and ultimately a deal was struck under which he became a shareholder, and Chairman, part time, of Archimax.

Lee's early moves were to raise some private funding for Archimax, and to arrange a public stock listing by way of a reverse takeover under which Archimax was acquired by a shell Vancouver Stock Exchange company. Most recently he had been instrumental in Archimax's acquisition of PS Technologies, an Austin, Texas-based developer of image generators.

The Archimax Strategy

The focal point for Archimax's efforts remained with the development of virtual reality experiences for the entertainment market. A key element in this approach was the completion of the C21, which would give Archimax an industry leading position in low cost, high quality graphics. The C21 would be available for sale to equipment integrators but Archimax also intended to supplement the C21 through alliances to provide a complete product, for example, by working with design firms and software houses to provide a turnkey product and merchandising service to the theme parks and shopping malls.

C21 was an ambitious project. It was based on new technologies and design concepts which promised superior results and economies. As of June, 1994, however, the C21 development program was behind schedule and over budget. Raidler was unperturbed by this, saying only that in a development project as complex as this, delays and unforeseen costs were bound to occur. He was confident that a working prototype would be completed by the end of 1994, with systems available for sale by mid 1995.

As a result of the delays with C21, the original Archimax was still very much a development company. Operations statements and balance sheets for the period ending April 30, 1994, and just prior to the PS Technologies acquisition, are presented in Exhibits 2 and 3. A rough statement of planned uses and sources of financing, including the PS Technologies acquisition, is outlined in Exhibit 4. Beyond this, Archimax's financial aims were to be self-financing from operations in two years.

The PS Technologies Acquisition. In Lee's view, the acquisition of PS Technologies fit into the overall Archimax strategy by providing some immediate credibility in image generation, a cash flow bridge, and a faster accumulation of the business base needed to secure a NASDAQ listing.

PS was an organization of about 40 people that operated as a division of Larson Electronics, a very large avionics and general electronics manufacturer based in Austin. PS had been losing money and had been through two years of uncertainty as its parent went through a process of refocusing on its core avionics products and customers. An assessment team from Archimax concluded that PS still had a nucleus of good technical people and some attractive projects underway, but that its sales force had been badly mauled in the ups and downs of the divestment process. Notably, PS had a fully developed product on the market, the PS 100 image generator and a \$4-million agreement in principle to develop a custom product for Petco, a Taiwanese video game manufacturer. These products nicely fit into a capabilities/price range below the C21.

Lee was particularly intrigued by PS's inventory of fully and partly assembled PS100s, worth an estimated \$2.8 million, albeit in a rapidly changing market. In late May of 1994 he made a deal for PS for \$900,000 cash, Archimax shares valued at \$1.8 million, and an assumption of \$1.4 million of PS's liabilities. An immediate aim following this transaction was to generate cash as quickly as possible by selling off the PS100 inventory.

The Archimax Organization

The Archimax organization in Richmond consisted of fewer than 15 people and operated on a very informal basis. It was Douglas' view that management, from Bates on down, was stretched thin and was under tremendous pressure to balance their time between long term needs and critical short term demands.

At the time of the case Archimax was in the process of setting up PS Technologies to operate as an autonomous profit center. It was thought that the freedom to operate, which had not been the Larson Electronics style, and the spur of tangible business goals would energize PS to work off its inventory and finalize a contract on the Petco development project. To Douglas, this was making a virtue of necessity - Archimax had minimal resources to commit to supervising and assisting PS management.

THE SIGGRAPH EXHIBIT

SIGGRAPH was the acronym for an industry association called the Special Interest Group on Graphics. To achieve its objectives of providing education and information on computer graphics, SIGGRAPH organized an annual convention that was the

showcase for everything that was new to the graphics industry. The convention was known as an image show, where exhibitors demonstrated their best ideas, rather than a sales show aimed at specific product sale. Attendance had grown in the 15 years of SIGGRAPH's life to over 30,000 for the three-day show.

Early in the year, Lee and Bates had decided that Archimax needed exposure and that attendance at SIGGRAPH was an essential step. The task of carrying this through fell primarily to Gary Hopkins, vice president for marketing and product development, and next to Bates and Raidler, the longest term member of the management team. In preliminary meetings it was decided that Archimax would commit to a 50' x 60' booth, which would rank it among the largest exhibits at the show. The prime concerns centred around the look of the booth and what the main focus would be. The problem was that the C21 was still in development and the PS100 was nothing new. Bates and Hopkins were concerned that too great a focus on a development project would create the impression of promoting "vapourware" — a term used in the industry for products that were announced even though they didn't exist. It was decided that Archimax would present a full virtual reality experience that demonstrated its design and integration capabilities, although, of necessity, outside suppliers would have to be used for the system components.

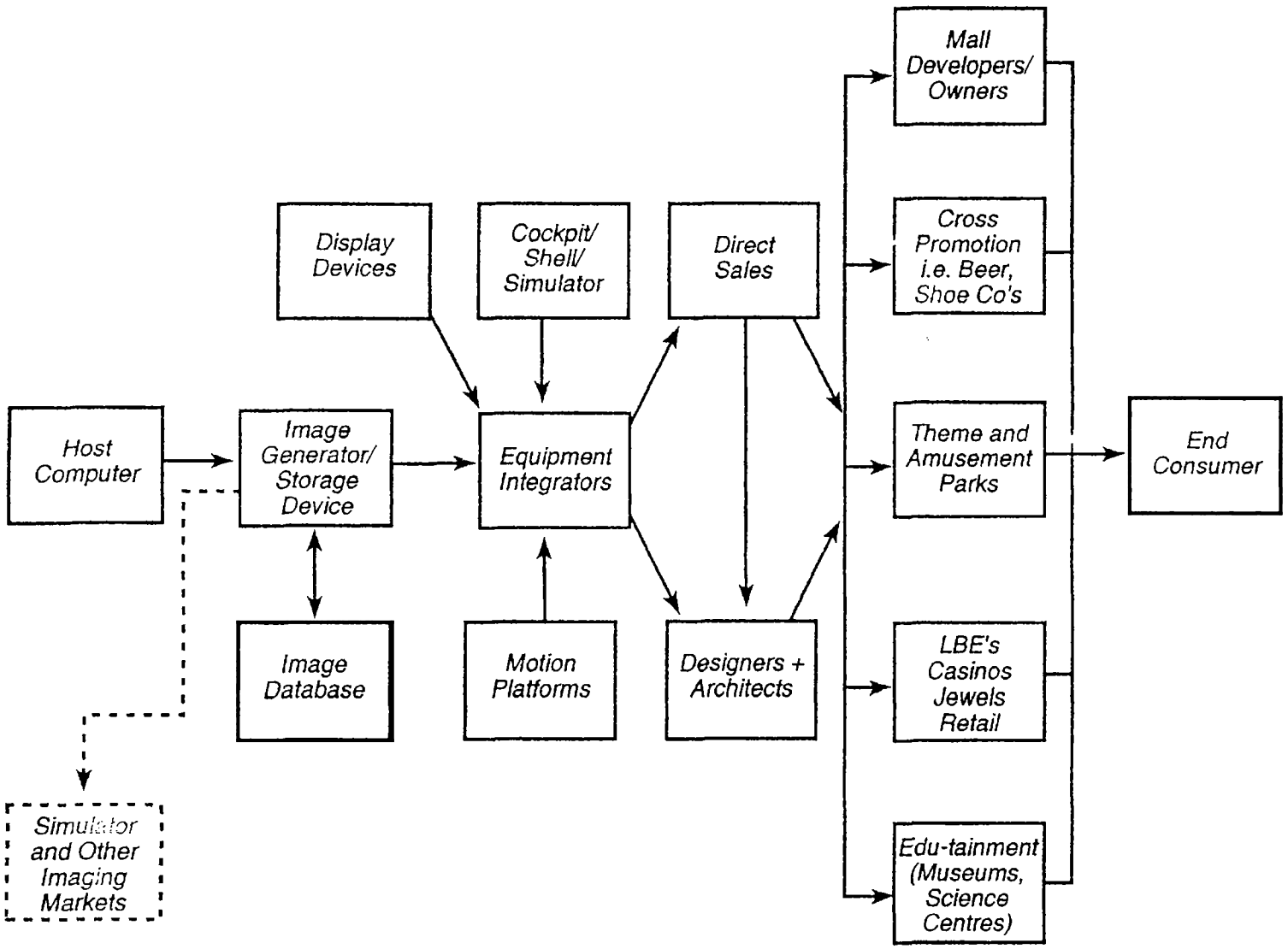
There was a further aim in developing the SIGGRAPH exhibit. The IAAPA (International Association of Amusement Parks of America) convention was scheduled three months after SIGGRAPH. IAAPA was a key sales show in the industry and would attract a very different audience of buyers and owners from amusement and theme parks. Archimax could use this same booth with some relatively inexpensive changes.

Work started on the design of the exhibit and sourcing of components. This was a major job that involved people from across the organization in very significant tasks. Hopkins worked full time and then some to get the concept and technical components agreed and to coordinate the effort of various internal and external participants. One major accomplishment was recruiting Apex Images, an emerging "hot" software developer, to collaborate in creating the exhibit database.

