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management

6th Asia–Pacific edition

WILEY

Management

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John R. Schermerhorn

Paul Davidson

Aharon Factor

David Poole

Peter Woods

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Management educators and students alike know John as the author of several leading international textbooks, including *Exploring Management* and *Management* 13th edition, and as a senior co-author of *Organizational Behavior* 13th edition and *Core Concepts of Organizational Behavior*. John has also published numerous articles in leading management journals and is a member of the Academy of Management.

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Dr Paul Davidson is associate professor of management in the Queensland University of Technology Business School. He has 35 years' university teaching experience and more than 100 academic publications, including nine books, to his credit. He has studied and taught at the University of Queensland, the University of Birmingham, the University of Geneva, the University of Otago, Stanford University and Southern Cross University. He has degrees in science (psychology), theology and business administration. In addition, Paul has consulted and taught nationally and internationally to many public and private sector organisations, including the Sheraton Hotel Group in Australia and Asia, Royal Dutch Shell in the Netherlands and the United States, and extensively to the Royal Australian Navy in Sydney. He has been a visiting professor in management at Reims Management School and Grenoble Graduate School of Business in France, Jyväskylä Polytechnic in Finland, Euromed Business School at Marseille in France, and at the University of Texas at Austin in the United States.

His doctoral research was in the area of management education and development, and his current research interests are in the development of HR management competencies and international human resource management, and in project management. Prior to his academic career, Paul was an officer in the Royal Australian Air Force and a clinical psychologist. Between academic appointments, he has been chief executive officer of a company with some 650 employees. He was a state councillor (1994–2007) and president (2000–05) of the Australian Human Resources Institute in Queensland, and chairman of its National Accreditation Committee (2004–10), as well as being a fellow of the Australian Human Resources Institute. He is also a fellow of the Australian Institute of Company Directors.

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Peter has provided management consulting to multinational corporations, tertiary education institutions, government agencies and private sector businesses. He has delivered cross-cultural training in Abu Dhabi, Hong Kong, New Zealand and a number of Australian cities. Peter is in demand as a keynote conference speaker internationally and nationally, providing training for tertiary educators in institutions such as the University of Queensland, University of Canberra, QANTM college (Brisbane), University of Victoria (Wellington, NZ), University of Canterbury (NZ) and many Indonesian universities. He is a speaker of Mandarin Chinese and Bahasa Indonesian.

Prior to joining Griffith University, Peter worked for many years helping to establish a number of non-government organisations, including the Multicultural Community Centre in Brisbane's Fortitude Valley. Prior to this, he worked at a range of hospitals as a supervising medical social worker, specialising in rehabilitation and aged care. Peter is a member of the Academy of Management, Griffith Asia Institute, Australia Indonesia Business Council, Austcham Shanghai, and Griffith Academy of Learning and Teaching Scholars.

Peter received his PhD in 2007 after researching 'Cross-Cultural Performance Management in the Expatriate Context'. His research interests include cross-cultural management, Chinese leadership, Indonesian leadership, performance management, diversity management and teaching in the multicultural context. He has received multiple international and Australian awards for his research and has published in leading international academic journals, including the *Journal of Business Ethics* and *Information Technology and People*.

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Dr Alan Simon is an associate professor in management in the University of Western Australia's Business School. He has 35 years' university teaching experience and more than 80 publications to his credit, including several books and monographs. He teaches introductory management, managing organisational change, strategic capabilities and organisational success, and business research methods at the University of Western Australia. He has won Excellence in Undergraduate and Postgraduate Teaching Awards at UWA, and was awarded the Pearson prize for Australian and New Zealand Academy of Management Educator of the Year in 2012. His doctorate was awarded by Rhodes University and in it he developed a new method for conducting research.

Alan has consulted widely to industry and government and he worked and consulted for the P&S Business Consulting Group in Melbourne for many years. He has also delivered several short courses on management, both in Australia and overseas. His client list, to name a few, includes the Australian Institute of Management, Barclays Bank, Comcater CCE, Holden's Engine Company, Lend Lease, Main Roads WA, Mercor Consulting and Pioneer Concrete. He is a member of the Australian and New Zealand Academy of Management and the British Academy of Management.

He has played and coached cricket, played rugby union, and still plays competition squash and touch rugby. He is also a boating enthusiast, holding an offshore skipper's ticket.

Ellen McBarron

Ellen McBarron is a lecturer in management and HR and is based at the Brisbane campus of the Australian Catholic University. Her background includes 30 years in the finance industry, where she left as a national training manager in 1999 to move to academia. She has taught at both undergraduate and postgraduate levels in Burma, Thailand, Hong Kong and China. Ellen is an experienced manager and leader, actively researching the organisation management of expatriates, and has experience with international HRM, performance management, social entrepreneurship and refugee employability. She is actively involved in social justice issues within the university community, and has regular consultancy work with the Queensland Government and the mining industry. Ellen won a Carrick Award for the development of a replicable and sustainable model that delivers empowering tertiary education to camp-based refugees.

APPLICATIONS AT A GLANCE

The real-world examples in *Management, 6th Asia–Pacific edition,* have been carefully chosen to include a balance of small to medium-sized enterprises and larger multinational corporations operating in our region, and a diverse range of relevant product and service industries.

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Chapter	Opening vignette	Features
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Chapter	Opening vignette	Features
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CHAPTER 1

The contemporary workplace

LEARNING OBJECTIVES

1.1 What are the challenges in the contemporary workplace?
1.2 What are organisations like in the contemporary workplace?
1.3 Who are managers and what do they do?
1.4 What is the management process?
1.5 How do you learn essential managerial skills and competencies?

Managing the fresh food people

Since being founded in Sydney in 1924, Woolworths Ltd had grown to be number two of the top 2000 companies in Australia by 2015.[1] It now dominates the hypercompetitive Australian supermarket sector (worth in total 6 per cent of the nation's gross domestic product). With its 3000 stores across Australia and New Zealand, and more than 190 000 employees, it serves over 28 million customers each week. Operating profits exceed \$60 billion.[2] However, Woolworths and its chief competitor Wesfarmers (owner of Coles Group Limited) now face efficient and successful rivals: the German discount supermarket Aldi and the US membership warehouse club Costco. Both Woolworths and Wesfarmers exhibit high levels of total liabilities compared to their total tangible assets, due to goodwill and intangibles making up a significant proportion of total assets. Although both have strong operational cash flows, this may mean they carry higher risk in a trade downturn if they need to rely on increasing borrowings to fund capital expenditure.[3] Add to this the predictions that 2015–20 will offer challenging conditions for the retail sector generally, and the task facing the Woolworths management team is significant. For example, does it stick with its espoused mission statement: '[Woolworths is] built on a passion for retail, attention to detail, working hard, ensuring the safety of our customers and our people, and having fun. Our mission is to deliver to customers the right shopping experience — each and every time'?[4]

It sounds good, but is the customer really likely to prefer an explicit mission for the employees to 'have fun' over an option to have lower prices? What might this 'right shopping experience' be? Rivals with lower prices pose a threat. Fresh food, convenience and value for money might not be enough. How good does Woolworths have to be to attract customers from its competitors, or at least to retain those customers it still has?

What are the options available to the decision-makers? Does it offer a scheme to build customer intimacy, and thus loyalty and share of the shopping basket? Does the management team invest time and money in innovative software to extract value for the shareholders from the digital revolution? Will mobile platforms and online shopping change everything or just some things? Will flatter organisational structures improve internal communication and capitalise on implicit knowledge? In short, is there a management choice between strategies aimed at increasing customer intimacy and loyalty, those aimed at operational efficiency and those targeting organisational integrity and brand leadership?

Woolworths is not alone in confronting such challenges. What kind of workplaces are likely to be needed to support this new trend for innovation and flexibility, with improved efficiency and productivity? What can managers do to create them?

QUESTION

How has the workplace changed in the past twenty years and what are the implications of the changes? Where are the trends likely to take us in the next twenty years?

Introduction

The 21st century has brought demands for a new workplace — one in which everyone must adapt to a rapidly changing society with constantly shifting expectations and opportunities. Learning and speed are *in*; habit and complacency are *out*. Organisations are evolving, as is the nature of work itself. The global economy, is sustained by innovation and technology. Even the concept of success — personal and organisational — is changing as careers take new forms and organisations transform to serve new customer expectations. Such developments affect us all, offering both unparalleled opportunity and unprecedented uncertainty. In this age of continuous challenge, a compelling message must be heard by all of us — smart people and smart organisations create their own futures![5]

In the quest for a better future, the best employers share an important commitment to people. Amid high performance expectations, they offer supportive work environments that allow people's talents to be fully used while providing them with both valued rewards and respect for work–life balance. In the best organisations employees benefit from flexible work schedules, onsite child care, onsite health and fitness centres and domestic partner benefits, as well as opportunities for profit sharing, cash bonuses and competitive salaries. In short, the best employers are not just extremely good at attracting and retaining talented employees. They also excel at supporting them in a high-performance culture workplace so that their talents are fully used and their contributions highly valued.

Today's dynamic new workplace also has huge implications for how individuals manage and shape their careers. Employees are increasingly committed to their own development. Their aim is continuous improvement in order to optimise their chances of employment. Fewer and fewer employees depend on an organisation for their identity and they are no longer committed to just one employer.

After studying high-performing companies, management scholars Charles O'Reilly and Jeffrey Pfeffer concluded that those companies achieve success because they are better than their competitors at getting extraordinary results from the people working for them. 'These companies have won the war for talent', they say, 'not just by being great places to work — although they are that — but by figuring out how to get the best out of all of their people, every day'.[6] This, is what *Management* and your management course are all about. Both are designed to introduce you to the concepts, themes and directions that are consistent with the successful management of organisations in today's high-performance work settings. As you begin, consider further the challenge posed by the title of O'Reilly and Pfeffer's book: *Hidden Value: How Great Companies Achieve Extraordinary Results with Ordinary People*. Let your study of management be devoted to learning as much as you can to prepare for a career-long commitment to getting great things accomplished through working with people.

1.1 Working in today's economy

LEARNING OBJECTIVE 1.1 What are the challenges in the contemporary workplace?

As painful as the global financial crisis became, we now live and work in a post–global financial crisis economy, marked by challenging opportunities and dramatic uncertainty.[7] It is a networked economy in which people, institutions and nations are increasingly influenced by the internet and continuing developments in information and communications technology (ICT).[8] Where once the internet was the key to an exciting future, understood by only a few, it is now expected as a threshold technology and relied upon routinely by the many. Massive connectivity between systems and people and comprehensive automation of seemingly all our everyday processes is now simply 'business as usual'. The new economy is a global economy whose scope increases daily. The nations of the world and their economies are increasingly interdependent, and this globalisation generates great challenges as well as opportunities. The new economy is knowledge-driven. We must all accept that success must be forged in workplaces reinvented to unlock the great potential of human intelligence. The high-performance themes of the day are 'empowerment', 'respect', 'participation', 'flexibility', 'teamwork', 'creativity' and 'innovation'.

Undoubtedly, the new economy is performance driven. Expectations of organisations and their members are very high. Success is not guaranteed, but must be earned in a society that demands nothing less than the best from all its institutions. Organisations are expected to continuously excel on performance criteria that include innovation, concerns for employee development and social responsibility, as well as more traditional measures of profitability and investment value. When organisations fail, customers, investors and employees are quick to let them know. For individuals, there are no guarantees of long-term employment. Jobs are subject to constant change. Increasingly they must be earned and re-earned every day through performance and accomplishments. Careers are being redefined in terms of 'flexibility', 'skill portfolios' and 'entrepreneurship'. Today, it takes initiative and discipline and continuous learning to navigate one's own career path. Tomorrow's challenges are likely to be even greater. What then are some of the challenges ahead for managers?

Intellectual capital

The dynamic pathways into the future are evident among new benchmarks being set in and by progressive organisations everywhere. Many will be introduced throughout *Management*. What will become evident is that the ultimate foundations of an organisation's success are its people — what they know, what they learn and what they do with it. They carry not just the corporate memory, but also represent the firm's **intellectual capital** — defined as the collective brain power or shared knowledge of a workforce that can be used to create value.[9] Indeed, the ultimate elegance of the new workplace may well be its ability to combine the talents of many people, sometimes thousands of them, to achieve unique and significant results.

This is the age of the **knowledge worker** — someone whose mind is a critical resource for employers and who adds to the intellectual capital of the organisation.[10] If you want a successful career in the new economy you must be willing to reach for the heights of personal competency and accomplishment. You must be a self-starter, willing to learn from experience continuously, even in an environment that grows daily more complex and challenging.

Globalisation

Japanese management consultant Kenichi Ohmae suggested that the national boundaries of world business have largely disappeared.[11] At the very least we can say that they are fast disappearing. Who can state with confidence where their favourite athletics shoes or the parts for their personal computer were manufactured? Does it matter anyway? More and more products are designed in one country, their component parts are made in others and the assembly of the final product takes place in yet another country. Top managers at Apple, Sony and other global corporations, for example, have no real need for the word 'overseas' in everyday business vocabulary. They operate as global businesses that view themselves as equidistant from customers and suppliers, wherever in the world they may be located. 'Overseas' becomes a permanent state of mind, not a nation state on a map. With their vast populations and particularly vibrant middle classes, India and China are likely to become even more significant producers and consumers. Managers in so-called 'Western' countries find they need to think globally, act locally, and then incorporate India and China in any strategic decision.

This is part of the force of **globalisation**, the worldwide interdependence of resource flows, product markets and business competition that characterises our new economy.[12] In a globalised world, countries and peoples are increasingly interconnected through the news, in travel and lifestyles, in labour markets and employment patterns, and in business dealings. Government leaders now worry about the competitiveness of nations just as corporate leaders worry about business competitiveness.[13] The world is increasingly arranged in regional economic blocs, with North and Latin America, Europe and the Asia–Pacific region as key anchors, and with Africa yet to claim its economic potential. Like any informed citizen, you too must understand the forces of globalisation and be prepared to participate in it.

GLOBALISATION

Australian project management goes global

In spite of a worldwide decline in the resources sector, Ausenco, a Brisbane-based engineering and project management company, has achieved global success through a careful and well-planned approach to business. The company was founded by Zimi Meka and Bob Thorpe in Brisbane in 1991. It proved remarkably successful, with a 'can do' culture built on providing superior levels of innovative professional engineering services to its clients, both large and small. Their work ranged from minor pre-feasibility studies to assessing the viability of a proposed project, to designing, constructing and commissioning complex projects in some of the world's most challenging and remote regions. It is this approach and strong business ethos that has seen their installed capital value running into the billions.

In 2008, the company expanded by purchasing US engineering companies Sandwell, Vector and PSI. The expansion provided the company with comprehensive capabilities in everything from consulting in the initial design phase to slurry transport and tailings dams. Still headquartered in Brisbane, with over 3000 staff globally and growing, Ausenco delivered major mining services projects in Canada and China, and a high-tech copper project in Laos, along with other successful projects in Africa, Australia and South America. By 2015 the 'resources boom' was all but over and the Chinese steel mills were slowing, along with the price paid for iron ore. Coal, oil and gas prices were all reduced by 30–50 per cent over the previous five years, and the outlook remained stubbornly 'subdued'. Community resistance to coal mines in pastoral regions sapped the will of governments and miners alike.