It was clear from the start that the exhibit would be an expensive proposition, but no specific numbers were available until Douglas put together a formal budget as one of his first tasks on joining Archimax. This budget, dated June 1 and calling for expenditures of \$1,050,000, is outlined in Exhibit 5. Then, with the concepts, budget, and most arrangements seemingly settled, and Douglas working into the picture, a very tired Hopkins felt he could leave on a long-planned vacation. There had not been an opportunity in Bate's schedule for a final presentation and agreement, but Douglas could handle that within a week.

CONCLUSION

Following his meeting with Bates, Douglas sat back in his office and reviewed his situation. He recognized that he had been shaken by the events of the morning. He felt that his next actions would be critical to whatever role he was going to carve out for himself at Archimax. But what was that role? What would be the best course for himself and Archimax? And beneath this lay an even more fundamental concern. Did Archimax have a future in this emerging industry, or was it an illusion itself? He reflected on some advice given to him by a professor at the business school — that his challenge in this kind of company would be deciding on “how native you go”.



VIRTUAL REALITY INDUSTRY SYSTEM

Exhibit 1

Exhibit 2

CONSOLIDATED BALANCE SHEET

April 30, 1994

(\$Can)

	April 30, 1994	January 31, 1994
ASSETS		
Current Assets		
Short-term deposits	\$ 523,900	\$ 0
Grants Receivable	58,700	133,200
Subscription Receivable	0	882,000
Advances and prepaid expenses	37,300	31,300
Total Current Assets	\$ <u>619,900</u>	\$ <u>1,046,500</u>
Furniture and Equipment	92,600	52,700
Deferred financing costs	66,200	66,000
TOTAL ASSETS	\$ <u>778,700</u>	\$ <u>1,165,200</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Bank Indebtedness	\$ 94,900	\$ 22,500
Accounts Payable	66,200	131,300
Total Current Liabilities	\$ <u>161,100</u>	\$ <u>153,800</u>
Debentures Payable	750,000	750,000
Shareholders' Equity		
Capital Stock Issues and Outstanding:		
100,000 Class A non-voting Preference Shares	100,000	100,000
4,750,000 common shares	1,286,100	396,600
Share Subscriptions	0	882,000
Deficit	(1,518,500)	(1,117,200)
Total Shareholders' Equity	\$ <u>(132,400)</u>	\$ <u>261,400</u>
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ <u>778,700</u>	\$ <u>1,165,200</u>

Exhibit 3

CONSOLIDATED STATEMENT OF OPERATIONS

Three Months Ended April 30, 1994
(\$Can)

Expenses

General and Administrative	105,700
Legal and Consulting	157,300
Research and Development	125,800
Research and Development - Government Assistance	(25,200)
Selling	10,200
Interest, Net	18,100
Depreciation and Amortization	9,400
Loss for the Period	<u>\$ (401,300)</u>

Exhibit 4

PLANNED SOURCES AND USES OF CASH

ITEM

Monthly Cash Use by Archimax, Richmond	\$ 60,000
Monthly Cash Use by Archimax-PS	375,000
SIGGRAPH Budget	1,050,000
IAAPA Budget	200,000
Debenture Payout (October)	750,000
PS Purchase	900,000
TOTAL USES	\$ <u>3,335,000</u>

ARRANGED SOURCES

Private Investor (Late June)	\$ 750,000
New York Bridge Financing ¹	4,000,000
Public Offering of \$15mm (November) ²	15,000,000
Petco Development Money ³	4,000,000
TOTAL SOURCES	\$ <u>23,750,000</u>

¹ Conditional on applying for NASDAQ listing, which is dependent on an asset level that the PS purchase provided, stock trading at \$2.50 per share. Money to be drawn down \$2mm in August, \$1mm in September, \$1mm in October.

² Conditional on full NASDAQ listing. A full listing is dependent on a minimum of US\$4-million in assets, US\$2-million in net worth and a minimum of 300 shareholders.

³ Part of PS purchase. Timing on funds was \$1mm in June, the rest contingent on achieving development targets. The expected timing was \$1mm in September, \$1mm in November and \$1mm in January.

Exhibit 5

SUMMARY OF SIGGRAPH BUDGET

June 1, 1994

ASSET PURCHASE AND DISPLAY TOTAL

Exhibition Booth
Formula One Cars
Software
Projection Booth and Installation
Projection Equipment
Contingency - 10%

Sub Total - Asset Purchases \$ 875,000

MARKETING DIRECT COST

SIGGRAPH Fee
Promotional (Brochures, etc.)

Total Direct Marketing Cost 130,000

TRAVEL AND ATTENDANCE

19 people from Archimax, PS, and Apec 45,000

GRAND TOTAL \$ 1,050,000

CASE STUDY 6.1

Insubordination or Unclear Loyalties?

by Asbjorn Osland, George Fox University,
and Shannon Shoul

Background

Omega House was established for those terminally ill patients who needed to find inner peace and dignity as well as the best in hospice care in their remaining days. It had been started by a group that had been unable to sustain it financially and it had gone bankrupt and been closed for several years. Then, in the early 1990s, the Social Action Consortium (SAC) agreed to assume responsibility for it. It became one of many services provided by SAC, which brought together 17 different groups, including small social service agencies and donor organizations that wished to be involved in more direct service than contributing to a funding agency. For nearly 80 years, it provided service to the less fortunate and disenfranchised. It provided a wide range of services, in addition to Omega House, including assorted special projects in the field of education, services to at-risk youth, shelters and apartments for those with special needs, services for people with HIV, addictions counseling, an inner-city health program and emergency food assistance, consumer credit seminars, and political advocacy for issues that affected the poor and disenfranchised. Its expenditures and revenues in 1995 were roughly \$8 million.

Program Director

Ellen didn't get much sleep. When she had been a full-time nurse, she used to fall asleep immediately after an exhausting but satisfying shift; she could leave the problems at work. However, now that she had become a program manager at Omega House, she found that things tended to nag at her and keep her awake. Like today, one of her employees, George, seemed to be insubordinate. She would never have spoken to her superior in that tone. Why did he think he could get away with it with her? She wondered if she appeared unsure of herself. Was George confused over where his loyalties should lie?

Ellen began working at the hospice as a registered nurse in patient care five years ago. Almost three years later, after her predecessor had been dismissed, she became the temporary program director and assumed the managerial responsibilities for Omega House, in addition to clinical oversight of patient care. Given her lack of managerial experience at the time of her temporary assignment, she had been promised managerial training by SAC but after two years was still waiting. Ellen felt very comfortable dealing with clinical care and was fortunate to have a strong clinical staff, an excellent and devoted kitchen crew, and a dedicated volunteer coordinator, who organized the extensive services provided by the volunteers. However, she was less comfortable with her managerial duties in relation to SAC. Also, the troubled financial history of the Omega House concerned her. To further complicate matters, the SAC administration had proven both arbitrary and autocratic in Ellen's experience. Though she had suffered through the bankruptcy, she missed the lean administrative structure Omega House had enjoyed before the bankruptcy and subsequent SAC ownership. Her clinical staff had also worked at Omega House before SAC assumed control and were often skeptical of SAC-mandated changes.

Additionally, she was not quite certain what George, Omega's new development officer, was doing. Immediately before SAC's executive director, Patti Kelley, left to take another job with a prominent ecumenical relief organization, she had hired George. This left the organization without an executive director, as the governing board had decided to take some

Insubordination or Unclear Loyalties?

time to fill the leadership position. George seemed to spend most of his time with the other development people at SAC, working on the cross-program task force on fundraising. He was the only one with professional fundraising experience, and many within SAC viewed him as an expert. Ellen understood that should George obtain a large donation or grant for SAC, it could also help Omega House. However, it had been her experience that she had to fight hard for resources. Thus, when George had been assigned to her, she thought he would focus most of his attention on Omega House. Ellen understood that Omega House was one of SAC's only programs with active volunteers who could raise funds. Thus, she understood that George could also be useful to other parts of SAC, but still felt that since George had been hired with money from a development grant previously given to Omega House, he should spend the bulk of his time serving their needs. Funds from this development grant had also been used to purchase office equipment used by George and others.

Ellen had also come to understand, based on gossip, that George's past job history involved a personal indiscretion that had led to his termination with another employer. This made it difficult for her to trust him completely.

What's George Up To?

Ellen entered the kitchen early Monday morning and said, "Hi, Dan. What's for breakfast today?"

Dan, with his back to her, was gyrating to the rhythm of a CD blaring in the boom box. Dan's wide-ranging preferences for music ran from the church hymns he played on Sunday evenings to punk. Ellen was not quite certain where this particular CD fit on the continuum but took the liberty of turning it down. Dan turned and noted her presence, "Oh, hi, you old bitty—don't you like my music? I suppose you'd prefer MUSAK," he responded in a playfully scornful tone. He then approached her and hugged her, stating, "It's nice to see you. What's up?" Their relationship represented the friendliness existing throughout the Omega staff: approachable, playful, and comfortable.

While attempting to wrap her arms around Dan's ample upper body, Ellen looked over his shoulder and noted a tray of long-stemmed glasses sitting on the counter in the dishwashing area and asked, "Who passed on?" The long-stemmed glasses were used by the staff to honor the patients who died. The average stay was only three weeks. To avoid developing the lack of feeling that one can find in service settings where people routinely suffered tragedy, the staff engaged in this ceremony each time someone died; they left a light on outside the person's room and shared a toast of a nonalcoholic sparkling beverage.

"Theo. He had been active all weekend. Fortunately, his immediate family was with him last night," Dan responded soberly. "Active" meant Theo had been showing the physical reactions that were symptomatic of impending death.

They both paused a moment before continuing. The customary, "That's too bad," did not seem to fit, as it was a hospice designated for people with terminal cancer or AIDS who were near death upon admission.

Ellen continued, "Say, what time did George come in on Friday? I was at the SAC office for a meeting. He usually comes through the kitchen. Did you happen to notice?"

Dan looked out the window and thought, "Let's see. I had finished breakfast and was outside having a cigarette. It must have been after 9 o'clock. He seems to come at about that time, except for a couple of times a week when he comes in while I'm doing the breakfast dishes, which would make it after 10:30."

Ellen thanked Dan and went to the portion of the old estate house where the patients were located. Her office was immediately behind the nursing station. She liked to be close to

Insubordination or Unclear Loyalties?

the action and sometimes wondered if she was cut out for chasing after administrative staff, like George, who wasn't communicating regularly with her.

That morning she dealt with the customary managerial concerns for the first half hour and spent the balance of the morning reviewing the financial statements in preparation for the budget meeting the next day. She noted that while SAC's development efforts had seemed to improve funding for Omega, Omega's own fundraising efforts had resulted in little change from the previous year, when they didn't even have their own development officer. Now that they had George, she had expected Omega's contributions to rise. She also noticed that George's salary was charged to a grant, destined in its entirety to Omega's budget. She thought to herself, "If George is working for Omega, these numbers ought to be changing. Since he's charged to Omega, I really should be more aware of what he's up to." She resolved to speak with George that afternoon.

Confrontation

Ellen walked up the stairs of the main portion of the house to the office, directly above the kitchen and Dan's blaring boom box, where George worked. She found him at the photocopier machine. When he saw her, he looked somewhat sheepish. Ellen noted that the yellow copies looked like flyers; she caught a glimpse of the image of a canoe, and the words "Boundary Waters Adventure" before he hastily scooped the copies up, and put them in the opened briefcase positioned unsteadily on top of the photocopier machine. "Just taking a few minutes to make some personal copies - I brought in my own ream of yellow paper. I hope you don't mind," said George, averting her gaze. He then cleared his throat and proceeded, "What can I do for you?"

"I don't want you making hundreds of copies on our machine. The paper is a minor expense, but the copies are not. It's leased and we pay several cents per copy," said Ellen as forcefully as she could without shouting. She had not wanted their meeting to begin this way.

"Understood," responded George quickly. He continued, "I'd be happy to reimburse SAC for the copies. I've done 300."

"That would be nice," responded Ellen before continuing. She paused briefly while he closed his briefcase and went to his office. She followed him and took a seat after he gestured to her to sit in the chair customarily occupied by the university intern, Lisa, who was off at a retreat for her university. Trying to change the mood from a disciplinary one, which she felt she had been forced into, to the collaborative tone she had intended, Ellen continued, "I wanted to compliment you again. on the 'casino night' last week. It went well, and I've received several calls from people who attended." She was referring to a fundraising event they had held the previous week; it was an evening on the lawn where the sponsors, volunteers, and staff played various casino-like games. She wanted to begin with something positive, even though she had discovered that Lisa had a larger role in the arrangements than she would have expected from an intern.

George responded, "Well, that's what I'm here for."

Fundraising was a big issue with Omega and SAC. Some of the low-profile SAC programs had been cut recently. Ellen had been told by SAC that her program would not be cut but was concerned nonetheless, since she wanted to upgrade some of their equipment as well as complete the remodeling of the facility. To do so, she needed more money, and George had been recruited for that purpose.

Additionally, some of Ellen's uncertainty stemmed from the autocratic style Patti, the former SAC director, had used to manage the various programs. Sometimes Patti had seemed capricious in how she would arbitrarily fire program directors. Ellen also had regarded her as insensitive; Patti would come in, unannounced, leading a delegation of visitors through the facility. Since Omega was a hospice, Ellen felt that such visits should have been handled with greater

Insubordination or Unclear Loyalties?

sensitivity. Patti had also tried to micromanage many of the programs. She would make decisions about minutiae, sometimes change programs without consulting the program director, and involve staff from the various programs in SAC issues, such as the cross-program task force on fundraising. Ellen understood that this was a large concern for SAC, and she knew that George, who was assigned to Omega, needed to participate in this fundraising task force. However, Ellen was concerned that Omega's internal fundraising efforts were not getting the attention they deserved from George. It was apparent to Ellen that Lisa, the student intern, had assumed a leadership role, filling the vacuum left by George. However, Lisa was temporary and should not supplant George.

With this in mind, Ellen then asked, "I was wondering how it was going with the Omega committee you're leading for fundraising?" Ellen had formed an internal committee, comprised of both staff and volunteers (some of whom were donors), to generate ideas for fundraising. She had heard from committee members that George was difficult to communicate with and frequently did not attend the meetings. Still, Ellen was aware of how both the staff and volunteers comprised a group that had been together for years, and that it would be difficult for George to be accepted immediately.

George stood up and loomed over Ellen who was still seated. He stated assertively and loudly, "Look, I can't get the job done if I'm to work in committees all the time here and at SAC." He continued to look directly at Ellen in a challenging manner.

Ellen responded quickly and decisively, "I asked you to be on that committee and I expected you to participate. These people have been a part of Omega for years and can contribute a great deal both in service and ideas. Those who are donors also provide a lot of financial support. They are the ones who keep us going. You can't ignore them. Furthermore, they need your fundraising expertise. I know it's difficult to enter an established group, but you won't have a chance if they don't perceive you as more cooperative."

George responded, still hostile, but more carefully this time after noting Ellen's displeasure, "I had no intention of leaving anyone out of the loop, or avoiding the committee. It's just that I'm part of SAC's cross-program task force. I had a few conflicts and I had to decide where to focus my energies. I felt I had to do what SAC wanted."

Ellen stood and walked around the room. She listened, thought for a moment, and then responded, "I understand that you need to coordinate your Omega efforts with the SAC team's overall development plans and may be asked to do things with them. However, when I tell you specifically what to do, I expect you to do it."

George responded tersely, "Maybe you should speak with the SAC development officer so that we can all understand our jobs better."

Ellen felt she was not getting through to George. She stated, "You're assigned here. Your salary comes out of my budget. I don't see the confusion. Yes, I'll speak with the SAC development officer to clarify what it is I told you to do and why I want you to do it. But that won't change that you're working here for me. So please do what I say."

Ellen felt that she couldn't have been more explicit. However, later, on her way home, she wondered if the problem was structural rather than individual. George reported to her and to SAC's development chief. She recalled how SAC's development chief sat in on George's interview with her and lobbied for George because of his skills, which he said would round out SAC's development team. Thus, she wondered, "Is the problem George, and what appears to be his irresponsible and noncommunicative behavior, or is it confusion over who is to direct his efforts, or both?"

Source: *Cases in Management and Organizational Behavior, Volume 2*. Teri C. Tompkins, Pepperdine University. Prentice Hall, Upper Saddle River, New Jersey 07458

CASE STUDY 7.2

Incident on the *USS Whitney*

by Jeff Balesh

Ensign Beck sat in the old, executive-type chair in his cramped office and felt as if he had been hit over the head with a baseball bat. His experiences up to this point on the *USS Whitney* were rocky, to say the least, but had not been as bad as the blow he had just taken. Now, he felt he had a day to mark on the calendar as the darkest one in his short career in the U.S. Navy. However, not only was he sure that he had done the right thing, two older officers supported him. Still, the beating he had just taken was a difficult one to stomach.

USS Whitney

The *USS Whitney* was a "precommissioning" vessel, a ship that hadn't been put into service yet (or "commissioned"). It was being built in a shipyard in San Diego, California. There were still about 10 more months before the ship would be in the hands of the Navy. Because the ship was still just a hulk of keel and iron ribs, the coed crew (about 90 percent men at this point) worked on an ugly, dilapidated green barge docked a pier down from the burgeoning vessel. There were about 40 members who had already reported to the unit out of the 560 who would eventually make up the crew.

Ensign Beck was a member of the supply department, the unit on the ship that was in charge of all of the ship's financial dealings as well as all the services for the crew. These responsibilities included functions such as payroll, the sale of retail merchandise, the ordering of supplies, and the monitoring of the ship's budget. The person in charge of the supply department was Lieutenant Commander (Lt. Cdr.) Fuller, a 13-year officer who was known to be a stern disciplinarian. Although he had stated many times thus far in his stint as the supply department head (commonly referred to as "Suppo" in Navy lingo) that the number-one priority of any officer's job was to take care of his or her people, he was decidedly harsh on his officer subordinates. Even though his harsh style affected his subordinates' feelings toward him, they could not deny that he had a good reputation for running ships' supply departments.