Previously, careful focus on its activities, organisational capabilities and the continuing professional development of its staff, plus the flexibility to meet client needs while still providing innovative project solutions, had meant that Ausenco survived the financial downturn in good shape, and with an optimistic forecast for its share price. However, a lack of new projects gradually took its inevitable toll, and Ausenco management had to contemplate layoffs and moving operations into new sectors such as renewable energy projects. Nowadays, providing sustainable solutions for a cleaner environment has become the company's objective. The key to Ausenco's success has certainly been the careful management of its operations and mutually productive relationships with its clients. Zimi Meka, Ausenco's CEO, was named by *Engineers Australia* magazine as one of Australia's most influential engineers in 2015 and has earned his place in the ranks of Australia's most successful managers — even through the tough times.

QUESTION

Thinking about the challenges of managing in a fast-moving technology-rich multinational environment, how will the manager of tomorrow be successful? We can and should learn from the past, but what can we learn from the future? Where is it taking us?

Technology

The global economy is not the only beneficiary of developments in new technology. Who has not been affected by the internet? Those who are not willing to become a participant in the exploding world of ICT will be left behind. It is a mandatory requirement in the contemporary workplace.

We now live in a technology-driven world dominated by interactive technologies that are compact, visually appealing and versatile — offering users conveniences such as remote internet access at the click of a button. Computers allow organisations of all types and sizes, locally and internationally, to speed transactions and improve decision-making.[14] From the small retail store to the large multinational firm, technology is an indispensable part of everyday operations — whether you are managing the inventory, making a sales transaction, ordering supplies or analysing customer preferences. Recently, scanning technologies have become integral to streamlining operations for many businesses.

Local and international governments increasingly take advantage of the internet. When it comes to communication — within the many parts of an organisation or between the organisation and its suppliers, customers and external constituents — geographical distances hardly matter anymore. Computer-based networking can bring together almost anyone from anywhere in the world at the touch of a keyboard. People in remote locations can hold meetings, access common databases, share information and files in real time, and make plans and solve problems together — all without ever meeting face to face.

As the pace and complexities of technological change accelerate, the demand for knowledge workers with the skills to use technology to full advantage is increasing. The information-based economy is dramatically changing employment. The fastest growing occupations are computer-related. Workers with ICT skills are in demand — low-skill workers displaced from declining industries find it difficult to find new jobs offering adequate pay. In a world where technological change is occurring at an accelerating rate, computer literacy must be mastered and continuously developed as a foundation for career success. For example, around 90 per cent of Australia and New Zealand's population are internet users. The percentages are similarly high in Hong Kong and Singapore, with 80 and 82 per cent respectively.[15]

Diversity

Along with many other countries in the world, the populations of both Australia and New Zealand are ageing, due to people having fewer children and generally living longer than in past generations. Consider this fact: currently, about 1 in 10 people in both countries are aged over 65. By 2050, there will be as many people aged over 65 in both countries as there are people between 15 and 40.[16] The Australian workforce consists of a large proportion of employees aged over 45 years. The global financial crisis has severely impacted superannuation funds, so much so that many pre-retirees have deferred their retirement, and many who have retired have sought to rejoin the workforce. Consequently, as increasing numbers of the workforce belong to older age groups, it could be expected that age could become an important basis for the development of diversity management initiatives. However, research on 7500 Australian companies has found that less than one in three are attempting to attract mature-age workers.[17] This is surprising in view of the benefits when older workers are employed: more taxes are paid, wisdom and experience are contributed to the workplace, and productivity increases. Without an increase in the participation rate by mature-age workers, the burden of pensions and healthcare will increase steeply. At the Older Australians At Work Summit, the Age Discrimination Commissioner, Susan Ryan, stated: 'Rather than inflicting an intolerable burden on the declining proportion of taxpaying workers aged less than 60 years, we can spread the load by a straightforward change: by lengthening the working life of all Australians'.[18] Furthermore, it was reported that:

> Increasing employment of older people will have extraordinary benefits. An increase of 5 per cent in paid employment of Australians over the age of 55 would boost the economy by $48 billion . . . each year. Such a change presents opportunities for businesses as well. As a cohort, older Australians are diverse, talented, energetic, and willing to work.[19]

The term **workforce diversity** is used to describe the composition of a workforce in terms of differences among the members.[20] These differences include gender, age, race, ethnicity, religion, sexual orientation and able-bodiedness. In Australasia the legal context of human resource management is very strict in prohibiting the use of demographic characteristics for staffing decisions such as hiring and promotion. Discrimination against older employees continues in some sectors. Australasian organisations have been reluctant to hire older staff in spite of evidence to indicate that beliefs in their lessened capacity are false. Similarly, other forms of discrimination persist, despite laws designed to prevent them. This is discussed in later chapters.

The issues of managing workforce diversity extend beyond legal considerations. Today's increasingly diverse and multicultural workforce offers great opportunities with respect to potential performance gains.[21] By 'valuing diversity' organisations can tap into a rich talent pool and help people work to their full potential. But what does this really mean? It should mean 'enabling every member of your workforce to perform to his or her potential'. A vice-president at Avon once posed the challenge of managing diversity this way: 'consciously creating an environment where everyone has an equal shot at contributing, participating, and most of all advancing'.[22] Although easy to say, meeting social responsibilities to truly value diversity has proven difficult to accomplish. Even though progress in equal opportunity continues to be made, lingering inequalities remain in the workplace. Not only will the composition of the workforce change in the future, but the nature of the relationships people have with organisations will also continue to change. The past two decades have been characterised by an upward trend in all types of non-standard forms of employment. There has been an increase in casual work, temporary work, outsourcing and offshoring, the use of agencies and other labour-market intermediaries. Given the continuing need for organisations to respond quickly in the marketplace, it could be expected that these forms of flexible employment will increase. Differences in approaches to pay, conditions of employment and opportunities for development are ready examples of the inequality this can involve.[23] Diversity bias can still be a limiting factor in too many work settings. Managing a diverse workforce needs to take into account the different needs of members of different identity groups.

Prejudice, or the holding of negative, irrational opinions and attitudes regarding members of diverse populations, sets the stage for diversity bias in the workplace. This bias can take the form of **discrimination** that actively disadvantages people by treating them unfairly and denying them the full benefits of organisational membership. It can also take the form of any barrier or 'ceiling' that prevents people from rising above a certain level of organisational responsibility. Researcher Judith Rosener suggests that the organisation's loss is 'undervalued and underutilised human capital'.[24]

DIVERSITY

The challenge of managing across cultures

Managing in an international environment is a significant challenge for organisational leaders in multinational corporations. Managing across cultures is never easy, and undertaking international leadership roles can be particularly difficult. Global supply chains, marketing strategies and human resource management approaches require constant coordination and fine-tuning. Whether you wish to lead a global corporation one day, or simply hope to develop international leadership skills, an overseas job assignment can provide an array of new skills and experiences.

A survey of 300 Australian general managers found that the traditional highly individualistic, consultative Australian leadership style is inappropriate when transferred to the hierarchical, group-oriented cultures of many Asian countries. A global mindset is required in which managers adapt their style to the cultures in which they operate. This mindset can be developed through regular exposure to the business cultures of Asia–Pacific, and an international assignment is one obvious way to achieve this. Undertaking international management and cross-cultural subjects at university is also highly recommended.

Workers in Asian countries can often be expected to show great respect to seniors and those in authority. In contrast, in Western cultures such as in Australia and New Zealand, workers may be expected to emphasise self-interests more than group loyalty. Outsiders may find that the workplace in more 'masculine' societies, such as Japan, displays more rigid gender stereotypes. Also, corporate strategies in more long-term cultures are likely to be just that — more long-term oriented. Potential reasons for these phenomena are discussed in relation to the well-known international study conducted by Geert Hofstede in the chapter on the international dimensions of management.[25]

QUESTION

By definition, cultures are different from each other, with differing values, attitudes, feelings and behaviours. Is it possible to have an approach to management that flies over all these differences, like a one-size-fits-all theory that's infinitely adaptable?

Ethics

When a well-known business executive goes to prison for some corporate misdeed, we notice. When a major environmental catastrophe occurs because of a business misdeed, we notice. In 2015, Volkswagen famously admitted to systematic fraud by installing software in 11 million of its diesel cars to allow them to pass emissions tests. Once the cars were out of the laboratory the software deactivated their controls and the engines spewed fumes at up to 40 times the permitted level.[26] The Volkswagen CEO, Martin Winterkorn, resigned but the reputational and financial damage to the company was immense. It was to Volkswagen what Deepwater Horizon was to BP — at least that was an accident. Volkswagen's deception was deliberate.

Increasingly, we notice the 'moral' aspects of the everyday behaviour of organisations, their executives and employees.[27] Society is becoming strict in its expectation that social institutions conduct their affairs according to high moral standards. A global recession, coupled with a spate of corporate failures, poor corporate governance and the apparent indifference of some businesspeople to shareholders, employees and local communities are reasons for some businesses' poor image. Add to this a negative reaction to globalisation, cost-cutting and the gap between the wages of workers and those of senior executives, and a bleak picture emerges regarding the image of Australian big businesses.[28] These issues have also put the spotlight on the quality and moral standards of Australian boards and managers. Equally, the collapses of financial services organisations in and after the turmoil of the global financial crisis has raised serious questions about management incompetence, greed, corruption and CEO remuneration; indeed, about corporate ethics generally.

The pressure for ethical and socially responsible conduct is on, and justifiably so. Organisations and their managers are becoming more responsive. Quite simply, they will not be able to keep customers if they do not treat them well and act in ways that are consistent with society's values. The expectations characteristic of this new century include sustainable development and protection of the natural environment; protection of consumers through product safety and fair practices; and the protection of human rights in all aspects of society, including employment.[29] Workplace concerns include equal employment opportunity, equity of compensation and benefits, participation and employee involvement, privacy and due process, job security, occupational health and safety, and freedom from sexual harassment. Employees are demanding more self-determination on the job — they want to be part of everyday decisions on how and when to do their jobs, and they expect real opportunities to participate in job-related decisions. Job security is a concern at a time when many organisations are cutting back their full-time workers and hiring more part-time or casual workers.

Ethical and social responsibility issues involve all aspects of organisations, the behaviour of their members and their impact on society. You must be ready to understand the ethical context of working in the new economy and you must be prepared to perform in ways that fulfil your ethical commitments as well as those of your employer. Consider, for example, the ethical framework set by this statement from the credo of Johnson & Johnson:

> We are responsible to the communities in which we live and work and to the world community as well. We must be good citizens — support good works and charities and bear our fair share of taxes. We must encourage civic improvements and better health and education.[30]

Careers

The nature of work has changed, and the challenges of change make personal initiative and self-renewal the demands *du jour*. The career implications of the new employment patterns characteristic of this dynamic environment are extremely significant. British management scholar Charles Handy suggested the analogy of the Irish shamrock to describe and understand them.[31]

Picture an organisation as a shamrock with three leaves. Each leaf has a different career implication.

- In one leaf are the core workers. These full-time employees pursue traditional career paths. With success and the maintenance of critical skills, core employees can advance within the organisation and may remain employed for a long time.

- In the second leaf of the shamrock organisation are contract workers (including daily or weekly hire). They perform specific tasks as needed by the organisation and are compensated on a contract or fee-for-services basis rather than by a continuing wage or salary. Contract workers sell a skill or service to employers — they are likely to work for many different employers over time and may work for several employers at the same time.
- In the third leaf are the casual and part-time workers who are hired only as needed and only for a set number of hours. Employers expand and reduce their casual staff as business needs rise and fall. Casual and part-time work can be a training ground for the full-time work of the first leaf, when openings are available. Other modes of employment include outworkers (e.g. working from home), shift workers and fly-in-fly-out workers.

People need to be prepared to work in any of the employment modes. The typical career is not uniformly full-time and limited to a single large employer. It is more likely to unfold opportunistically and involve several employment options over time. 'Free agency' is a term used to describe career management in the new workplace.[32] What it means is that workers must be prepared to change jobs and employers over time, but their skills must be portable and of current value in the employment markets. Skills are not gained once and then forgotten — they must be carefully maintained and upgraded all the time. A career consultant suggested that careers be approached with the analogy of a surfer: 'You're always moving. You can expect to fall into the water any number of times, and you have to get back up to catch the next wave'.[33]

Handy's advice is to maintain a 'portfolio of skills' that are always up to date and valuable to potential employers, to build a portfolio that includes a professional résumé and work samples that demonstrate critical managerial skills and competencies. A well-constructed student portfolio can be an important source of advantage in competitive markets when searching for jobs.

CRITICAL ANALYSIS

1. Think back to how things have changed in the past five years, in terms of the role of the manager; at least, as you perceive it. Taking the big-picture view, what changes do you see? For example, is there greater or lesser emphasis on people against profit, or on technology against entrepreneurship? Keep these thoughts in mind as you progress through the chapter.
2. Diversity management might be seen as a necessary encumbrance — something managers do because they have to — or it may be seen as a source of competitive advantage. What do you think? Does it have your grudging acceptance, profit-oriented approval, or ethical support? What difference does this make?
3. Shareholders express resentment when corporate bosses take bonuses while their companies are appealing for government bailout funding. Are CEO packages in the many millions really justifiable? Is there an ethical dimension to executive remuneration, or should companies just pay whatever the market will bear to get the managers they want?

1.2 Organisations in today's workplace

LEARNING OBJECTIVE 1.2 What are organisations like in the contemporary workplace?

The world of work is a 'wired' world, one tied to the connectivity made possible by ICT. Management consultant Tom Peters says that in coming years, companies of all sizes will have virtual teams spread across the globe who will never meet in person. He describes work in new organisations this way:

> Every project will call for a new team, composed of people with specially tailored skills . . . Every player on this team will be evaluated . . . for the quality and uniqueness and timeliness and passion of her or his contribution.[34]

Organisations in the new workplace are challenging settings, but exciting for their great opportunities and possibilities. Peters calls it a 'wired, wild new age of work'. Whether these organisations are large or small, business or not-for-profit, each should make real and positive contributions to society. We each have a stake in making sure that they perform up to expectations. For individuals, organisations are also the main source of careers and economic livelihoods. In his article 'The company of the future', Harvard Professor Robert Reich says:

> Everybody works for somebody or something — be it a board of directors, a pension fund, a venture capitalist or a traditional boss. Sooner or later you're going to have to decide who you want to work for.[35]

In order to make good employment choices and perform well in a career, a fundamental understanding of the nature of organisations in the new workplace is required. Manager's notepad 1.1 provides a first look at some of the critical survival skills required to work well in the organisations of today . . . and tomorrow.[36]

MANAGER'S NOTEPAD 1.1

Critical survival skills for the contemporary workplace

- *Mastery*. You need to be good at something; you need to be able to contribute something of value to your employer.
- *Contacts*. You need to know people; links with peers and others within and outside the organisation are essential to get things done.
- *Entrepreneurship*. You must act as if you are running your own business, spotting ideas and opportunities, and stepping out to embrace them.
- *Love of technology*. You have to embrace technology; you do not have to be a technician, but you must be willing and able to fully use IT effectively and creatively.
- *Marketing*. You need to be able to communicate your successes and progress, both yours personally and those of your work group.
- *Passion for renewal*. You need to be continuously learning and changing and updating yourself to best meet future demands.