Emblematic Merchandise Giveaway

Ensign Beck served as the sales officer, his first real job in the Navy. He was to be in charge of the ship's store, laundry, barbershop, and post office once the crew moved on board the ship. On board the barge, he supervised a unit of eight personnel that, in addition to running a fabricated barber operation, had as its primary responsibility a barge version of the ship's store. Ensign Beck was also responsible for preparing for operations on board the ship many months in the future. At this point, the sales operation primarily sold what were called emblematic items. This referred to anything with the ship's name on it, including such items as ball caps, shirts, coffee mugs, lighters, and the like.

The rules and regulations on a precommissioning ship were less stringent than those on a commissioned ship. The circumstances and regulations surrounding certain aspects of the operation of the store, such as how inventory was stored, sold, and accounted for, were not as restrictive as that of a store on board an active ship. However, keeping solid accountability of inventory and money was still of primary importance. Ensign Beck's job performance, as well as that of Suppo Lt. Cdr. Fuller, could be harmed by a critical loss in inventory or money.

Sometimes, the ship's commanding officer, Captain Gramm, took emblematic merchandise on public affairs trips either to sell or, more likely, to give away. On these trips, the captain did most of the public speaking and glad-handing and the Suppo was his right-hand man. However, Lt. Cdr. Fuller never let opportunities go by without doing his share of hobnobbing. This meant that he gave away his share of merchandise as well.

Incident on the *USS Whitney*

As a result of these sojourns, the sales division was forced to try to make up for the lost inventory due to the giveaways. In order to overcome this accounting nightmare, Ensign Beck wrote up itemized inventories of goods given away at these functions to have Lt. Cdr. Fuller sign in order to write off the losses. The amounts of the write-offs were usually small, in the realm of \$50 or less, but significant enough to have to account for them. To put these losses into perspective, the size of the adjustments was about one-sixteenth the amount of monthly revenue (about \$800) at the time.

As long as Ensign Beck had a signature on one of these statements, it technically absolved him of accountability. However, it was still an accounting headache; furthermore, it cheated the crew out of money that should have gone for the benefit of the crew's Morale, Welfare, and Recreation fund, which received the profits realized by sales. Not to be forgotten in this process of writing off lost inventory was the chore of requesting Lt. Cdr. Fuller to sign one of these sheets because it required asking a service from him. Since he and the captain gave away the merchandise, they were responsible for the shortages for which Ensign Beck had to account. Yet, Ensign Beck still had the feeling that the Suppo retained the power to deny the request if he so desired. Although this had not happened, the ensign was used to routine bouts of questioning regarding other matters he brought up for the Suppo's approval.

About six months after Ensign Beck had reported to the unit, he sat in his office braced for the aftereffects of a particularly high-level public relations trip. The supply officer and captain had gone to Bremerton, Washington, the location where the ship was to be commissioned as well as homeported, to meet with the commissioning committee-the group in charge of raising money for the commissioning event. It was an important time in the ship's short life span so it was critical at this point to generate as much money and support as possible. Therefore, Ensign Beck knew that a significant amount of merchandise would be given away. Sure enough, both the captain and the supply officer distributed gratis several ball caps and other items during the trip.

Two Lieutenants

Now, the young ensign was forced to try to determine how much was given away. This task was made more difficult because the notes taken to document what was sold, what was given away, and who still owed money for items were incomplete and hard to decipher. In order to try to complete the story, he plied people's recollections as to what transpired. He eventually came up with a tally of items that had to be accounted for.

He brought the itemized list to Lieutenant (Lt.) Frank Wilson's attention. Lt. Wilson, in charge of ordering supplies for the ship, was a 17-year Navy man who spent his first 10 years in an enlisted status. He had much respect among the whole crew, including the supply officer and captain, as he had the reputation of being a "doer" and a go-getter who never failed to have a witty comment perfectly delivered to deflate any tense situation. He befriended Ensign Beck when they first met on a visit Lt. Wilson made to Navy Supply Corps School while Ensign Beck was still a student there. Lt. Wilson also had assumed the role as Ensign Beck's mentor when they were together in the unit. As such, he acted as a buffer between Ensign Beck and the Suppo. He fulfilled this role well as he not only was a wily veteran of various tours throughout his career but was also respected by the Suppo. However, the Suppo did not hesitate, when threatened, to let him and everyone else know who was in charge.

Lt. Cathy Smith was also informed of the situation. This was her first tour on a ship that would be at sea. It was an established fact in the Navy that officers, and everyone else for that matter in seagoing careers, proved their mettle in tours at sea. Thus, she hadn't really been tested yet as an officer. Nevertheless, she was the assistant supply officer, second in charge in the department, not only because she could afford the time to dedicate to this administrative role (due to the fact that the department that she would be heading did not have a role as of yet), but also because she had more years as an officer (eight) than Lt. Wilson had (seven).

Incident on the *USS Whitney*

Lt. Wilson advised Ensign Beck to write up an itemized sheet for the Suppo to sign. To do this was nothing new; however, for the first time, he advised the ensign to also take it up to the captain to sign. Lt. Smith, as she was inclined to do, agreed with him. By having the captain sign the sheet, Ensign Beck's absolution of responsibility would not only be solidified, but it would also notify the captain of what was involved with giving these items away, especially when the Suppo was involved. Ensign Beck knew at the time that it was a way not only for himself but also for the other officers to get back at the Suppo, and he agreed to it partly for that reason.

Lt. Cdr. Fuller was not someone who would be called a genuinely kind man, and every officer in the department had suffered to a certain extent by serving under such a leader, including Ensign Beck. About three months after reporting, the Suppo had seated the ensign in his office and told him he had better improve his performance or else. Ensign Beck didn't know what exactly would happen to him, beyond poor fitness reports, but he knew it would be unsavory, whatever it was. That was the way it was with the Suppo: One didn't really know how he would do it, but you knew it would be bad. At any rate, although Ensign Beck knew he was taking a risk in challenging the Suppo's authority by essentially "telling on him" to the captain, he willfully agreed to take the chance as he knew he had the support of the two older officers in his department.

"Telling On" the Suppo

So Ensign Beck wrote up the sheet with separate blocks for the Suppo and the captain to sign. He showed the Suppo the sheet of paper and told him that he would be taking it up to the captain for his signature. The Suppo leaned back in his chair with his hands on the back of his head in a relaxed gesture and, wearing a Cheshire cat grin that was his trademark and that bled with condescension, said, "Go ahead. See what he says."

On the *Whitney*, as it was throughout the Navy, norms played a big role in dictating acceptable forms of behavior, including relations between seniors and subordinates. Norms such as walking to the left of a senior officer and behind a couple of paces and asking permission to join the meal table were well entrenched in every officer's mind. However, these norms were easy to follow; they were pretty cut-and-dried. A more complicated area was the chain of command and the norms that governed the relationships within this hierarchical structure. These norms, mainly concerned with respecting the primacy of the chain so as to take things that concerned superiors to one's immediate supervisor before it went any further, were taken very seriously by everyone, especially the top echelon of leadership. They provided the backbone for this foundation of military operations. By allowing the ensign to proceed, he was in effect giving the ensign permission to ignore the norm of sticking to the hierarchy and in so doing cleared the way for him to visit the captain on his own.

The Captain's Response

With the Suppo's blessing, Ensign Beck took the sheet up to the captain. Captain Gramm had been in the Navy for 27 years. He started off as an enlisted man, and served in this status in the Vietnam War. The *Whitney* was the fifth vessel to be under his command and he was looking forward to this tour as it would be his last shot at a promotion to admiral. Although he was a stern man and could "undress a person down to his underwear," he had taken a liking to Ensign Beck. This was due to several reasons, not the least of which was that his uncle had played on the football team with George Gipp (of "win one for the Gipper" fame) at Notre Dame, Ensign Beck's alma mater.

After Capt. Gramm read what was on the sheet, he remarked that if it weren't for the Suppo's glad-handing of all his supply officer buddies, there wouldn't be such a loss. He wrote a sarcastic note on the sheet underneath his signature noting something to this effect. He read it to Ensign Beck with a malicious grin. From moments like this one, it appeared that he enjoyed taunting the Suppo. Although he was fully aware of the quality of Lt. Cdr. Fuller's work, it seemed that he took merciless delight in "spinning him up."

The Suppo's Response

Ensign Beck delivered this note to the Suppo. Because the captain had written the note for Fuller, Ensign Beck was obligated to show the note to him. He actually didn't expect the note to be that big of a deal; as a matter of fact, maybe the Suppo would see the humor in all of it. After all, it was mostly true; but as the Suppo's eyes looked at the note, Ensign Beck witnessed the progression of blood rushing to his face. He could tell he was getting angry, and the pressure was building up inside of him like that of a teakettle rising quickly to the boiling point. The Suppo violently jumped up from his chair, pointed to the outside of the barge, and yelled, "Outside!" When they reached the outside of the barge, Lt. Cdr. Fuller proceeded to berate the young ensign like no one had done before or since. "How can you f--- me!?! You don't know what the hell you're doing! Why can't you trust me? I've been in this organization for, how many years?" He didn't dare answer the question and he didn't need to. "For almost 15 years! Don't you think I know what I'm doing? Do you think I would totally screw you?" Again, Ensign Beck did not answer. "Damn it, Ensign!" And this is how it went for a good 10 minutes: Fuller yelling at the top of his lungs and Beck standing there shell-shocked. The Suppo's veins were bulging out of his neck, he was gesticulating wildly with his arms. It soon became a surreal moment. The young officer, just a year and a half out of the ignorant bliss that marked his experience in college, took himself out of the present and wondered, "Why am I here? Why did I screw myself by getting into this mess?" He wanted to watch this event, detached, with no emotional involvement, but he had never felt such animosity toward a human being in his life.

When Lt. Cdr. Fuller finished with his diatribe, he stormed back into the barge. Ensign Beck, stunned, went back into his office, a mere few feet across the hall from Suppo's office. Everyone on the forward end of the barge must have heard all the yelling. Lts. Wilson and Andersen came into Ensign Beck's office to see what had happened, and to offer their support. The ensign sat in his chair dazed. The two senior officers reiterated their understanding of what the ensign had done and expressed their disbelief at what had just transpired. The Suppo eventually came into Ensign Beck's office after about 20 minutes-during which time he must have forced himself to cool down.

He apologized for getting so out of hand, and talked to the young officer in a much calmer manner while his voice was still firm, but now marked with a tone of pleading. "I am sorry for yelling like that. I shouldn't do that, and I know it. But. . ." ("There was always a 'but' with him," Ensign Beck thought) "you have to understand why I do these things. It's not to screw anyone; it's to do what I think is right. You must trust me with this stuff. I know what I'm doing." Ensign Beck, a subordinate, had no choice but to accept his apology and his reasons for being upset, at least to his face.

Source: *Cases in Management and Organizational Behavior, Volume 2*. Teri C. Tompkins, Pepperdine University. Prentice Hall, Upper Saddle River, New Jersey 07458



Bernd Sterzel at the IVth Medizinische Klinik (A)

It is a tremendous privilege to have the satisfying profession of taking care of patients and training younger colleagues while being aware of the most advanced scientific medicine. It is existential security and intellectual excitement. I mean, what else could be better?

In June 1992, Dr. R. Bernd Sterzel drove along the 10-mile stretch of autobahn that connected the cities of Nürnberg and Erlangen, where the two units of the IVth Medizinische Klinik (hereafter referred to as "the Clinic") were located. Sterzel was weary. The physical distance separating the two parts of the organization seemed symbolic of the many challenges he faced in transforming the Clinic into a world-class academic medicine department.

As he headed to his weekly staff meeting, Sterzel recalled the first time he had made the journey. He had long dreamed of leading a nephrology department dedicated to research and clinical care in the areas of prevention and transplantation. When he learned of the available position of director at the IVth Medizinische Klinik in Nürnberg and Erlangen, Germany, he knew it was an opportunity he could not pass up. So, in 1988, after 10 years in the United States, Sterzel returned to his home country to fulfill his ambition. He explained:¹

I wanted to create a world-class nephrology clinic which would also produce leading-edge nephrology research. My vision was to dramatically change the three critical areas of the Clinic: patient care, medical education, and research. If I could improve the standard of education and patient care, I could then focus on the research aspect of the Clinic. Because, over the long term, it is the research which has the most potential to make a difference.

Research Associate Melinda B. Conrad prepared this case under the supervision of Professor Linda A. Hill as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. This case was designed to be taught in conjunction with "Bernd Sterzel at the IVth Medizinische Klinik (B) and (C)," HBS Nos. 493-060 and 493-061.

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1. The majority of quotes in this text were spoken in English by people whose native language is German.

The critical elements of the Clinic's foundation were now in place. Sterzel had recruited a team of 11 top-notch physicians. He had increased the number of beds at both the Erlangen and Nürnberg units. And the extensive renovations of the Erlangen research laboratory were finally complete (see **Exhibits 1 and 2**).

Sterzel had also rationalized and upgraded the medical education the Clinic offered. The reforms had improved the Clinic's standard of patient care and paved the way for a dramatic increase in the number of successful transplants—one of the more intellectually exciting aspects of nephrology—performed at the Clinic (see **Exhibit 3**). He had also begun to groom a cadre of physician-scientists, that is, physicians trained to conduct leading-edge research in molecular biology. Sterzel believed that such individuals, with rare and highly sought after talent, represented the future of nephrology. Their research was laying the foundation for the next frontier of patient care in the twenty-first century. Four of the Clinic's fellows had recently returned from the U.S. where they had learned the latest techniques in molecular biology and four more fellows had just departed. Sterzel expected to have the resources to send three more fellows within the year.

Finally, Sterzel had also set in motion a number of promising research initiatives. He and his staff had prepared twelve grant proposals, nine of which had been funded. In addition, Sterzel and two other chiefs of medicine had just submitted their first multidisciplinary, multiyear program project grant for DM 2.2 million.²

Despite these accomplishments, however, Sterzel still had a long way to go. He explained:

There are many tensions and complexities to this position which I had not fully appreciated until I became deeply involved in turning around the Clinic. One of the biggest challenges I now face is getting all of the physicians to work as a team. After a lot of hard work, I believe I have gotten them all on board. But now it is a matter of us working together to get things done without having to push them.

Background

Prior to his arrival at the Clinic, Sterzel had been a tenured faculty member in the Yale Medical School's Department of Medicine for ten years. He was responsible for his own laboratory, supervising a tight-knit team of five to eight people, which included two to three fellows, three to five technicians, and one to two medical students. Sterzel's team maintained a rigorous research agenda. Their annual budget of \$300,000-\$500,000 was primarily supported from U.S. government grants (the National Institutes of Health, the Veterans Administration, and the National Science Foundation), which Sterzel was principally responsible for securing and allocating.

Sterzel gained an international reputation for his approach to nephrology research. In contrast to focusing on dialysis, the mechanical filtering of blood to care for chronically ill kidney patients, Sterzel adamantly believed more nephrology research should emphasize prevention. Such work, moreover, should be equally balanced between clinical research—studies with human subjects in a

2. In July 1992, the German Deutsche Mark (DM) exchange rate was 1.47 per U.S. dollar.

clinic setting—and basic research—studies performed wholly in a laboratory environment.³ He explained:

Currently, nephrologists focus on how to treat kidneys once they have totally failed. The two main ways this is treated is through dialysis, which is an extremely costly and time-consuming procedure, or kidney transplantation. But, this is difficult due to the need for a donor. In the future, I believe nephrologists will focus their research on looking for ways to stop further deterioration once a kidney problem starts. And, if all else does fail, using transplantation as the last resort.

The Clinic, composed of two separate medical units, maintained a unique "dual" relationship with the Nürnberg city hospital and the University of Erlangen-Nürnberg hospital. The first medical unit, located in Nürnberg, was part of the Nürnberg hospital—a 2,500-bed complex with 39 medical units and a budget of DM 500 million. While most of the medical units were in the hospital complex, in the center of the city of Nürnberg, Sterzel's unit was located a few miles away. In addition, it was only one of two units at the Nürnberg city hospital that was also associated with the University of Erlangen-Nürnberg. The Nürnberg unit of the Clinic, which specialized in the clinical aspects of kidney and hypertension-related diseases, maintained 160 beds and employed 50 doctors and 160 nurses.

The Nürnberg city hospital, one of the largest in Germany, provided the highest level of specialized care in Bavaria. It was run by a "Directorium" of three people appointed by the Nürnberg city council: a chief medical director, administration director, and nursing director. Sterzel reported to the Directorium and to the chief of the health care section of the city council, with whom all budgetary and planning processes were negotiated.

The Clinic's second medical unit was part of the University of Erlangen-Nürnberg's Medical School hospital. The university, located in Erlangen, 10 miles north of the city of Nürnberg, was founded in 1743 and enrolled 27,000 students in 1992. The medical school maintained 40 medical units, each run by a tenured medical professor of the highest "C-4" ranking.⁴ Each C-4 reported to the university rector.⁵ The Erlangen unit of the Clinic was one of the smaller units; the 13 doctors and 22 nurses who worked in the unit all reported to the unit chief.

Sterzel recalled his initial meetings with the university:

The university was looking around and some people had heard of me, so they invited me for a visit. The Clinic is a highly unusual setup. Medical units are typically either part of a university teaching hospital or a city hospital, but not both. But, in the case of the Clinic, the previous director had negotiated a joint chair. The

3. For instance, the physicians at the Clinic were working on a basic research project about the mechanisms of inflammatory kidney diseases and a clinical research project on the effects of high blood pressure therapy on the progression of kidney diseases.

4. C-4 level positions were prestigious and difficult to obtain. Attaining a reputable C-3 job could launch a physician into a C-4 position at another clinic. Only C-4 level physicians were allowed to maintain a practice of private patients, from whom they could collect personal income to supplement their salaries (in this instance, salaries were paid by the University and/or the City of Nürnberg). In 1986, the average physician's income in Germany was US\$91,244 as compared to the United States, where it was US\$119,500. (Source: Leigh, J. Paul. "International Comparisons of Physicians' Salaries," *International Journal of Health Services*, 22:2, 1992.)