What is an organisation?

Formally stated, an **organisation** is a collection of people working together to achieve a *common purpose*.[37] It is a unique social phenomenon that enables its members to perform tasks far beyond the reach of individual accomplishment. This description applies to organisations of all sizes and types, from businesses such as Harvey Norman and eBay, to not-for-profit organisations such as a government agency or community hospital. From society's perspective they all share a broad purpose — providing useful goods or services. Each in its own way should return value to society and satisfy customers' needs in order to justify continued existence.

Having a clear sense of purpose that is tied to 'quality products' and 'customer satisfaction' is increasingly viewed as a source of organisational strength and performance advantage. Belief in a strong and compelling organisational purpose is one of the reasons given by employees for remaining very loyal to their employers.

Organisations as systems

Organisations can be seen as systems with subsystems, composed of interrelated parts that function together to achieve a common purpose.[38] It is helpful to view them as **open systems** that interact with their environments in the continual process of transforming resource inputs into product outputs in the form of finished goods and/or services. As shown in figure 1.1, the external environment is a critical element in the open-systems view of organisations. It is both a supplier of resources and the source of customers, and it has a significant impact on operations and outcomes. Both the boundaries of any organisation — the supply side and the customer side — and its internal operations must be well managed for performance success.

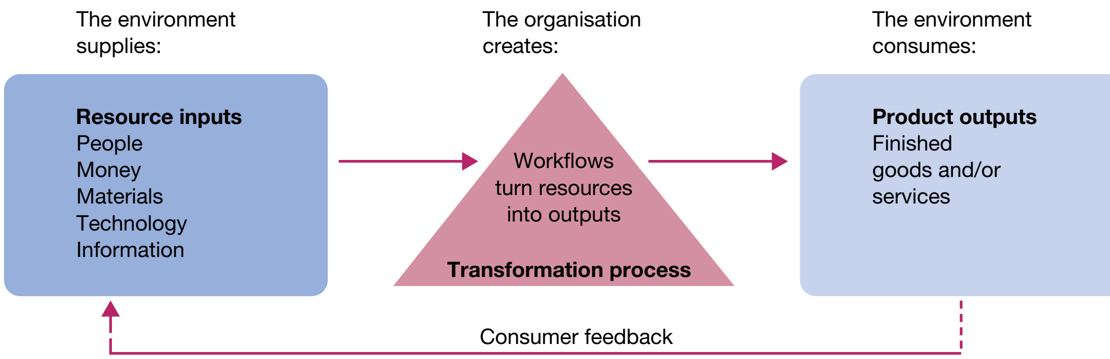

FIGURE 1.1 Organisations as open systems

The organisation is a structure in which people meet to work together for agreed purposes. As a system, the organisation has inputs (raw materials, effort, ideas, etc.), strategy and policies, transformation processes and outputs (finished goods and services), and operates with its own internal environment of culture and history. Depending on its legal status (e.g. the corporation is a 'fictitious person' that can own property), it can sue and be sued, and as such, the boundaries of the organisation become significant. It can even survive beyond the lifetimes of its members.

In the open-systems view of organisations feedback from the internal and external environments tells an organisation how well it is doing. Factors in the environment interact with each other and influence the manager's intent and strategy. The overall aim is to meet and exceed customer expectations. Without customer willingness to use the organisation's products, it is difficult to operate or stay in business over the long term. The ultimate test for any organisation rests with the marketplace — once people use a product, the question becomes: Will they do so again . . . and will they recommend that others do the same?

Organisational performance

Resources and customers are two critical elements in the open-systems view of organisations. For an organisation to perform well, resources must be put to good use and customers must be well served. The notion of *value creation* is very important in this context. If operations add value to the original cost of resource inputs, then a business organisation can earn a profit — that is, sell a product for more than the cost of making it. A not-for-profit organisation can add wealth to society — that is, provide a public service that is worth more than its cost (e.g. fire prevention services in a community). Value is created when an organisation's resources are used in the right way, at the right time and at minimum cost to create high-quality goods and services.

The best organisations use a variety of performance measures. On the customer side, high-performing organisations measure customer satisfaction and loyalty, as well as market share. On the employee side, they measure retention, career development, job satisfaction and related issues.[39] One of the most common indicators of organisational performance overall is **productivity**, a summary measure of the quantity and quality of work performance with resource use taken into account. Productivity can be measured at the individual and group levels as well as at organisational levels.

Figure 1.2 links productivity with two terms commonly used in management — effectiveness and efficiency. **Performance effectiveness** is a measure of task output or goal accomplishment. If you are working in the manufacturing area of a computer firm, for example, performance effectiveness may mean that you meet a daily production target in terms of the quantity and quality of work done. By so doing, the company as a whole can maintain its production schedule and meet customer demands for timely delivery and high-quality products. **Performance efficiency** is a measure of the resource cost associated with goal accomplishment. Cost of labour is a common measure of efficiency. Others include equipment use, facilities maintenance and returns on capital investment. Returning to the example of computer assembly, the most efficient production is that accomplished at a minimum cost in materials and labour. If fewer completed products are made in a day than the work group is capable of, this contributes to inefficiency in organisational performance; similarly, if a lot of mistakes are made or materials wasted in the assembly process, this is also inefficient work that raises costs for the organisation.

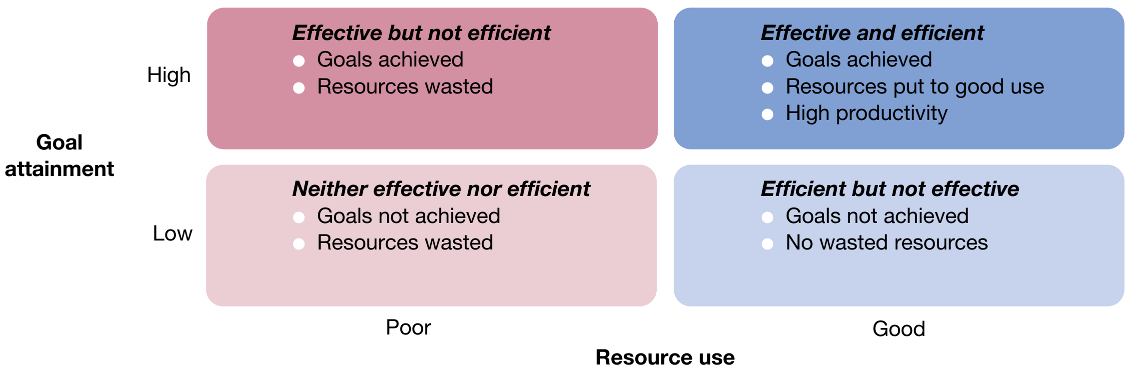

FIGURE 1.2 Productivity and the dimensions of organisational performance

The changing nature of organisations

Change is a continuing theme of this text, and organisations are certainly undergoing dramatic changes today. Among the many forces and trends in the new workplace, the following organisational transitions set an important context for the study of management.

- *Pre-eminence of technology*. New opportunities appear with each new development in ICT; they continually change the way organisations operate and how people work.
- *Demise of 'command-and-control'*. Traditional hierarchical structures with 'do as I say' bosses are proving too slow, conservative and costly to do well in today's competitive environments. Contemporary management relies on collaboration and coaching.
- *Focus on speed*. Everything moves fast today; in business those who get products to market first have an advantage, and in any organisation work is expected to be both well done and timely.
- *Adoption of networking*. Organisations are networked for intense real-time communication and coordination, internally among departments and externally with partners, contractors, suppliers and customers.
- *Belief in empowerment*. Demands of the new economy place premiums on high-involvement and participatory work settings that rally the knowledge, experience and commitment of all members.
- *Emphasis on teamwork*. Today's organisations are less vertical and more horizontal in focus; they are increasingly driven by teamwork that pools talents for creative problem-solving.
- *New workforce expectations*. A new generation of workers brings to the workplace less tolerance for hierarchy, more informality and more attention to performance merit than to status and seniority.
- *Concern for work–life balance*. As society increases in complexity, workers are forcing organisations to pay more attention to balance in the often-conflicting demands of work and personal affairs.[40]

There are many forces driving these changes in organisations. Along with the pressures of competition, globalisation and emerging technologies, there also has been a revolution of sorts among modern-day consumers. They are unrelenting in their demand for quality products and services. Organisations that fail to listen to their customers and fail to deliver quality goods and services at reasonable prices will be left struggling in a highly competitive environment. References are made throughout this text to the concept of **total quality management (TQM)** — managing with an organisation-wide commitment to continuous improvement and meeting customer needs completely.[41] For the moment, the quality commitment can be recognised as a hallmark of enlightened productivity management in any organisation.

CRITICAL ANALYSIS

1. What is the benefit of seeing an organisation as a system of inputs, transformation processes and outputs? What difference would this view make to you as a manager?

1.3 Managers in today's workplace

LEARNING OBJECTIVE 1.3 Who are managers and what do they do?

In an article entitled 'Putting people first for organisational success', Jeffrey Pfeffer and John F. Veiga argued forcefully that organisations perform better when they treat their members well. However, they also point out that too many organisations fail to operate in this manner and, as a consequence, suffer performance failures. Pfeffer uses the term 'toxic workplaces' to describe organisations that treat their employees mainly as costs to be reduced. True high-performing organisations, he points out, treat people as valuable strategic assets that should be carefully nurtured.[42] The themes and concepts set forth in *Management* support the view that high-performing organisations operate with a commitment to people as their most important assets. Importantly, in the day-to-day flow of events in any workplace, those who serve in managerial roles have a special responsibility for ensuring that this commitment is fulfilled.

The organisational environment and the manager

Managers manage organisations that exist in relation to their environments; they need to know what's in the environment, and what opportunity or threat it poses.

Specifically, managers need to know the difference between the good and the bad — the dangerous threats and the opportunities confronting the organisation in relation to what it wants to do (its mission and objectives), using its abilities and assets (its strengths), and its constraints (its weaknesses).

This section is about the relationship between the organisation and its environment. These environments are very influential for management and need to be understood and factored into decision-making. The *external* environment is made up of all those elements that are of general relevance to the organisation: the economy, political and legal factors, technology and the national culture.

Anything of specific relevance to the organisation is the specific or *task* environment. These are the forces or other organisations in the environment whose behaviour influences the organisation — typically those with whom an organisation conducts business.[43] These are typically outside of the direct control of the manager, so the challenge is to adapt and change according to the environment. According to Leon Megginson, a Louisiana State University business professor, whose interpretation of the central idea outlined in Darwin's *On the Origin of Species* is typically and frequently invoked:

> It is not the most intellectual of the species that survives; it is not the strongest that survives; but the species that survives is the one that is able best to adapt and adjust to the changing environment in which it finds itself.[44]

The point is that the ability to adapt to one's environment is crucial to success and even survival.

The process of management

In overview, management is the process of bringing resources together to produce services or products. Of course, the mere acquisition of resources is not sufficient for organisational success. It requires some expression of:

- the purpose of *why* the organisation intends to undertake some activity
- a strategy of *how* this purpose can be carried forward
- the coordinated application of *what* processes and operations are proposed
- the use of specified resources and raw materials to transform these processes
- the provision of the intended services or products to a market willing to purchase or otherwise make use of them, thereby fulfilling the purpose.

Thus, the process of management usually starts with, and depends for its direction on, some kind of *vision* about why an organisation of people is desirable or necessary. Whether a vision is essential is the subject of debate in management thinking but most scholars agree with the seminal work of Jim Collins and Jerry Porras.

Collins and Porras reported findings that while not all successful companies began with one outstanding product or idea or even charismatic visionary leader, those that enjoy enduring success are more likely than more average performers 'to have core values and a clearly articulated purpose, while their business strategies and practices endlessly adapt to a changing world'.[45] They detailed their research in a hugely influential book called *Built to Last: Successful Habits of Visionary Companies*, the key message of which is that the character of the company is expressed in its values and purpose.[46]

Usually, this *vision* is then given shape in the form of a *mission* (as in the 'mission statement'). The organisation's *mission* allows the creation of *goals* that, when expressed in numerical terms (such as dates, profits, results, outcomes and benefits), are known as *objectives*. These objectives are measurable and are thought to provide inherent motivation as well as a basis for evaluation and possible correction or refinement.

Whether or not the organisation succeeds in its mission also depends on its having the necessary competencies and resources to carry out its *strategy* — the specific way in which it intends to operate, coordinating its activities and making use of its capability and its resources.

The selection of an appropriate strategy is critical to good management and the implementation of the strategy brings the alignment of purpose and capability into reality as a set of objectives achieved, which bring desired *outcomes*, thus providing the expected *benefits*. This process is depicted in figure 1.3.

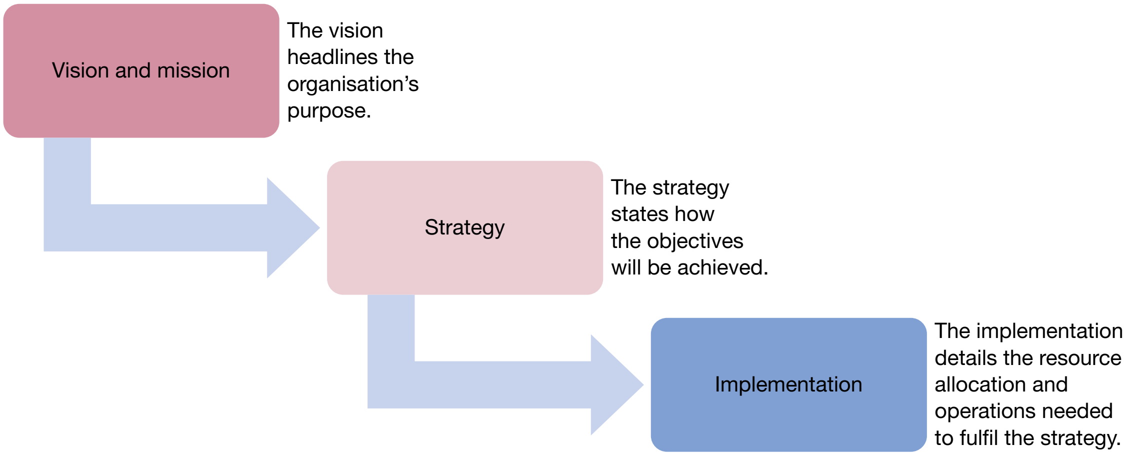

FIGURE 1.3 The process of management

Metaphors for management

Given the inherent complications and complexities of management, it is no surprise that many authors have sought to highlight one aspect or another with some powerful metaphor or simile. Some are strange indeed, pointing to paradoxes involved, but perhaps all have something to inspire reflection, along with their obvious weaknesses. The following are examples of some 'out of left field' metaphors listed by two Australian authors.[47]

The orchestra

Typically, under the firm and expert guidance of the CEO conductor, this is a fine metaphor except when the context changes and the need for improvisation makes adherence to a script inadvisable. Another departure from the orchestra is that management often has to create a sense of purpose — something that presumably the musician already has in abundance, without the influence of a conductor. However, few doubt that the organisation relies on every member doing their best, and knowing what is expected of them, like in an orchestra.

War

A stirring metaphor reflecting the great strategists of war such as Sun Tzu, Carl von Clausewitz and Horatio Nelson. The metaphor may appeal to the hero-minded manager, but traps abound. Identifying the enemy is just one. Is it the competition? The customer? It's true that coordinating resources and motivating trained staff are tasks common to both management and military but the greatest insights to come from the study of military engagements are usually in the category of warning the manager what not to do. This can be seen in individual incompetence displayed by military commanders as managers of people and assets throughout history[48] or by reviewing military commanders' spectacular failure to correctly judge the situation.[49]

Sport

Sport is an evergreen popular analogy for management, and celebrity sports stars metamorphose into motivational speakers on the business lecture circuit with disarming ease, regardless of actual business qualifications or experience. In business, it is thought fashionable and insightful to refer to 'the team' and the 'scoreboard', along with that mythical 'level-playing field' and 'goalposts on wheels'. Caution against self-deception is needed when metaphors fail to capture organisational complexities, or when they are appealing but misleading. Fair play and impartial umpires with final whistles may occur in sport, but are not always in evidence in business. Calling a group a team doesn't immediately create loyalty and self-sacrifice, or even engagement of its members.

Resources management

Even common expressions such as 'knowledge management' or 'human resources' carry their own inherent but questionable logic that knowledge or human activity can be 'managed' like any other resource such as finance. The language may confer respectability but perhaps it invites false conclusions that should be examined.

The science of management

Numbers in management may convey accuracy and reality but closer examination shows they may be nominal rather than ratio data; only a fool adds or multiplies the numbers in car registration plates. They are nominal data. To do so would be as pointless as saying a summer's day of 24 °C was twice as hot as an autumn day of 12 °C. Yet budgets are seen to be set for a 10 per cent improvement regardless of the determinative context. The presence of a number with its illusionary power of accuracy and thus authenticity somehow drives out common sense.

In summary, management is not easily reduced to simple processes or memorable aphorisms. Metaphors may appeal and picturesque similes strike a chord but the reification of the metaphor does not create a new reality; it merely and properly throws a new light on an existing reality. Metaphors need to be examined for their power to deceive and distort.

What is a manager?

Managers exist in all organisations. They have job titles such as team leader, department head, project manager, unit supervisor, senior executive and administrator. They always work directly with other people who depend on them for critical support and assistance in their own jobs. We call them managers — the people in organisations who directly support and help activate the work efforts and performance accomplishments of others.

For those serving as managers, the responsibility is challenging and substantial. Any manager is responsible not just for his or her own work, but for the overall performance accomplishments of a team, work group, department, or even the organisation as a whole. Whether these people are called team members, work associates, subordinates or something else, they are the essential human resources whose tasks represent the real work of the organisation. Those people working with and reporting to managers are, in short, the critical human capital upon whose intellects and efforts the performance of any organisation is ultimately built. How well the manager performs in supporting them makes a critical difference in their performance and that of the organisation.

Every manager's job thus entails a key responsibility — to help other people achieve high performance. As pointed out by management theorist Henry Mintzberg, being a manager in this sense is a most important and socially responsible job:

> It is the manager who determines whether our social institutions serve us well or whether they squander our talents and resources. There is every good reason to strip away the folklore about managerial work, and to study it realistically so that we can begin the difficult task of making significant improvement in its performance.[50]

Levels of management

Customer-centred thinking can be applied to levels of management in an organisation. Each level has the level above and below it as its customer. Each has an implicit contract to meet the needs of the other, as shown in figure 1.4.

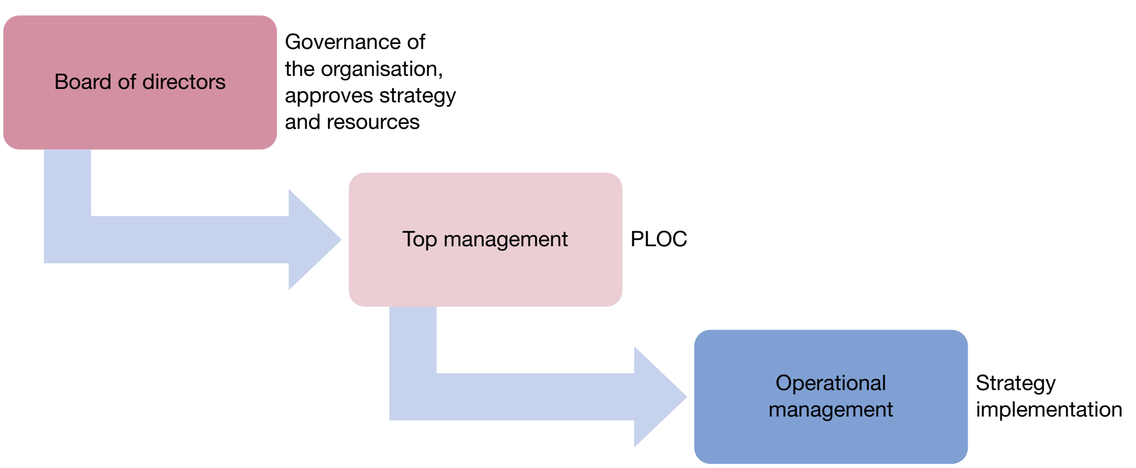

FIGURE 1.4 Levels of management

The board of directors

The decisions as to what purpose the organisation is to serve, in which environment it is to operate and how it is to undertake its mission are the responsibility of the board of directors (by whatever name) as the most senior level of management in the organisation, to whom other levels report and who are held legally responsible for the organisation's operations.[51]

Boards have a chairperson and a secretary who manages the board meeting minutes under the supervision of the chairperson and, on behalf of the board, undertakes the reporting to external entities (such as government departments and regulators).

A third office-bearer is the treasurer who is responsible for reporting to the board on the financial operations of the company. Boards often number 8–12 persons. Organisations vary and the CEO is usually not a member of the board but attends board meetings, which are usually held about 10–12 times per year. Typically it is this board that reports to the shareholders (the company's owners) if the organisation is a public company. The board of directors of a company is a group of elected and/or appointed people with the responsibility to protect the overall interests of the organisation.[52]

Top management

Top management refers to the most senior appointed manager in the organisation (usually titled chief executive officer), who reports to the board, with the chairman of the board as his or her reference point. The relationship between the chairman of the board of directors and the CEO is crucial, as the CEO is entrusted with the resources approved by the board through the budget and must report on the effectiveness and efficiency of how the board's strategies are implemented.

Typically, top management undertakes its tasks through the functions of planning, leading, organising and controlling (PLOC) (see figure 1.6). This functional view of management was conceived by French industrialist Henri Fayol in about 1900 and it became very influential in the English-speaking management literature in the middle of the last century.

Top managers are responsible for the performance of an organisation as a whole, or for one of its larger parts. They pay special attention to the external environment, are alert to potential long-term problems and opportunities, and develop appropriate ways of dealing with them. The best top managers are future-oriented strategic thinkers who make many decisions under highly competitive and uncertain conditions. Top managers scan the environment, create and communicate the long-term vision, and ensure that strategies and performance objectives are consistent with the organisation's purpose and mission.

The boundaries between these levels are at times blurred, as top managers may also participate in operational activities and operational managers may propose strategy for consideration and approval. However, good management requires that board members do not become involved in day-to-day operational decisions and operations, which are the responsibility of the CEO and other managers.

Operational management

Managers who report to the CEO, and thus to the board, are responsible for implementing the board's strategies and for the efficient and effective deployment of organisational assets and resources in the service of achieving the organisation's objectives.

Middle managers are in charge of relatively large departments or divisions consisting of several smaller work units. Examples are clinic directors in hospitals; heads of departments in universities; and division managers, factory managers and branch sales managers in businesses. Middle managers work with top managers and coordinate with peers to develop and implement action plans consistent with organisational objectives. They should be team-oriented and able to work well with people from all parts of an organisation to get work accomplished. An important example is the job of **project managers** — people who coordinate complex projects with task deadlines while working with many people of different expertise, both within and outside the organisation. At GE, for example, corporate troubleshooters or 'black belts' have been organised to manage groups that solve problems and create change across divisions and geographic boundaries within the company. At one stage a cross-functional team was recruited from marketing, human resources and field operations staff to design a new compensation system.[53]

First jobs in management typically occur as assignments as **team leaders** or **supervisors** — people in charge of small work groups composed of non-managerial workers. Even though most people enter the workforce as technical specialists, sooner or later they advance to positions of initial managerial responsibility. Job titles for these first-line managers vary greatly but include such designations as department head, group leader and unit manager. For example, the leader of an auditing team is considered a first-line manager, as is the head of an academic department in a university. Managers at this level of responsibility ensure that their work teams or units meet performance objectives that are consistent with higher level organisational goals. Manager's notepad 1.2 offers advice on the performance responsibilities of team leaders and supervisors.[54]

MANAGER'S NOTEPAD 1.2

Nine responsibilities of team leaders

1. Plan meetings and work schedules.
2. Clarify goals and tasks, and gather ideas for improvement.
3. Appraise performance and counsel team members.
4. Recommend pay increases and new assignments.
5. Recruit, train and develop team to meet performance goals.
6. Encourage high performance and teamwork.
7. Inform team members about organisational goals and expectations.
8. Inform higher levels of team needs and accomplishments.
9. Coordinate with other teams and support the rest of the organisation.

Types of managers

The nature of managerial work is evolving as organisations change and develop with time. A *Wall Street Journal* report describes the transition as follows: 'Not so long ago they may have supervised ten people sitting outside their offices. Today they must win the support of scores more — employees of different backgrounds, job titles and even cultures', perhaps they will have 'direct reports' in different countries. The report goes on to say 'these new managers are expected to be skilled at organising complex subjects, solving problems, communicating ideas and making swift decisions'.[55]

In addition to serving at different levels of authority, managers work in different capacities within organisations. **Line managers** are responsible for work activities that make a direct contribution to the organisation's outputs. For example, the general manager, retail manager and department supervisors of a local department store all have line responsibilities. Their jobs in one way or another are directly related to the sales operations of the store. **Staff managers**, on the other hand, use special technical expertise to advise and support the efforts of line workers. In a department store, the director of human resources and the chief financial officer would have staff responsibilities.

In business, **functional managers** have responsibility for a single area of activity, such as finance, marketing, production, human resources, accounting or sales. **General managers** are responsible for more complex units that include many functional areas. An example is a plant manager who oversees many separate functions, including purchasing, manufacturing, warehousing, sales, personnel and accounting. It is not unusual for managers working in public or not-for-profit organisations to be called **administrators**. Examples include hospital administrator, public administrator and local government administrator.

Managerial performance

Managers everywhere face a common problem. They must all set the conditions through which others, working individually and in groups, can contribute their talents to the accomplishment of organisational goals. Furthermore, managers must do this while being held personally 'accountable' for results achieved. The team leader reports to a middle manager, the middle manager reports to a top manager, and even the most senior top manager typically reports to a board of directors. In these reporting relationships, **accountability** exists as the requirement of one person to answer to a higher authority for performance results achieved in his or her area of work responsibility. These results are typically measured in terms of team or work unit productivity, including the accomplishment of both performance effectiveness and performance efficiency.

However, the concept of performance accountability alone does not tell the whole story. Managerial performance is multidimensional. Effective managers help others both to achieve high-performance outcomes and experience satisfaction in their work. This dual concern for performance and satisfaction is a central theme in the contemporary workplace, and it runs throughout *Management*.

The emphasis on satisfaction helps focus attention on **quality of work life (QWL)** issues as an indicator of the overall quality of human experiences in the workplace. A 'high-QWL' workplace expresses a true respect for people at work by offering such things as fair pay, safe working conditions, opportunities to learn and use new skills, room to grow and progress in a career, protection of individual rights, and pride in the work itself and in the organisation. Part of any manager's accountability is to achieve high-performance outcomes while maintaining a high-quality work environment.[56] Simply put, in the new workplace, performance, satisfaction and a high-quality work life can and should go hand in hand.

Changing nature of managerial work

Managerial work in the organisations of today is also changing. The words 'coordinator', 'coach' and 'team leader' are heard as often as 'supervisor' or 'manager'. The work managers perform is less directive and more supportive than in the past. It has to be in a world where high performance comes only to those who truly value and sustain human capital. There is little tolerance or need in today's organisations for those who simply sit back and tell others what to do. The best managers are well informed regarding the needs of those reporting to or dependent on them. They can often be found working alongside those they supervise. They will always be found providing advice and developing the support needed for others to perform to the best of their abilities. High-performing managers are good at building working relationships with others, helping others develop their skills and performance competencies, fostering teamwork, and otherwise creating a work environment that is both performance-driven and satisfying to those who do the required work.

An emphasis on customers increasingly drives managerial work in these new settings. Among the many changes taking place, the concept of the 'upside-down pyramid' is one of the most descriptive. As shown in figure 1.5, it offers an alternative way of viewing organisations and the role played by managers within them. The operating workers are at the top of the upside-down pyramid, just below the customers and clients they serve. They are supported in their work efforts by managers located at the bottom. These managers are not just order-givers, they are there to mobilise and deliver the support others require to best serve customer needs. The implications of this notion are dramatic, and they are consistent with the adage that people are an organisation's most important asset.

Each member of the upside-down pyramid is a value-adding worker — someone who creates eventual value for the organisation's customers or clients. The whole organisation is devoted to serving the customer, and this is made possible with the support of managers.

Many trends and emerging practices in organisations, such as the upside-down pyramid concept, require new thinking from people who serve as managers. As noted earlier, we are in a time when the best managers are known more for 'helping' and 'supporting' than for 'directing' and 'order-giving'. Even in an age of high technology and 'smart' machines, the human resource is indispensable. Worker involvement and empowerment are critical building blocks of organisational success. Full human resource use increasingly means changing the way work gets done in organisations by pushing decision-making authority to the point where the best information and expertise exist — with the operating workers.[57]

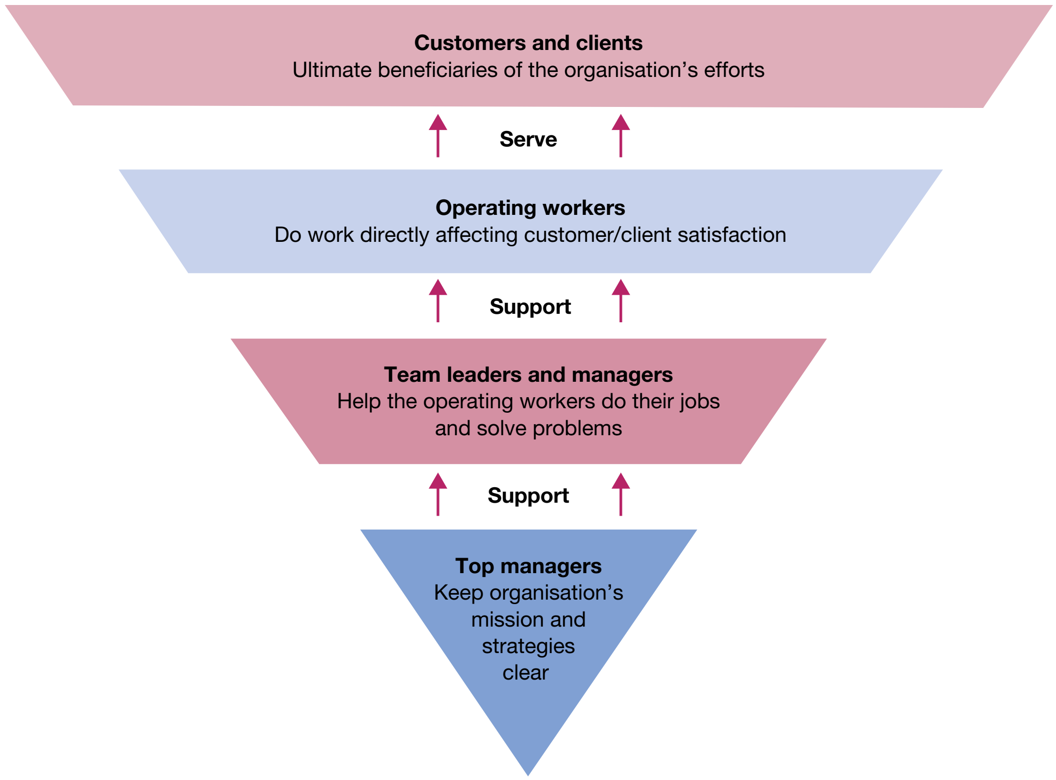

FIGURE 1.5 The organisation as an 'upside-down pyramid'

Being an effective manager in today's workplace also means managing in an 'emotionally intelligent' manner. Emotional intelligence is the 'ability to be aware of emotions, and to manage and utilise them in dealing with others and challenging situations'.[58]

CRITICAL ANALYSIS

1. Is the 'core' of management just the same, irrespective of where you work, with the difference being the applications of management in particular organisations and environments? Why or why not?
2. The global financial crisis and subsequent economic downturn put so much pressure on companies to perform and survive that the niceties of HRM have been swept to one side. Is this a fair statement? Why or why not?