5. German higher education was heavily subsidized by the state of Bavaria, the capital of which was Munich.

only other department to maintain a joint chair was geriatrics. The Clinic was highly regarded in Germany. It was the largest nephrology clinic and one of the top five transplantation centers in the country. But, the former nephrology chief was a fine clinician with little laboratory research background. Once he left, the Clinic became a blank slate. This was the biggest job for nephrologists in Germany, and it was an incredible opportunity for me to change the focus of the Clinic to emphasize research.

When I spoke with the university, I explained that there were three critical areas in which I would focus—research, education, and patient care. I also emphasized my focus on prevention. Instead of keeping patients on costly dialysis machines once their kidneys had failed, we would try to provide more preventive care. If the kidneys failed anyway, we would use transplantation as the better solution rather than dialysis. It would initially require more funding to do the research, but the long-term costs of dialysis and other expensive procedures would ultimately be reduced. They somehow picked up on my idea of if you wanted to make a change, you would need to stress a few issues which hadn't yet been stressed. So, I convinced them that unless they could support the basic concept, they wouldn't get anybody else who would try and make a difference.

I realized that my plan was somewhat radical. I really wanted to bring in some approaches I had learned in the U.S. to improve the standard of the Clinic. The German system is much more bureaucratic and physicians are used to working independently. I was concerned about how many of my ideas would go over. But, I was willing to take the risk because, in the end, it would be best for the Clinic.

Negotiating a Deal

Sterzel's first order of business when negotiating his contract was to secure the resources to pursue his agenda. The university unit primarily provided outpatient services, but because Sterzel planned to increase the number of transplants performed at the unit dramatically, he needed to increase the number of beds available. In his initial negotiations, Sterzel requested that the number of beds be increased from five to thirteen within the first three years. His ultimate goal was to reach 55 beds in a five-to-ten-year period. In addition, he requested that a new laboratory facility be built in Erlangen to accommodate the Clinic's extensive research program.

The Nürnberg facilities also needed upgrading. After lengthy discussions with the city council, Sterzel was guaranteed a total of 160 beds as well as a laboratory for special diagnostic tests. He recalled the negotiations:

To create a world-class clinic, each facility had to have adequate resources on both the clinical and the research sides. While the Nürnberg unit will always be more patient-care-oriented, it was necessary to have on-site research facilities available. This was very difficult to acquire, since the hospital's funding comes via the city, which believes that research should be done at the university. In contrast, the university facility needed more beds; however, they were only willing to provide research-related resources. It was a long process of convincing both parties that I would need more resources in both "houses" in order to meet my goal of improving the level of research and ultimately providing preventive care. While the position was a very honorable one since I was only one of two C-4 professors who also had a

facility at the Nürnberg hospital, it was very difficult because I was negotiating with two parties who had very different points of view.

Harald Plamper, the city's director of personnel and member of the city council, recalled when the council hired Sterzel:

Sterzel was definitely the best candidate for the job. Whereas all the other candidates explained how they would run the Clinic, Sterzel put forward a program for the prevention of kidney disease. The nephrology department is one of the most expensive in our hospital because of the cost of dialysis and transplantation. Even though we can recover our costs, we have to look at nephrology with a broader perspective: more and more people suffer from kidney failures and because of it acquire other ailments. They often have to give up their jobs or at least reduce their work loads, and their treatment is extremely expensive—not to mention the constant hardship.

I found out that national research programs were geared toward the prevention of kidney failures—a good possibility to direct this money into our region. Moreover, our mayor, the majority of the city councilors, and I wanted to strengthen the sometimes strenuous cooperation with the university—a second academic chair in our hospital was supposed to be a good means for cooperation. Finally, I wanted to give young doctors a place in our hospital where they could get the best training possible—in research and even more in clinical practice. Sterzel's reputation was supposed to attract better physicians.

Since all of these aspects were opposed by quite a few people, negotiations with Sterzel were not at all easy. The university had to be included as well. Sterzel never gave up until we had reached a good result. After his arrival, I had to give him a lot of support. I saw my role as rock remover—rocks which other people had put into his path.

Many people were impressed with Sterzel's agreement with the city. One unit chief at the Nürnberg hospital explained:

While Sterzel had the liberty of being able to wear a "city" as well as a "university" hat, it also meant he had to deal with the associated funding restraints. Germany is currently under severe financial pressure because of reunification. Before the fall of the Berlin Wall, money was no object. Now, money is extremely tight. The city of Nürnberg is in tremendous debt—the city hospital alone operates at a deficit of DM 30 million per year.

The city hospital does everything it can to avoid paying for research costs. They see that as the university's responsibility. For Sterzel to get research funding was a surprising achievement. Sterzel is politically very smart and was able to secure what other chiefs thought would require a miracle. Sterzel is a doer, always looks on the bright side and never lets anyone get away with saying, "no."

Another unit chief commented:

Many of the other chiefs are very envious of his position because, in some ways, he has a tremendous playground by having the two separate clinics. There are only one or two other positions in Germany which can match his. On the other hand, I'm not sure I would want his job. As a unit chief, I am tangled in a wild forest of administration and there is a tremendous amount of politics which go with it as well.

One physician in Sterzel's unit explained that he was not very surprised Sterzel was able to negotiate such a deal: "Sterzel has an indomitable will and doesn't hesitate to bend people to do things for him. Politically, he is a very smooth talker, especially with people at his level or higher. He speaks of his vision and is very convincing."

Getting Off the Ground

Developing the Leitbild

A few months prior to starting his job, Sterzel visited Prague with his close friend Stephen Doyle. On the car ride home, the two discussed Sterzel's strategy for the Clinic. Doyle, an American management consultant, suggested that Sterzel create a mission statement for the Clinic. It would formally articulate its direction and serve as a basis for discussion if questions about the role of the Clinic arose. During their long wait at the border to reenter Germany, they outlined a preliminary draft.

Upon his return, Sterzel learned that an American colleague, Dr. Friedrich Luft, would join him as his second-in-command at the Clinic. Luft, whose parents were German, was a tenured faculty member at Indiana University Medical School. Sterzel had been trying to convince Luft to take part in his ambitious plan and was thrilled that he had agreed. Sterzel immediately sent Luft the first draft of the mission statement, written in English, for his feedback. Luft was enthusiastic about the document and the two colleagues exchanged a number of drafts until they felt it adequately represented their goals for the Clinic. When it finally came time to translate the document into German, they found it difficult. Ultimately they entitled it, *Leitbild*, German for "leading example."

Building a New Team

Sterzel's next step was to recruit his senior staff of physicians. His strategy was to build up a strong team of highly talented, ambitious, research-oriented C-3 physicians. Sterzel described the positions, the equivalent of an associate professor in the U.S. medical system, as opportunities for physicians to be at the forefront of patient care, research, and medical education. Meanwhile, they could gain the experience and visibility to help them move up to the C-4 level.

With a group of top-notch C-3 physicians at the Clinic, Sterzel could then attract the best medical students and physicians-in-training from around the country. He hoped to encourage some number of them to pursue the arduous, but he believed fulfilling, career of a physician-scientist. One new recruit recalled:

Sterzel explained how the Clinic would provide an educational base while there would be lab facilities for the research. Sterzel was the first in Germany to bring a

new model of academic medicine in which the clinical research and the basic science were equally divided. Typically in Germany, physicians end up focusing on one or the other. Sterzel's new approach would be more like the United States. It seemed like a wonderful research opportunity for me.

After an extensive nationwide search, Sterzel assembled a team of three excellent C-3 physicians, Drs. Luft, Mann, and Weber, and eight additional experienced physicians. Of this faculty team, Luft was the only non-German, and though many of the physicians had spent some time in the United States, only he and Sterzel had been exposed to the American medical system for an extended period of time. Sterzel recalled his excitement once the team was in place:

The internal recruiting and establishing the team was very rewarding. I spent huge amounts of time interviewing, and luckily a very good team came together. To many outsiders, it was a miracle that I got not just one exceptional physician to come, but three. Those people were hungry and this was a very attractive job to get. Without this, I believe, the situation would have been pretty professionally suicidal.

Sterzel attributed much of his success to his time spent in the United States. He noted:

American medical research is in some ways perceived as an international standard. This is because many of the best research journals in which one needs to publish are American. The tremendous connection to the U.S. and knowing many of the key players helped me tremendously to get outside people here. I was able to show these young people how much fun it could be working on education and research. Having this international academic network creates an incredible amount of satisfaction.

Establishing the Task Forces

Sterzel soon confronted the magnitude of the challenges ahead. He sought the advice of Doyle, who suggested that Sterzel establish task forces to help manage his workload as well as to encourage the physicians to function as a team. With Doyle's assistance, Sterzel created eight task forces.

Sterzel appointed his top three physicians, Drs. Luft, Mann, and Weber, to lead task forces that addressed the Clinic's most important or pressing demands. Assigned to the Erlangen unit transition task force, Dr. Luft would manage the tactical and strategic matters required to get the unit up and running; Dr. Weber would support Luft in these efforts. Dr. Mann, who was already responsible for Nürnberg's day-to-day operations (a significant responsibility since Sterzel was often involved in other activities—see **Exhibit 4**), headed the South Clinic task force that would address the unit's plans to move to a new site.⁶ Dr. Mann, a level-headed, personable man, was able to manage this time-consuming and complex task, which involved endless meetings with administrators, colleagues in other departments, architects, and construction workers.

6. In 1994, the Nürnberg unit was scheduled to move to a new, state-of-the-art hospital complex seven miles south of its current location.

The new task force initiative elicited mixed reactions. One junior physician remarked:

The typical stereotype of a German clinic leader is one who is making all of the decisions. The power the leader has is tremendous and it is much better for everyone if it can be distributed in some way. With the task forces, we can bring our ideas together and create solutions.

Others considered the work to be Sterzel's responsibility and that the task forces were "just making more work for others." One physician explained that he, personally, was simply not cut out for such administrative work: "It is a question of how much time you will spend on management of a process which will not be seen in the end. Many of us have chosen the medical profession to avoid administrative tasks. When we have to deal with these task forces, it is a contradiction."

Instituting Change

Patient Care⁷

Sterzel discovered that obtaining the resources outlined in his initial negotiations was exceedingly difficult. Although he had been assured that the Erlangen unit would acquire more beds, it had never been clarified from where they would be taken. When asked to transfer some of their beds to Sterzel's unit, only one of his peers was willing to cooperate.⁸

Sterzel asked Luft to be responsible for obtaining the beds. Luft recalled:

There were four individual clinics in our building: immunology/oncology, cardiology, gastrointestinal, and us. The GI guy had 120 beds and the cardiologist had 55 beds. In keeping with the contract, we were to get eight beds from them. The university had even given us a plan of where these beds were supposed to be. But when I talked to the heads of the clinics, the beds belonged to these two "chieftains" who supposedly had their own agreement with the university.

Another problem I encountered was with nursing. There is no central nursing system like in U.S. hospitals. Each individual clinic hires its own nurses. So, I had to go into the nurse hiring business. Then, our ward needed a kitchen. I ended up having to order dishwashers, refrigerators, and who knows what else.

7. Germany had a universal health care system. As one city official remarked, "Our first obligation is to make sure we have the resources to provide medical care to all, from the wealthiest businessman to the janitor who cleans his office."

8. Under Germany's nationalized health care system, hospitals were reimbursed based on the length of a patient's hospital stay *independent* of the particular condition. The fixed daily rate was a figure negotiated between the hospital and the government. For example, the Nürnberg hospital received DM 485 per day for each patient. By contrast, in the United States, hospitals were primarily reimbursed through a prospective payment system, popularly known as DRGs (diagnosis-related groups). Under this system, which was introduced to help control rising health care costs, fixed payments were established for each diagnostic category or illness. Each hospital admission was classified under a particular diagnostic category and the hospital received that amount *independent* of the length of stay or amount of medical intervention. Interestingly, in 1991, the average length of stay in German hospitals was 16.2 days and in the United States it was 9.3 (source: OECD Health Data, 1991). For a more detailed description of the German health insurance system, please refer to: Iglehart, John K. "Germany's Health Care System," *New England Journal of Medicine*, 324:7 and 324:24, 1991.

One colleague sympathized with Luft:

At one point, I also had to negotiate with C-4s and I know what it is like. There is a real caste system. C-4s will only communicate with other C-4s. I remember when I first called, they would be on vacation or something. Then finally when they had no other excuses, they'd invite me into their office and, in keeping with typical German custom, would bring some coffee and very expensive little cookies. Eventually, they'd go through this routine and finally say, "There must be some kind of mistake. You must have misunderstood what I could offer you."

After much soul-searching, Sterzel reassigned Dr. Weber to manage the Erlangen transition task force. Weber was more familiar with the German system and had excellent organizational skills. Sterzel thought that Weber would be better-suited to manage the administrative and political challenges of setting up a small yet effective clinical base at the Erlangen unit. Sterzel also suspected that Luft would be more valuable in a position requiring extensive U.S. medical system knowledge. Since Sterzel was beginning to feel pressure to move forward on his research agenda, he reassigned Luft, whom "people went out of their way not to let down," to manage the research task force (see **Exhibit 5**). Many of the younger physicians were enthusiastic about this appointment. As one noted: "Dr. Luft is very knowledgeable from a research perspective and is the best clinician that I have ever seen here at the Clinic. He is very likeable and is an inspiration to the younger physicians. Luft has the ability to set the pace of the Clinic's research agenda."

Sterzel's next step, to introduce a new night call schedule, created considerable controversy. The Clinic's night schedule was divided into two eight-hour shifts as specified in the union contract (both the physicians and nurses were members of the union). Believing it was best to improve the continuity of care by limiting the number of different physicians and nurses covering patients over the course of the day and night, Sterzel changed the night schedule of the interns and residents to one 16-hour shift, similar to the U.S. practice. He explained:

I saw the old system as inefficient since each nurse and physician spent much of their time during the shift becoming updated on the status of patients treated during the previous shift. It seemed logical to change it. I had no idea it would create such an uproar. I tried to explain to the physicians that they would actually be working the same amount of hours, but just in longer intervals. But, some just cared about when they would go home.

On a kidney replacement therapy ward, one nurse described why working such long hours was so difficult:

Our work here is different than treating acutely ill patients. These are chronically ill patients who have all kinds of other diseases related to renal failure such as diabetes, etc. These patients stay on dialysis to a very late age. The average age of the Clinic [patients] is 60 years old. Some nurses don't like this department because it is burdening to work with these kinds of patients and there is always too much to do.

Frau Nagel, formerly a nurse, was the Nürnberg hospital's union representative. As the manager of the hospital's 5,000 union employees, she provided her perspective:

We have a serious nurse shortage at this hospital. We have recently closed down wards due to lack of nurses and the remaining nurses have to do twice the work. Dr. Sterzel feels that to get the best patient care, people must work much harder. He explained that with the new schedule, people actually do not work harder, but people didn't understand this. While Dr. Sterzel said he was open-minded about hearing the nurses' point of view, in the end, he had his own ideas. He has friends in the city council and he calls on them to get things done. In the end, we did what he wanted because he's the boss.

One chief of medicine, who had spent time in the United States, commiserated with Sterzel:

The working regulations in hospitals in Germany are nonsensical. You cannot apply a teamster philosophy to a hospital. You cannot put patients on an assembly line just as if you were putting bolts in cars. I have tried for many years to make people here understand this, but I just don't know how to get efficiency back into the system.

Others were simply dissatisfied with the increased work load which Sterzel's new approach required. A physician who had spent time in the United States commented:

Sterzel introduced a new overall work attitude which was tougher and much more growth-oriented than the physicians were used to. This is a social welfare state. So often people first ask for the reward and then learn about the task rather than the opposite. It is so very clear to me that in the U.S., while there still are big problems, it is much easier there to find people rolling up their sleeves and saying, "Look, this is exciting, it is a unique opportunity and let's get going." Here, they get their six to eight weeks of paid vacation, holidays, and all of the rest. You wonder how things get done in the first place!

Still, one C-3 physician commended Sterzel's approach:

Bernd has gotten me to do things that I would not have otherwise done—things that require imagination and courage. It would have been a lot easier just to be a professor of medicine and have my own students, my own grants, and my little projects. Through Bernd, I've done a lot of things that were more painful, but also more worthwhile in the end.

Sterzel recalled:

Initially, I very much pushed for the approach to academic medicine that exists in the States. People asked a lot of questions and were openly quite angry about what I was doing. I had made it very clear from the beginning that it would take three to five years to make the necessary changes. However, many people felt threatened and as a result, were openly skeptical of my efforts. Understandably, many of the top people who were remaining from the old Clinic felt that they had to secure their own future. I had brought in many new physicians who had superior reputations. And while there is a high degree of job security in the German system, many of the older physicians still felt like they no longer had a place in the Clinic. But, from my perspective, it seemed better for everyone since the new physicians brought more

expertise and more grant money to the Clinic as a whole. However, many of the old group did not see it this way. They resisted the change I was trying to bring about and said I was bringing in ideas of the "Wild West." Initially, much of their staff stood behind them as well.

At one point, I said, "Patient care, education, and research all under one roof—what could be better? And for all that you have, it's great to get paid!" Well, they thought it was *sacrilege* to say that. They thought, "I'm working hard, with very long hours and it's bad." We were in complete disagreement on rewards at that point. Soon enough they realized that I was not just having a straw fire, but I was actually going to do something. They realized that if they were going to stay, they would have to buy into my approach.

A chief of medicine at a major Harvard teaching hospital provided further insight:

The German and U.S. medical systems are really two different sides of the same coin. They each have their own way of providing checks and balances. In Germany, the system is extremely hierarchical and the chief has a great amount of authority. However, the chief also has less control because physicians are essentially civil servants—they are paid both for their clinical and research activities directly by their sponsoring institutions, either a city or a university. In the U.S., there is less of a sense of hierarchy. Everyone works together as a team and it is expected that people will receive credit where credit is due. But at the same time, it is the chief of medicine who controls the salaries and provides significant guidance to many juniors. It is very competitive because it is really an up or out system. And, as physicians become more senior, they are expected to obtain research grants which will cover large percentages of their salaries.