1.4 The management process

LEARNING OBJECTIVE 1.4 What is the management process?

The ultimate 'bottom line' in every manager's job is to succeed in helping an organisation to achieve high performance by using all of its human and material resources. If productivity in the form of high levels of performance effectiveness and efficiency is a measure of organisational success, managers are largely responsible for ensuring its achievement. It is their job to successfully mobilise technology and talent by creating work environments within which others work hard and perform to the best of their abilities.[59] However, while the tasks of a manager may be as lofty as creating the organisation's culture or as technical as reporting on productivity, the *functional* activities of managers that French industrialist Henri Fayol famously described a century ago are still relevant to what managers do, as outlined below.

Functions of management

All managers must have the capabilities to recognise performance problems and opportunities in daily events, make good decisions and take appropriate action. They do this through the process of **management** — planning, organising, leading and controlling the use of resources to accomplish performance goals. These four classic functions of management and their interrelationships are shown in figure 1.6. All managers, regardless of title, level, type and organisational setting, are responsible for the four functions.[60] However, it is important to know that they most often do not accomplish these functions in a linear, step-by-step fashion. Rather, the reality of managerial work is that the functions are being continually engaged as a manager moves from task to task and opportunity to opportunity in the process of mobilising resources to accomplish goals.

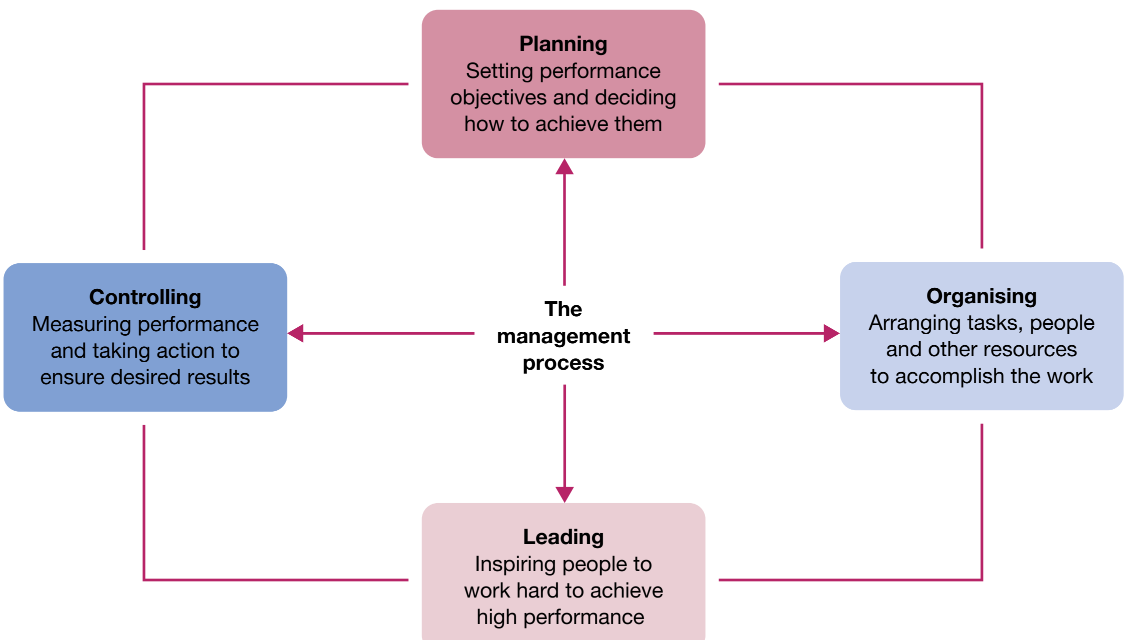

FIGURE 1.6 Four functions of management

Put simply, the task of the manager is to bring the organisation's resources into alignment with its purpose, in a way that is sustainable in the organisation's operating environment. Without resources (physical, technological, financial, and so on), change cannot happen; without clear intent, change is meaningless; and without an environment in which to operate (e.g. a market), there can be no return on investment. So management is all about alignment.

Planning

In management, **planning** is the process of setting performance objectives and determining what actions should be taken to accomplish them. Through planning, a manager identifies desired work results and the means to achieve them. For example, an organisation that views people as its most important asset may plan to ensure staff retention. This would involve the setting of a measurable objective in terms of reducing staff turnover, and determining measures to facilitate achieving this objective over time.

Controlling

A key issue in how well plans are implemented is how well the organisation adapts to rapid change. In today's dynamic times, things do not always go as expected and plans must be modified and redefined with the passage of time. The management function of **controlling** is the process of measuring work performance, comparing results with objectives, and taking corrective action as needed. Through controlling, managers maintain active contact with people in the course of their work, gather and interpret reports on performance, and use this information to plan constructive action and change. Through measurement management is able to track progress against objectives.

Organising

Even the best plans may fail without effective implementation. The implementation phase begins with **organising** — the process of assigning tasks, allocating resources and arranging the coordinated activities of individuals and groups to implement plans. Through organising, managers turn plans into actions by defining jobs, assigning staff and supporting them with technology and other resources.

Leading

In management, **leading** is the process of arousing people's enthusiasm to work hard and direct their efforts to fulfil plans and accomplish objectives. Through leading, managers build commitments to a common vision, encourage activities that support goals, and influence others to do their best work on the organisation's behalf.

COUNTERPOINT

First, let's fire all the managers

Harvard Business School professor Gary Hamel suggested this radical step in the December 2011 edition of the *Harvard Business Review*. At first glance, this seems more than a little inconsistent in a text about learning to be a manager — but he has a point. He argues that what is needed in organisations is not 'no management', but better leadership — just one of Fayol's four management functions.

Management, says Hamel, is both inefficient and expensive for organisations. In his view, management allows calamitous decisions by those at top level, yet systematically disempowers those lower in the hierarchy. It also adds layers of people in the organisational structure, thereby slowing responses. In private life, we can go out and buy an expensive car; as managers, we are not able to requisition so much as an office stapler. Managers, thus, separate the 'doers' from the 'customers', and we shrink the incentive to dream and to innovate.

Hamel notes that even though markets work best only when the needs of each party are simple, stable and easy to quantify, hierarchies are better than markets in bringing activities together productively. What is important is that we manage things and lead people — and that we do so by appealing to their natural desire to be responsible for the outcomes of their work.[61]

Another writer with this counter-view of managers was Ricardo Semler, whose successful Brazilian manufacturing company Semco became the famous subject of his book *Maverick!* (1994). His much-cited article in the *Harvard Business Review* (January–February 1993) outlines how he restructured his company by partnering with his employees and employing them as external contractors, leasing them his company's equipment. Rather than using the PLOC approach, he was able to cut his costs and increase revenue, while providing his workers with autonomy and flexibility.[62]

Semler encouraged his workers to select their own bosses and to be responsible in teams for workplace output. In fact, he doesn't like the word 'boss', preferring to see the role of coordinator as the key role to organising teams and groups. Workers have access to financial records, and the company provides courses to help them learn to read balance sheets and profit and loss statements. Workers even set their own salaries and budgets, which is definitely not part of the PLOC model! Semco's workplace culture is relaxed, along with its dress code, with no secretaries or receptionists. Even the role of CEO rotates around a group of leaders, each assuming the day-to-day tasks for six months at a time.

It is interesting to note that Ricardo Semler's ideas became popular two decades ago. Some people now may dismiss them as being out of fashion, or at least not the latest management fad. However, his ideas have stood the test of time, and he has demonstrated success in an environment of withering recession, galloping inflation and market turbulence. Some of Semler's worker participation practices have even become mainstream and his methods remain a source of guidance.

QUESTION

How relevant are Fayol's four management functions — planning, leading, organising and controlling — to describing what managers do and/or should do? What does he omit? Has the workplace moved on such that these functions are no longer central to what managers do?

Managerial activities and roles

Although the management process may seem straightforward, things are more complicated than they appear at first glance. In his classic book, *The Nature of Managerial Work*, Henry Mintzberg offers this observation on the daily activities of corporate chief executives:

> There was no break in the pace of activity during office hours. The mail . . . telephone calls . . . and meetings . . . accounted for almost every minute from the moment these executives entered their offices in the morning until they departed in the evenings.[63]

Today we would have to add ever-present email to Mintzberg's list of executive preoccupations, especially with mobile devices such as smartphones and tablets capable of receiving and sending emails remotely.[64]

In trying to systematically describe the nature of managerial work and the demands placed on those who do it, Mintzberg offers the set of ten roles depicted in figure 1.7. The roles involve managing information, people and action. They are interconnected, and all managers must be prepared to perform them.[65] In Mintzberg's framework, a manager's informational roles involve the giving, receiving and analysing of information. The interpersonal roles involve interactions with people inside and outside the work unit. The decisional roles involve using information to make decisions to solve problems or tackle opportunities.

Interpersonal roles	Informational roles	Decisional roles
How a manager interacts with other people • Figurehead • Leader • Liaison	How a manager exchanges and processes information • Monitor • Disseminator • Spokesperson	How a manager uses information in decision-making • Entrepreneur • Disturbance handler • Resource allocator • Negotiator

FIGURE 1.7 Mintzberg's ten managerial roles

Mintzberg is also careful to note that the manager's day is unforgiving in the intensity and pace of these role requirements. The managers he observed had little free time because unexpected problems and continuing requests for meetings consumed almost all the time that became available. Importantly, the responsibility of executive work was all–encompassing in the pressure it placed on the executives for continuously improving performance results. Says Mintzberg:

> The manager can never be free to forget the job, and never has the pleasure of knowing, even temporarily, that there is nothing else to do . . . Managers always carry the nagging suspicion that they might be able to contribute just a little bit more. Hence they assume an unrelenting pace in their work.[66]

Managerial work is busy, demanding and stressful, not just for chief executives but for managers at all levels of responsibility in any work setting. A summary of research on the nature of managerial work offers this important reminder — managers work long hours.[67] They work at an intense pace, at fragmented and varied tasks, with many communication media, and they accomplish their work largely through interpersonal relationships.

Managerial work, by nature, is dynamic and constantly changing. Traditionally, managers are supposed to direct and lead subordinates to carry out tasks, in addition to performing other managerial functions, such as planning, organising and controlling. In order to remain competitive in today's global knowledge-based economy, organisations are increasingly moving towards management policies or practices that promote learning and knowledge sharing among organisational members. Recent studies[68] show that successful organisational learning enhances organisational effectiveness and competitiveness. These findings, to a certain extent, highlight the important role of managers as learning facilitators. In addition to the conventional managerial roles identified by Henry Mintzberg, managers are often seen as 'coaches' and 'developers' who help build the learning capability of employees. The multiple ways in which managers facilitate and develop employees' learning within organisations have already been examined and reported in research.[69] These behaviours, such as providing feedback to employees, creating and promoting a learning environment and broadening employees' perspectives, likely expand the dimensions of conventional managerial roles.

Managerial agendas and networks

It is not only the complexity and pace of managerial work that makes it challenging. There are subtle intricacies in the day-to-day flow of events and interactions that must also be mastered. Consider this description of a brief incident in the day of the general manager (GM) of a business.

> On his way to a meeting, a GM bumped into a staff member who did not report to him. Using this opportunity, in a two-minute conversation he (a) asked two questions and received the information he needed, (b) reinforced their good relationship by sincerely complimenting the staff member on something he had recently done, and (c) got the staff member to agree to do something that the GM needed done.[70]

The description provides a glimpse of an effective general manager in action. It portrays two activities that management consultant and scholar John Kotter considers vital to a general manager's success in mastering two important challenges — agenda setting and networking. Through *agenda setting*, good managers develop action priorities for their jobs that include goals and plans that span long and short time frames. These agendas are usually incomplete and loosely connected in the beginning, but become more specific as the manager uses information that is continually gleaned from many different sources. The agendas are kept always in mind and are 'played out' whenever an opportunity arises, as in the example.

Good managers implement their agendas by working with a variety of people inside and outside the organisation. In Kotter's example, the GM was getting things done through a staff member who did not report directly to him. This is made possible by *networking*, the process of building and maintaining positive relationships with people whose help may be needed to implement your work agendas. Since networks are indispensable to managerial success in today's complex work environments, excellent managers devote much time and effort to network development. In the case of this general manager, for example, the networks included relationships with peers, higher level executives, subordinates and members of their work teams, as well as with external customers, suppliers and community representatives.

COUNTERPOINT

Workplace motivation and culture

An issue that has received an increasing amount of research attention lately is that of Guanxi. Guanxi (pronounced *guan-shee*) refers to networks of relationships and favours that influence business activity throughout China. It is an ancient system and is based on informal relationships; as opposed to Western management practice, which is based largely on formal agreements and written contracts. With the increasing economic power of China, Western businesspeople are faced with an increasing need to be able to not only operate in non-Western systems, but also understand the perspectives and values of the millions of Chinese people currently working outside of China.[71] Guanxi systems depend on reputations and trust between individuals and mean that social interactions and social needs become much more important than in Western (individualist) contexts.[72]

QUESTION

While admitting that different cultures give different emphases to various work practices (such as the importance of seniority as counted in years of service to the company), do you see a common core of management tasks across cultures? Do you think generational differences are as important as cultural differences?