Medical Education

In contrast to the more standardized approach of the U.S. system, in Germany the design of the education of physicians-in-training was at the discretion of the unit chief, and Sterzel saw his position as an opportunity to incorporate some of the "best" ideas he encountered at Yale. He began by introducing morning "rounds," during which the physicians as a team systematically reviewed the patients. He and Luft worked hard to serve as role models in this process, becoming the first to initiate debate among the physicians. As one of the fellows explained, he and his colleagues were not comfortable with such openness at first, because free interchange between junior and senior physicians was not common in the German system. But they soon came to value the learning that could come from these discussions.

To supplement this routine, Sterzel added semiweekly conferences featuring prominent speakers from throughout Germany and Europe. While he assumed that physicians would be excited to have access to these "learning opportunities," many perceived the conferences as added work or said they were just too busy to attend. As a result, Sterzel made the conferences mandatory. He recalled:

Once people began skipping the conferences, I began making it a habit to enlist a younger physician to go around the Clinic and recruit the others. This way, the physicians were "rounded up" before they could begin making excuses as to why they

couldn't attend. This made some physicians very angry. But, in the end, I knew that they would benefit from seeing the speakers.

Many physicians commented enthusiastically about the intellectually stimulating environment that the changes had created. Luft, who had led the charge in the medical education area, was revered as a gifted physician and teacher. As one resident remarked, the Clinic was developing a reputation as a good place if you were eager to learn and willing to work hard. One of Sterzel's American colleagues, who had been familiar with the Clinic for some time, observed:

I found a definite change in the overall attitude among both residents and the faculty. It is my strong impression that the residents are much more concerned about their experiences as physician-students than as physician-employees. There has been a dramatic departure from my previous discussions with the residents, which often revolved around employee-employer relationships. This I know is a major accomplishment which sets the appropriate tone for further accomplishments.

However, with the rise in expectations there also came some frustration. During this time, a few physicians began to express dissatisfaction with the Leitbild Sterzel had distributed. Luft explained the team's reaction:

Many of the physicians reacted to the Leitbild with puzzlement. Something of that nature is not common in the German system. Since many people didn't know exactly what to do with this statement, we spent a lot of time talking about it. Some of the younger physicians said, "Gee, this sounds great on paper, but where is all of this neat stuff that is supposed to be going on here?" Bernd had a very good vision, but when the physicians first saw the statement, it was not in keeping with the reality of what was going on at the Clinic. They ask a lot of questions and still do. It is healthy that they ask these questions—having the Leitbild gives people some frame of reference.

The Challenge of Research

Within a year, grumblings about the Clinic's strong emphasis on research had become audible. Despite Sterzel's emphasis on maintaining a balanced mix between both clinical work and research, his new group of physicians had still separated into two camps, the "clinicians" and the "researchers." Many clearly preferred clinical work over research, and those who did gravitate towards research had minimal interest in basic research. Some physicians had even begun to question Sterzel's "commitment" to patient care. As one other university medical chief explained: "Sterzel really has tried to combine both clinical and research initiatives. But, in reality, 50%-60% of physicians at university hospitals do not have a major interest in science. People typically use science to get a C-4 position and then move on to more clinical work."

Meanwhile, Sterzel was struggling to secure the appropriate facilities to support his research objectives. When negotiating with the university, Sterzel had been guaranteed that a state-of-the-art laboratory facility would be built. Instead, he was given a 200-year-old house, a historical landmark, to renovate as laboratory space. While Sterzel had initially hoped that the Erlangen lab would be ready for use within a year, the complex logistics and extensive renovations had pushed the date back by two years.

Ensuring that cutting-edge research could be done at the Nürnberg site was another matter altogether. During his initial negotiations, Sterzel indicated that the Erlangen research facility would focus solely on basic research, in keeping with its university affiliation. However, when negotiating with Nürnberg, Sterzel had argued that research also be conducted at the city unit, but primarily clinical rather than basic research. After much discussion and compromise, the city agreed to provide a small laboratory and funding for three technicians for three years. After this period, Sterzel would be responsible for supporting a major part of the laboratory himself.

Funding Medical Research in Germany

In Germany, there were two ways of obtaining funds for specific research projects.⁹ The first approach was to apply for a grant from the DFG (the German counterpart to the National Institutes of Health, or NIH), which involved extensive preparation and paperwork. Receiving such grants was very prestigious, since the scientific merit of the work was determined by the applicant's peers. Due to limited research money and the competitive process, grants were very difficult to obtain (only 20%-30% of grant applications were typically funded).

The second type of research funding came from pharmaceutical companies. New drugs and medical equipment needed to be tested in clinical trials before reaching the market. Physicians were provided the funds necessary for performing these tests. In addition, since much of the medical research equipment required was very costly, participation in such research could meet a large portion of the Clinic's equipment needs. However, some physicians were ambivalent about conducting such research. One physician at the Clinic explained: "I will always feel a bit uneasy about doing pharmaceutical tests. There are so many clinical trials financed by companies which are not worth the paper the results are written on. I just don't trust the process; it's close to bribery."

Not only was it a chore to get funding for specific projects, but it was difficult to find time to perform the research. In contrast to the United States, where academic physicians' time was apportioned and protected so that they could devote blocks of time to either clinical or research work, most academic physicians in Germany performed their clinical and research work simultaneously. Typically, they did clinical work during the day, and found time in the evenings to do research.

This tension between clinical and research work escalated under Sterzel's leadership. The physicians complained that more work had been added to their clinical and educational responsibilities. Thus, they were finding it difficult to make the time to do the research that Sterzel was encouraging them to do. One physician elaborated: "Sterzel's vision was for the Clinic to become famous for its research. But, with our connection with the city, we must serve the community as well. In a way, these two exclude one another. It has become very hard to do both patient care *and* research. They are in conflict all the time."

9. In contrast to the United States, where philanthropic support for research was significant, in Germany, it was quite limited.

Moving Forward

Although Sterzel was certainly getting closer to achieving his dream of creating a leading nephrology research institution, both he and his colleagues were exhausted, and the initial excitement about being part of something new and different was wearing thin. Sterzel explained the challenges which he faced now that his change program was underway:

Many of the physicians have expressed their excitement about what we have achieved so far—in Germany, the Clinic has developed a reputation for excellence. But, then only a half an hour later, people complain bitterly about how everything seems to be falling apart and the work load is too heavy. It seems as though every time we turn around, there's another problem or a new task. We carry on mending holes, but people have become impatient. I guess it is just part of the process of generating real change. However, unless we lower our standards, it will surely take more time before we have quiet waters around here.

Exhibit 1 Faculty Positions at the IVth Medizinische Klinik (as of July 1992)

Position:	Name: (age)
University Professors:	
Chief (C-4)	Sterzel (52)
Associate Professors (C-3)	Luft (50), Mann (42), Weber (42)
Adjunct Professors	Neumayer (43)
Attendings/or additional Faculty Members or Lecturers:	Goerig (40), Geiger (37), Höffken (52), Schmieder (38), Schulze (49), Walter (43), Weise (41)

Exhibit 2 IVth Medizinische Klinik Organizational Data (as of July 1992)

	Erlangen Unit	Nürnberg Unit
Clinical:		
Beds	13	160
Attendings	2	9
Residents	6-8	25-30
Interns	0-1	8-12
Senior Med. Students	0-1	6-12
Research:		
Research Teams	4	2
Full-time PhD	3	0
MD Researchers	8-12	2-4
Technicians	10	5
Predominant Funding:	University	City of Nürnberg

Exhibit 4 Sterzel's Allocation of Time (measured in %)^a

	Patient Care	Teaching	Research	Administration
First year	30	30	20	20
Second year	20	30	20	30
Third year	20	25	20	35
Fourth year	20	25	20	35

^aIn July 1992, Sterzel was asked to provide a retrospective account of how he divided his time over the last four years.

Exhibit 5 Clinic Task Force Assignments

Task Force:	Leader:	Members:
South Clinic	Mann	Sterzel, Goerig, Höffken, Neumayer, Schmieder
Erlangen Transition	Weber	Sterzel, Geiger, Neumayer
Transplantation	Neumayer	Geiger, Schmieder
Research	Luft	Sterzel, Schmieder, Goppelt-Strübe
Research Program Project Grant	Sterzel	Goppelt-Strübe, Luft, Goerig
Public Relations	Geiger	Sterzel, Höffken
Education	Weise	Luft, Schulze
Diagnostic and Therapeutic Guidelines	Weise	Walter, Schulze

Exhibit 6 Leadership and Management Responsibilities: Strengths and Areas in Need of Development^a

Strengths:	Areas Needing Development:
1. Enthusiasm, commitment, energy	A. Sharing of power/delegating authority and control
2. Performance building	B. Setting of realistic expectations and performance goals; evaluating progress along agreed lines
3. Team building/recruiting	C. Sensitivity/communication
4. Initiating/catalyzing/coordinating internal and external interactions and relationships	D. Building of reliable working relationships/"human fabric"
5. Organizational planning	E. Consistent and predictable follow-up
	F. Setting of a sharp strategic focus
	G. Effective use of time and resources

^aIn July 1992, Sterzel was asked to describe his current strengths and areas which needed development.