CRITICAL ANALYSIS

1. If the environment really is changing so quickly and unpredictably, is all planning a waste of time? How can we plan for an environment that we cannot predict? Is it reasonable to expect managers to produce realistic long-term plans?
2. Are all good managers also good leaders? Can you be a good leader and not a good manager? Are the functions of manager and leader fundamentally different? Keep your thoughts in mind as you progress through the chapter.
3. Why is the management of control systems so critical to good management? Are there risks in taking control beyond merely monitoring into areas of innovation? For example, does an emphasis on control act to stifle creativity? Why or why not? Use examples to justify your answer.

1.5 Managerial learning

LEARNING OBJECTIVE 1.5 How do you learn essential managerial skills and competencies?

British educator and management consultant Charles Handy called today's turbulent times 'the age of unreason'.[73] Above all, it is an era of high-performance expectations for organisations and their members. Change is a way of life, and it demands new organisational and individual responses. And along with all this, the quest for high performance is relentless. Everywhere new workers are expected to use new ways to achieve high productivity under new and dynamic conditions. They are expected to become involved, fully participate, demonstrate creativity, and find self-fulfilment in their work. They are expected to be team players who understand the needs and goals of the total organisation and who use new technologies to their full advantage.

All of this, of course, places a premium on your commitment to learning — not just formal learning in the classroom, but also **lifelong learning**. This is the process of continuously learning from our daily experiences and opportunities. Especially in a dynamic and ever changing environment, a commitment to lifelong learning helps us build portfolios of skills that are always up to date and valuable in the labour markets. A vital part of job-related learning, furthermore, comes from 'learning by doing'. This means that you must always look for good job opportunities that make such learning possible.

Essential managerial skills

A **skill** is an ability to translate knowledge into action that results in desired performance. Many skills are required to master the challenging nature of managerial work, but the most important ones are those that allow managers to help others become more productive in their work. Harvard scholar Robert L. Katz has classified the essential skills of managers into three categories: technical, human and conceptual.[74] Although all three skills are essential for managers, he suggests that their relative importance tends to vary by level of managerial responsibility, as shown in figure 1.8.

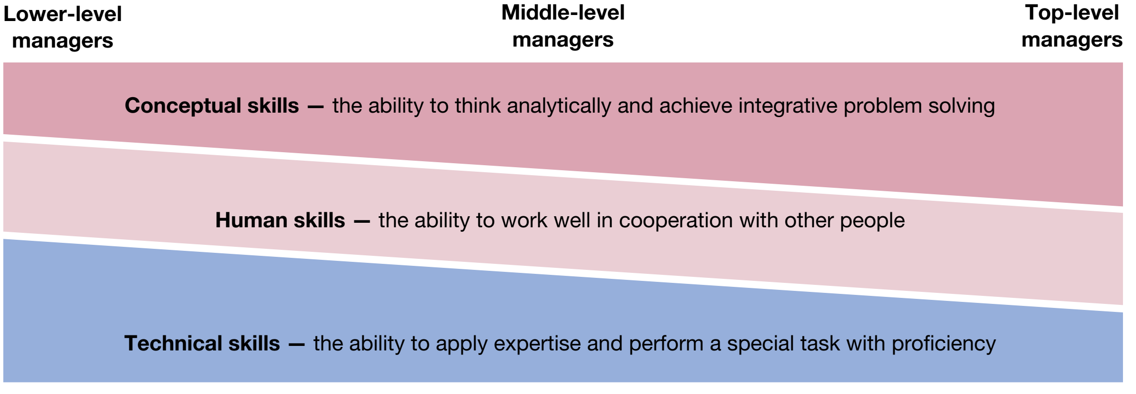

FIGURE 1.8 Essential managerial skills

A **technical skill** is the ability to use a special proficiency or expertise to perform particular tasks. Accountants, engineers, market researchers, business planners and computer scientists, for example, possess technical skills. These are initially acquired through formal education and are further developed by training and job experience. Technical skill in the new network economy is also increasingly tied to computer literacy and use of the latest information technology. Figure 1.8 shows that technical skills are very important at career entry levels. The important question to be asked and positively answered by you in this respect, and in preparation for any job interview, comes down to this simple test: what can you really do for an employer?

The ability to work well in cooperation with other people is a **human skill**. It emerges in the workplace as a spirit of trust, enthusiasm and genuine involvement in interpersonal relationships. A manager with good human skills will have a high degree of self-awareness and a capacity to understand or empathise with the feelings of others. An important component of the essential human skills is **emotional intelligence**.[75] Emotional intelligence is defined by scholar and consultant Daniel Goleman as the 'ability to manage ourselves and our relationships effectively'.[76] Given the highly interpersonal nature of managerial work, human skills are essential for all managers. Figure 1.8 shows that they are consistently important across all the managerial levels. Again a straightforward question puts you to the test of interpersonal skills and emotional intelligence: how well do you work with others?

All good managers ultimately have the ability to view situations broadly and to solve problems to the benefit of everyone concerned. This ability to think critically and analytically is a **conceptual skill**. It involves the ability to break down problems into smaller parts, to see the relationships between the parts, and to recognise the implications of any one problem for others. As we assume ever-higher responsibilities in organisations, we are called on to deal with more ambiguous problems that have many complications and longer term consequences. Figure 1.8 shows that conceptual skills gain in relative importance for top managers. At this point, you should ask 'Am I developing critical-thinking and problem-solving capabilities for long-term career success?'

Skill and outcome assessment

Business and management educators are increasingly interested in helping people acquire essential skills and develop specific competencies that can help them achieve managerial success. A **managerial competency** is a skill-based capability that contributes to high performance in a management job.[77] A number of these competencies have been implied in the previous discussion of the management process, including those related to planning, organising, leading and controlling. Competencies are also implicit in the information, interpersonal and decision-making demands of managerial roles, as well as agenda setting and networking as managerial activities.

Manager's notepad 1.3 further highlights some of the skills and personal characteristics business schools emphasise in helping students develop the foundations for continued professional development and career success. You can use this notepad as a preliminary checklist for assessing your career readiness in terms of professional skills and competencies.

MANAGER'S NOTEPAD 1.3

Managerial skill and outcome assessment template

- *Communication* — demonstrates ability to share ideas and findings clearly in written and oral expression. This includes competencies in writing, oral presentation, giving/receiving feedback and technology use.
- *Teamwork* — demonstrates ability to work effectively as a team member and team leader. This includes competencies in team contribution, team leadership, conflict management, negotiation and consensus building.
- *Self-management* — demonstrates ability to self-evaluate, modify behaviour and meet performance obligations. This includes competencies in ethical understanding/behaviour, personal flexibility, tolerance for ambiguity, and performance responsibility.
- *Leadership* — demonstrates ability to influence and support others to perform complex and sometimes ambiguous tasks. This includes competencies in diversity awareness, global awareness, project management and strategic action.
- *Critical thinking* — demonstrates ability to gather and analyse information for creative problem-solving. This includes competencies in problem-solving, judgement and decision-making, information gathering and interpretation, and creativity/innovation.
- *Professionalism* — demonstrates ability to sustain a positive impression, instil confidence and maintain career advancement. This includes competencies in personal presence, personal initiative and career management.

In summary, the manager's top three tasks involve analysing the environment to clarify what can be done — what the market wants and will 'bear', establishing the intent of the organisation's leaders, and then acquiring the resources necessary to build the products or provide the services. So, this 'what' of management is implemented through the 'how' of strategy, and by applying the personal skills of the manager — whose task it is to explain to employees the 'why', to make sense of the organisation's activities.

CRITICAL ANALYSIS

1. In what proportions do you think management is about knowledge, skills and abilities? Justify your answer.

SUMMARY

1.1 What are the challenges in the contemporary workplace?

- The contemporary environment challenges everyone to understand and embrace continuous change and developments in a new information-driven and global economy.
- Work in the new economy is increasingly knowledge-based and people, with their capacity to bring valuable intellectual capital to the workplace, are the ultimate foundation of organisational performance.
- The forces of globalisation are bringing increased interdependencies among nations and economies as customer markets and resource flows create intense business competition.
- Ever present developments in information technology and the continued expansion of the internet are reshaping organisations, changing the nature of work, and increasing the value of people capable of performing as knowledge workers.
- Organisations must value the talents and capabilities of a workforce whose members are increasingly diverse with respect to gender, age, race and ethnicity, able-bodiedness and lifestyles.
- Society has high expectations for organisations and their members to perform with commitment to high ethical standards and in socially responsible ways, including protection of the natural environment and human rights.
- Careers in the new economy require great personal initiative to build and maintain skill 'portfolios' that are always up to date and valuable to employers challenged by intense competition and the opportunities of the information age.

1.2 What are organisations like in the contemporary workplace?

- Organisations are collections of people working together to achieve a common purpose.
- As open systems, organisations interact with their environments in the process of transforming resource inputs into product outputs.
- Productivity is a measure of the quantity and quality of work performance, with resource use taken into account.
- High-performing organisations are both effective, in terms of goal accomplishment, and efficient, in terms of resource use.
- Organisations today continue to emphasise total quality management in a context of technology use, more empowerment and teamwork, and concern for work–life balance, among other trends.

1.3 Who are managers and what do they do?

- Managers directly support and facilitate the work efforts of other people in organisations.
- Top managers scan the environment, create vision and emphasise long-term performance goals; middle managers coordinate activities in large departments or divisions; team leaders and supervisors support performance at the team or work-unit level.
- Functional managers work in specific areas such as finance or marketing; general managers are responsible for larger multifunctional units; administrators are managers in public or not-for-profit organisations.
- A key aspect of managerial work is accountability to higher levels for performance results that the manager depends on other people to accomplish.
- The upside-down pyramid view of organisations shows operating workers at the top responsible for meeting customer needs while being supported from below by various levels of management.
- A key aspect in the changing nature of managerial work is emphasis on being good at coaching and supporting others, rather than simply directing and giving orders.

1.4 What is the management process?

- The management process consists of planning, organising, leading and controlling. Planning sets the direction; organising assembles the human and material resources; leading provides the enthusiasm and direction; controlling ensures results.

- Managers implement the four functions in daily work that is intense and stressful, involving long hours and continuous performance pressures.
- Managerial success in this demanding context requires the ability to perform well in interpersonal, informational and decision-making roles.
- Managerial success in this demanding context also requires the ability to use interpersonal networks to accomplish well-selected task agendas.

1.5 How do you learn essential managerial skills and competencies?

- Career success in the new economy requires continual attention to the process of lifelong learning from all aspects of daily experience and job opportunities.
- Skills considered essential to managerial success are broadly described as technical (ability to use knowledge and technology), human (ability to work well with other people) and conceptual (ability to analyse and solve complex problems).

KEY TERMS

Accountability is the requirement to show performance results to a supervisor.

Administrators are managers who work in public or not-for-profit organisations.

A **conceptual skill** is the ability to think analytically and solve complex problems.

Controlling is the process of measuring performance and taking action to ensure desired results.

Discrimination occurs when someone is denied a job or a job assignment for reasons not job-relevant.

Emotional intelligence is the ability to manage ourselves and our relationships effectively.

Functional managers are responsible for one area of activity, such as finance, marketing, production, human resources, accounting or sales.

General managers are responsible for complex organisational units that include many areas of functional activity.

Globalisation is the worldwide interdependence of resource flows, product markets and business competition.

A **human skill** is the ability to work well in cooperation with other people.

Intellectual capital is the collective brain power or shared knowledge of a workforce.

A **knowledge worker** is someone whose knowledge is a critical resource for employers.

Leading is the process of arousing enthusiasm and directing efforts towards organisational goals.

Lifelong learning is continuous learning from daily experiences and opportunities.

Line managers directly contribute to the production of the organisation's basic goods or services.

Management is the process of planning, organising, leading and controlling the use of resources to accomplish performance goals.

A **managerial competency** is a skill-based capability for high performance in a management job.

Managers are responsible for and support the work of others.

Middle managers oversee the work of large departments or divisions.

Open systems transform resource inputs from the environment into product or service outputs.

An **organisation** is a collection of people working together with a division of labour to achieve a common purpose.

Organising is the process of assigning tasks, allocating resources and arranging activities to implement plans.

Performance effectiveness is an output measure of task or goal accomplishment.

Performance efficiency is a measure of resource cost associated with goal accomplishment.

Planning is the process of setting objectives and determining how to accomplish them.

Prejudice is the display of negative, irrational attitudes towards members of diverse populations.

Productivity is the quantity and quality of work performance, with resource use considered.

Project managers coordinate complex projects with task deadlines and people with many areas of expertise.

Quality of work life (QWL) is the overall quality of human experiences in the workplace.

A **skill** is the ability to translate knowledge into action that results in desired performance.
Staff managers use special technical expertise to advise and support line workers.
Team leaders or **supervisors** report to middle managers and directly supervise non-managerial workers.
A **technical skill** is the ability to use a special proficiency or expertise in your work.
Top managers guide the performance of the organisation as a whole, or of one of its major parts.
Total quality management (TQM) is managing with commitment to continuous improvement, product quality and customer satisfaction.
Workforce diversity describes differences among workers in gender, race, age, ethnic culture, able-bodiedness, religious affiliation and sexual orientation.

APPLIED ACTIVITIES

1. What are some of the opportunities an increasingly diverse and multicultural workforce offers with respect to potential performance gains in organisations? How can managers stimulate and encourage this contribution?
2. Why are concepts such as ethical and socially responsible conduct increasingly important?
3. What are some important survival skills for the new workplace? List and explain them.
4. What is 'globalisation' and how does it relate to Kenichi Ohmae's notion of the borderless world?
5. You have been a very successful civil engineer for ten years and your technical skills are excellent. However, you have no management experience. You are being interviewed for a team leader position. The team consists of eight members of three different nationalities and has equal numbers of men and women. Explain what you would say to the selection panel in relation to meeting the challenge of effectively managing a diverse team.

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CHAPTER 2

Historical foundations of management

LEARNING OBJECTIVES

2.1 What can be learned from classical management thinking?
2.2 What ideas were introduced by the human resource approaches?
2.3 What is the role of quantitative analysis in management?
2.4 What is unique about the systems view and contingency thinking?
2.5 What are the continuing management themes of the 21st century?

Looking back to look forward

The paradox of studying the past is that it illuminates the present, and perhaps also the future. *Historia magistra vitae est* (history is life's teacher) — provided we pay attention. Consider the light shed on the contemporary management of organisations by the ideas of two US scholars almost a century ago.

The first is Mary Parker Follett (1868–1933). A thoughtful, concerned observer of conflict in organisations, Follett drew on the emerging fields of Gestalt psychology and scientific management to propose that even though efficiency is key to productivity, an understanding of the functioning of the human group, and of the organisational significance of leadership and authority, is essential to the resolution of conflict and the proper functioning of management. It was radical then and, for some, may still be. For example, Follett saw that reduction in conflict could come from the integration of interests, and leadership could be based on reciprocal influence of leader and follower in the context of the situation. Any situation would spin out of control when interests were not reconciled. Thus, the best leaders ask people not to serve them, but to join in serving a common purpose. Management then becomes a matter of communicating organisational purpose, coordinating group and individual functions and creating a motive of service to the community. A century ago this was a challenging perspective (and still is for some people today). The observation that she was far ahead of her time is an understatement.

When in 1995, Harvard University Press released *Mary Parker Follett — Prophet of Management: A Celebration of Writings from the 1920s*, it clearly reminded us of the wisdom to be gained from history.[1] Although a management treatise written in a different age, Follett's ideas are rich with foresight. She advocated cooperation and better horizontal relationships in organisations, taught respect for the experience and knowledge of workers, warned against the dangers of too much hierarchy, and called for visionary leadership. Today we pursue similar themes while using terms like 'empowerment', 'involvement', 'flexibility' and 'self-management'. Rather than naively believing that we are reinventing management practice, it may be better to recognise the historical roots of many modern ideas and admit that we are still trying to perfect them.[2]

A second management theorist from the past is Chester Barnard (1886–1961). A successful and erudite company executive, he scandalised traditional thinking about authority in organisations by insisting that individuals needed to assent to authority (rather than just to work in a command and control setting). This, Barnard said, they would do only if four conditions were met: they understood the instruction; they saw it as consistent with the purpose of the organisation; they believed the instruction was compatible with their personal interests; and they believed they were mentally and physically able to comply. Thus, if the order ran counter to an individual's moral code, it was unlikely to be obeyed. The benefits of remaining employed would be weighed by the employee against his or her personal value system. This put a new slant on the nature of authority, which therefore depended on the confidence and respect in which it was held by those subject to it. One can only observe that this is a lesson still being learned by current political leaders worldwide.

Barnard extended this by proposing executive functions as being those providing a system of formal and informal communication, promoting essential personal efforts through incentives and rewards, and formulating and defining purpose. Barnard saw moral leadership as the creative force that provided the basis for an organisation to endure. This included taking personal responsibility for decisions affecting all stakeholders internal and external, and the community. As an early proponent of the 'boundaryless organisation', Barnard's concept included employees, suppliers and customers. By doing so, he could recommend establishing an equilibrium between organisation and environment — now a basic tenet in our thoughts on sustainable organisations.[3] Interestingly, he also wrote of decision-making as relying on logical as well as 'non-logical' processes. In this, he prefaced the awareness of the importance of intuition and tacit knowledge in the way managers analysed problems.[4]

Chester Barnard was influential in the work of Australian management theorist Elton Mayo, who later became famous for the Hawthorne studies and the notion of organisational equilibrium, and Herbert Simon, with his ideas on organisational decision-making. Both Follett and Barnard sought to redefine concepts of authority, cooperation and unity, emphasising the role of the leader in coordinating organisational functions to enhance the wellbeing of people.

Is this history relevant for today's world? It is. Are we still talking about these ideas? We are. Why? In *The History of Management Thought*, Professor Daniel Wren traces 'management' as far back as 5000 BC, when ancient Sumerians used written records to assist in governmental and commercial activities.[5] Management was important to the construction of the Egyptian pyramids, the rise of the Roman Empire and the commercial success of 14th century Venice. By the time of the Industrial Revolution in the 1700s, social changes helped prompt a great leap forward in the manufacture of basic staples and consumer goods. Industrial change was accelerated by Adam Smith's ideas of efficient production through specialised tasks and the division of labour. By the beginning of the 20th century, Fredrick Winslow Taylor, Henry Ford and others were making mass production a mainstay of the modern economy. Since then, the science and practices of management have been on a rapid and continuing path of development.

The legacies of this rich history of management must be understood as we confront the challenges of contemporary management. The historical context of management thinking can be understood in the following framework. The *classical management approaches* focus on developing universal principles for use in various management situations. The *behavioural management approaches* focus on human needs, the work group and the role of social factors in the workplace. The *quantitative management approaches* focus on applying mathematical techniques for the management of problem-solving. The *modern approaches* focus on the systems view of organisations and contingency thinking in a dynamic and complex environment. Continuing themes build from an emphasis on quality and performance excellence to embrace diversity and global awareness, and describe new leadership roles for a new era of management.

QUESTION

Ask yourself what difference the ideas of Mary Parker Follett and Chester Barnard could make if applied to contemporary thinking about management. For example, what would happen if Follett's ideas on communication were implemented in an organisation known to you? If they were applied today, what difference would they make to more 'modern' concepts like self-managed teams or adaptive groups?

Introduction

The problems and opportunities facing organisations today are complex. All institutions feel the pressure of a new and very challenging environment. But even in the rush to an exciting future, history should not be ignored. Knowledge gained through past experience can and should be used as a foundation for future success.

2.1 Classical approaches to management

LEARNING OBJECTIVE 2.1 What can be learned from classical management thinking?

There are three major branches within the classical approach to management: scientific management, administrative management and bureaucratic management. Figure 2.1 associates each with a prominent person in the history of management thought. These names are important to know since they are still widely used in management conversations today. Also, the figure shows that the branches all share a common assumption: people at work act in a rational manner that is driven mainly by economic concerns. Workers are expected to rationally consider opportunities made available to them and do whatever is necessary to achieve the greatest personal and monetary gain.[6]

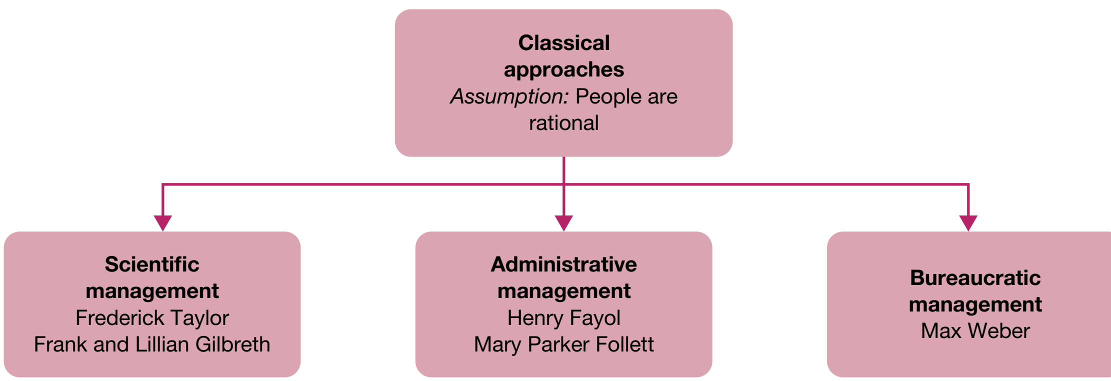

FIGURE 2.1 Major branches in the classical approach to management

Scientific management

In 1911 Frederick W. Taylor published *The Principles of Scientific Management* in which he made the following statement: 'The principal object of management should be to secure maximum prosperity for the employer, coupled with the maximum prosperity for the employee'.[7] Taylor, often called the 'father of scientific management', noticed that many workers did their jobs their own way and without clear and uniform specifications. He believed that this caused them to lose efficiency and perform below their true capacities. He thought this problem could be corrected if workers were taught and then helped by supervisors to always perform their jobs in the right way.

Taylor used the concept of 'time study' to analyse the motions and tasks required in any job and to develop the most efficient ways to perform them.[8] He then linked these job requirements with both training for the worker and support from supervisors in the form of proper direction, work assistance and monetary incentives. This approach is known as **scientific management** and includes these four guiding action principles.

1. Develop for every job a 'science' that includes rules of motion, standardised work processes and proper working conditions.
2. Carefully select workers with the right abilities for the job.
3. Carefully train workers to do the job and give them the proper incentives to cooperate with the job 'science'.
4. Support workers by carefully planning their work and by smoothing the way as they go about their jobs.

Taylor tried to use scientific techniques to improve the productivity of people at work. The implications of his efforts, if not his exact scientific management principles, are found in many management settings today. A number of these are summarised in Manager's notepad 2.1.

MANAGER'S NOTEPAD 2.1

Practical lessons from scientific management

- Use results-based compensation as a performance incentive.
- Carefully design jobs with efficient work methods.
- Carefully select workers with the abilities to do these jobs.
- Train workers to perform jobs to the best of their abilities.
- Train supervisors to support workers so they can perform jobs to the best of their abilities.

Mentioned in Taylor's first principle, **motion study** is the science of reducing a job or task to its basic physical motions. As contemporaries of Taylor, husband and wife team Frank and Lillian Gilbreth became known through the book and film *Cheaper by the Dozen*. They pioneered motion studies as a management tool. In one famous study, they reduced the number of motions used by bricklayers and tripled their productivity.[9] The Gilbreths' work established the foundation for later advances in the areas of job simplification, work standards and incentive wage plans — all techniques still used in the modern workplace.

INNOVATION

Classical management in the Haier Group

Chinese electronics company Haier achieved success by introducing Western management theory.

The Haier Group is a Chinese electronics and household appliances company. With 10.2 per cent market share of the world's white goods market (more than any other manufacturer) and a state-owned enterprise, it is a formidable competitor in the electronics market.[10] In the early 1980s, the group was merely a general refrigerator manufacturer in Qingdao, China. It was close to bankruptcy when it appointed a young assistant city manager, Zhang Ruimin. A customer brought back a faulty refrigerator and Zhang went through his entire inventory of 400 refrigerators looking for a replacement. Struck by a 20 per cent failure rate in its products, Zhang issued sledge hammers to staff with instructions to destroy 76 faulty refrigerators in the inventory rather than let them be sold.[11] He introduced Western management theory to the plant, with a focus on quality and reliability. By 1992, Haier was a certified ISO 9001 organisation — a remarkable demonstration of establishing quality management principles in a very short time.

Sales improved and by 2002 Haier was opening plants in the United States, Pakistan, Africa and India, as well as partnering with European firms and buying a factory in Italy. By 2008, it had surpassed the giant American manufacturer Whirlpool. Zhang's management approach was summarised by the letters OEC — O (Overall), E (Everyone, Everything, Every day), C (Control, Clear). Haier's Human Resource Management Director Wang Yingmin explained the acronym:

> OEC means that every employee has to accomplish the target work every day. The OEC management-control system aims at overall control of everything that every employee finishes on his or her job every day, with a 1% increase over what was done the previous day.[12]

Performance measurement is crucial and tasks are allocated to achieve greatest efficiency across several departments with instructions so that all employees understand their jobs and how their jobs align with the corporate goals. Employees are shown how their wages are tied to market performance. Short production lines were created to ensure a close match between design and customer.

Daily control and clarity is the basis of fulfilling those objectives. Every Haier employee has a '3E card', used to record each day that they have done everything required. This is combined with the plan–do–check–act cycle to check everything. The 3E card has seven criteria: job quantity, usage of parts, usage of materials, equipment, safety, work attitudes and labour discipline. Every staff member is required to constantly improve their work skills and ensure that they can achieve the 1 per cent increase in productivity each day.

However, not everything about the approach is positive: the emphasis on individual performance and incentives has created a competitive internal culture where teamwork suffers and synergy is problematic.[13]

QUESTION

The numbers are difficult to dispute: Haier was the number one brand of major appliances in the world from 2009–14, with spectacular efficiencies and affordability. What do you think is the source of the organisation's success?

By applying Taylor's 'scientific' methods of measurement and management, many US companies made huge efficiency gains, and North Americans developed a reliance on mass production that is still present today. Many workers, however, have felt over the years that scientific management was just a device for some managers to get more work from each employee and to reduce the total number of workers needed by a business. 'Taylorism' remains a term tinged with resentment because of the inappropriate application of his measurement technique to oppressive management. Unfortunately, the efficiencies derived from such standardisation were not matched by the required flexibility when the environment demanded it, and many of the world's banks, as well as companies such as General Motors, have paid a huge price for their slowness or inability to respond to the global financial crisis and the ensuing economic downturn. They were humiliated by their need to seek public bailout funding.

The ideas of Taylor and the Gilbreths are evident in the growing call centre industry. It is an industry, however, with a big problem — an alarmingly high staff-attrition rate. For some companies, call centres are their main point of contact with customers. But in many cases, the staff in those call centres are bored, disgruntled and inexperienced. Some say call centres are sweatshops. The cost of training new operators and the poor customer service that results from the high turnover have made staff recruitment and employee training programs a priority for call centre managers.[14]

Administrative management

A second branch in the classical approach to management is based on attempts to document and understand the experiences of successful managers. Two prominent writers in this school of thought are Henri Fayol and (as previously mentioned) Mary Parker Follett.

Henri Fayol

In 1916, after a career in French industry as a CEO of a large mining conglomerate, Henri Fayol published *Administration Industrielle et Générale*.[15] The book outlines his views on the proper management of organisations and the people within them. It identifies the following five 'rules' or 'duties' of management, which closely resemble the four functions of management — planning, organising, leading and controlling — that we talk about today:

1. *foresight* — to complete a plan of action for the future
2. *organisation* — to provide and mobilise resources to implement the plan
3. *command* — to lead, select and evaluate workers to get the best work towards the plan

4. *coordination* — to fit diverse efforts together and ensure information is shared and problems solved
5. *control* — to make sure things happen according to plan and to take necessary corrective action.

Most importantly, Fayol believed that management could be taught. He was very concerned about improving the quality of management and set forth a number of 'principles' to guide managerial action. A number of them are still part of the management vocabulary. They include Fayol's *scalar chain principle* (there should be a clear and unbroken line of communication from the top to the bottom in the organisation), the *unity of command principle* (each person should receive orders from only one boss), and the *unity of direction principle* (one person should be in charge of all activities that have the same performance objective).

Mary Parker Follett

As detailed at the beginning of this chapter, Mary Parker Follett was another significant contributor to the administrative management school. In her writings about businesses and other organisations in the early 20th century, Follett displayed an understanding of groups and a deep commitment to human cooperation — ideas that are highly relevant today. For her, groups were mechanisms through which diverse individuals could combine their talents for a greater good. She viewed organisations as 'communities' in which managers and workers should labour in harmony, without one party dominating the other, and with the freedom to talk over and truly reconcile conflicts and differences. She believed it was the manager's job to help people in organisations cooperate with one another and achieve an integration of interests.

A review of the publication *Dynamic Administration: The Collected Papers of Mary Parker Follett* helps to illustrate the modern applications of her management insights.[16] Follett believed that making every employee an owner in the business would create feelings of collective responsibility. Today, we discuss the same issues under such labels as 'employee ownership', 'profit sharing' and 'gain-sharing plans'. Follett believed that business problems involve a wide variety of factors that must be considered in relationship to one another. Today, we talk about 'systems' when describing the same phenomenon. Follett believed that businesses were services and that private profits should always be considered vis-à-vis the public good. Today, we pursue the same issues under the labels of 'managerial ethics' and 'corporate social responsibility'.

INNOVATION

Blackmores rewards staff with slice of profits

Founded by Maurice Blackmore in Brisbane, Australia over 80 years ago, Blackmores has grown to become a global leader in the vitamin trade. In 2014–15, profits increased by 83 per cent on the previous year. This momentum was reflected in the company's performance on the Australian Stock Exchange, jumping from a share price of $27 in August 2014 to over $200 by the end of 2015, earning it a position on S&P/ASX 200 index — a list of Australia's top 200 companies.

As part of its long-standing profit share scheme, 10 per cent of Blackmores' $46 million profit was distributed to its 900-strong staff — equating to approximately 6 weeks' additional pay for each team member.

Blackmores chief executive, Christine Holgate, says the bonus scheme is a great motivator for staff.

'It really aligns everyone, from the lady on the factory floor to the chief executive', she said.

Additionally, the family-oriented company encourages its staff to purchase shares in the business. 10 of the top 30 shareholders in Blackmores are either employees or former employees.

Blackmores staff aren't merely rewarded with monetary benefits — the offices in Australia, New Zealand, Asia and the United Kingdom have wellbeing centres, subsidised cafes and family-friendly environments.

The company is taking advantage of societal trends that see people increasingly focused on their health and wellbeing. This, combined with a rising demand for safe vitamin products in China, will ensure that the Blackmores stock continues to rise — and they are bringing their staff along for the ride.[17]

QUESTION

Can you discern the relevance of Mary Parker Follett's ideas in Blackmores' management approach?

Bureaucratic management

Max Weber was a late 19th century German intellectual whose insights have had a major impact on the field of management and the sociology of organisations. His ideas developed somewhat as a reaction to what he considered to be performance deficiencies in the organisations of his day. Among other things, Weber was concerned that people were in positions of authority not because of their job-related capabilities, but because of their social standing or 'privileged' status in German society. For this and other reasons he believed that organisations largely failed to reach their performance potential.

At the heart of Weber's thinking was a specific form of organisation he believed could correct the problems just described — a **bureaucracy**.[18] This is an ideal, intentionally rational and very efficient form of organisation founded on principles of logic, order and legitimate authority. The defining characteristics of Weber's bureaucratic management are as follows.

- *Clear division of labour*. Jobs are well defined, and workers become highly skilled at performing them.
- *Clear hierarchy of authority*. Authority and responsibility are well defined for each position, and each position reports to a higher level one.
- *Formal rules and procedures*. Written guidelines direct behaviour and decisions in jobs, and written files are kept for historical record.
- *Impersonality*. Rules and procedures are impartially and uniformly applied with no one receiving preferential treatment.
- *Careers based on merit*. Workers are selected and promoted on ability and performance, and managers are career employees of the organisation.

Weber believed that organisations would perform well as bureaucracies. They would have the advantages of efficiency in using resources, and of fairness or equity in the treatment of employees and clients. In his words:

> The purely bureaucratic type of administrative organisation . . . is, from a purely technical point of view, capable of attaining the highest degree of efficiency . . . It is superior to any other form in precision, in stability, in the stringency of its discipline, and in its reliability. It thus makes possible a particularly high degree of calculability of results for the heads of the organisation and for those acting in relation to it. It is finally superior both in intensive efficiency and in the scope of its operations and is formally capable of application to all kinds of administrative tasks.[19]

This is the ideal side of bureaucracy. However, the terms *bureaucracy* and *bureaucrat* are now often used with negative connotations. The *possible disadvantages of bureaucracy* include excessive paperwork or 'red tape', slowness in handling problems, rigidity in the face of shifting customer or client needs, resistance to change and employee apathy. These disadvantages are most likely to cause problems for organisations that must be flexible and quick in adapting to changing circumstances — a characteristic of challenges in today's dynamic organisational environments. Researchers now try to determine when and under what conditions bureaucratic features work best. They also want to identify alternatives to the bureaucratic form. Indeed, current trends in management include many innovations that seek the same goals as Weber but with different approaches to how organisations can be structured.

CRITICAL ANALYSIS

1. Do Weber's principles still hold true, providing both benefits and challenges for contemporary organisations?
2. Is there a way of obtaining the benefits of bureaucracy, such as efficiency, objectivity and procedural predictability, without becoming 'overcontrolled or cluttered with pointless rules'? Are there Weberian principles that you would trade off? Why? How would you compensate for their loss?

Hierarchy in organisations

Elliott Jaques (1917–2003) was a Canadian management psychologist who unfashionably espoused the value of hierarchies in organisations at a time when companies were flattening pyramids and building matrices. His controversial theory is that the layers in an organisation relate to the levels of work required of different people, distinguished by the degree of discretion exercised. A key variable for Jaques is the length of time a decision made by an employee is expected to endure. Thus, a CEO's decision is expected to last well into the future, and the role is rewarded appropriately.[20]

Clearly defining roles and responsibilities is critical to Jaques's approach, along with getting the systems and structures right. Managers are held accountable for the work of their subordinates in a hierarchy of capabilities. Jaques thought organisations could be layered into a maximum of seven levels between CEO and frontline, these being determined by the complexity of the work required of individuals at each level. His view was that your manager's manager (your 'manager once removed', or MOR) is not involved in your everyday management but protects you by drawing you up through career levels. While opinion is divided about the influence of Jaques on management thinking, there seems little doubt that he has served to re-emphasise the undeniable significance of hierarchy and structure, and of clarifying roles and accountabilities.[21] In Australia, Westpac, CBA and Telstra have all used Jaques' thinking to delayer and restructure.[22]

CRITICAL ANALYSIS

1. How are the ideas proposed by Jaques useful for organisations? What light do they shed on organisations and their behaviour?
2. Is the notion of hierarchy too rigid for today's free-floating concepts of how organisations ought to operate in conditions of constant change?

2.2 Behavioural approaches to management

LEARNING OBJECTIVE 2.2 What ideas were introduced by the human resource approaches?

During the 1920s, an emphasis on the human side of the workplace began to establish its influence on management thinking. Major branches that emerged in this behavioural or human resource approach to management are shown in figure 2.2. They include the famous Hawthorne Studies and Maslow's theory of human needs, as well as theories generated from these foundations by Douglas McGregor, Chris Argyris and others. The behavioural approaches maintain that people are social and self-actualising. People at work are assumed to seek satisfying social relationships, respond to group pressures and search for personal fulfilment.

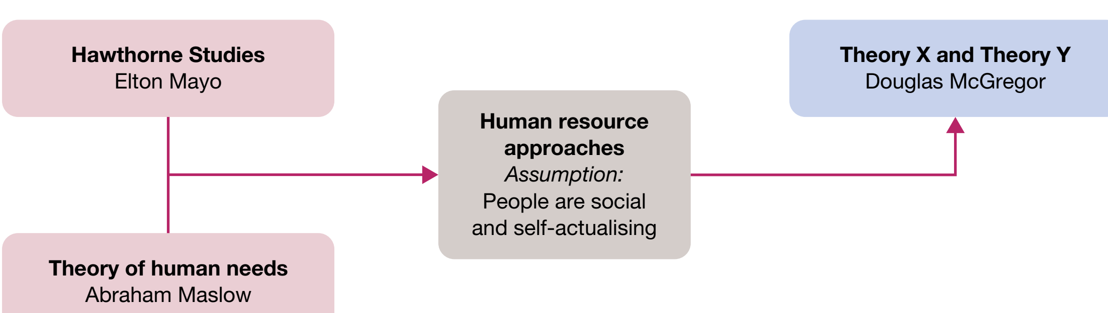

FIGURE 2.2 Foundations in the behavioural or human resource approaches to management

The Hawthorne Studies and human relations

In 1924, the Western Electric Company (predecessor of today's Lucent Technologies) commissioned a research program to study individual productivity at the firm's Hawthorne Works in Chicago.[23] The initial 'Hawthorne Studies' had a scientific management perspective and sought to determine how economic incentives and the physical conditions of the workplace affected the output of workers. An initial focus was on the level of illumination in the manufacturing facilities — it seemed reasonable to expect that better lighting would improve performance. After failing to find this relationship, however, the researchers concluded that unforeseen 'psychological factors' somehow interfered with their illumination experiments. This finding and later Hawthorne Studies directed attention towards human interactions in the workplace and ultimately had a major influence on the field of management.

Relay assembly test-room studies

In 1927, a team led by Harvard's Elton Mayo (an Australian psychologist) began more research to examine the effect of worker fatigue on output. Care was taken to design a scientific test that would be free of the psychological effects thought to have confounded the earlier illumination studies. Six workers who assembled relays were isolated for intensive study in a special test room. They were given various rest pauses, and workdays and work weeks of various lengths, and production was regularly measured. Once again, researchers failed to find any direct relationship between changes in physical working conditions and output. Productivity increased regardless of the changes made.

Mayo and his colleagues concluded that the new 'social setting' created for workers in the test room accounted for the increased productivity. Two factors were singled out as having special importance. One was the *group atmosphere* — the workers shared pleasant social relations with one another and wanted to do a good job. The other was more *participative supervision*. Test-room workers were made to feel important, were given a lot of information and were often asked for their opinions. This was not the case in regular jobs elsewhere in the plant.

Employee attitudes, interpersonal relations and group processes

Mayo's studies continued to examine these factors until the worsening economic conditions of the Depression forced their termination in 1932. Until then, interest focused on employee attitudes, interpersonal relations and group relations. In one study, over 21 000 employees were interviewed to learn what they liked and disliked about their work environment. 'Complex' and 'baffling' results led the researchers to conclude that the same things (e.g. work conditions or wages) could be sources of satisfaction for some workers and of dissatisfaction for others. The final Hawthorne Study was conducted in the bank wiring room and centred on the role of the work group. A surprise finding here was that people would restrict their output in order to avoid the displeasure of the group, even if it meant sacrificing pay that could otherwise be earned by increasing output. Thus, it was recognised that groups can have strong negative, as well as positive, influences on individual productivity.

Lessons from the Hawthorne Studies

As scholars now look back, the Hawthorne Studies are criticised for poor research design, weak empirical support for the conclusions drawn and the tendency of researchers to overgeneralise their findings.[24] Yet the significance of these studies as a turning point in the evolution of management thought remains intact. The Hawthorne Studies helped shift the attention of managers and management researchers away from the technical and structural concerns of the classical approach and towards social and human concerns as keys to productivity. They showed that people's feelings, attitudes and relationships with co-workers should be important to management, and they recognised the importance of the work group.

They also identified the **Hawthorne effect** — the tendency of people who are singled out for special attention to perform as anticipated merely because of expectations created by the situation.

The Hawthorne Studies contributed to the emergence of the **human relations movement** as an important influence on management thought during the 1950s and 1960s. This movement was largely based on the viewpoint that managers who used good human relations in the workplace would achieve productivity. Furthermore, the insights of the human relations movement set the stage for what has now evolved as the field of **organisational behaviour**, the study of individuals and groups in organisations.

Maslow's theory of human needs

Among the insights of the human relations movement, the work of Abraham Maslow in the area of human 'needs' has been very influential. **Needs** are physiological or psychological deficiencies a person feels the compulsion to satisfy. Though now surpassed as a theory of workplace motivation this has been a significant concept for managers, because needs create tensions that can influence a person's work attitudes and behaviours.

Maslow identified the five levels of human needs, shown in figure 2.3. From lowest to highest, in order, they are: physiological, safety, social, esteem and self-actualisation needs. Maslow's theory is based on two underlying principles.[25] The first is the *deficit principle* — a satisfied need is not a motivator of behaviour (though in spite of this, Maslow's theory is often spoken of erroneously as a theory of motivation). People act to satisfy 'deprived' needs, those for which a satisfaction 'deficit' exists. The second is the *progression principle* — the five needs exist in a hierarchy of 'prepotency'. A need at any level only becomes activated once the next-lower-level need has been satisfied.

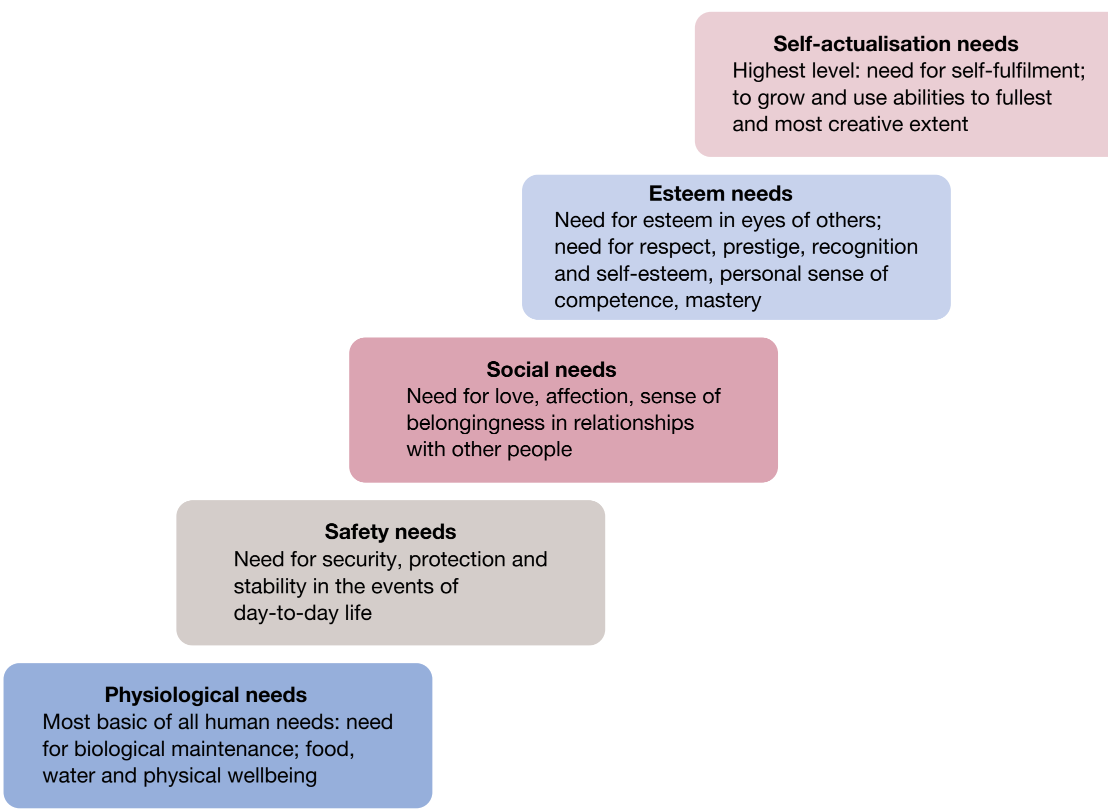

FIGURE 2.3 Maslow's hierarchy of human needs

According to Maslow, people try to satisfy the five needs in sequence. They progress step by step from the lowest level in the hierarchy to the highest. Along the way, a deprived need dominates individual attention and determines behaviour until it is satisfied. Then, the next-higher-level need is activated and progression up the hierarchy occurs. At the level of self-actualisation, the deficit and progression principles cease to operate. The more this need is satisfied, the stronger it grows.

Consistent with the human relations thinking, Maslow's theory implies that managers who can help people satisfy their important needs at work will achieve productivity. Although scholars now recognise that things are more complicated than this Maslow's ideas are still relevant to everyday management. Consider, for example, the case of dealing with volunteer workers who do not receive any monetary compensation. Managers in not-for-profit organisations have to create jobs and work environments that satisfy the needs of volunteers. If the work isn't fulfilling, the volunteers will redirect their energies and volunteer to work somewhere else.

McGregor's Theory X and Theory Y

Harvard-based social psychologist Douglas McGregor was heavily influenced by both the Hawthorne Studies and Maslow's theory of needs. His classic book *The Human Side of Enterprise* advances the thesis that managers should give more attention to the social and self-actualising needs of people at work.[26] McGregor urged managers to shift their view of human nature away from a set of assumptions he called 'Theory X' and towards ones he called 'Theory Y'.

According to McGregor, managers holding **Theory X** assumptions approach their jobs believing that those who work for them generally dislike work, lack ambition, are irresponsible, are resistant to change and prefer to be led rather than to lead. McGregor considers such thinking inappropriate. He argues instead for the value of **Theory Y** assumptions in which the manager believes people are willing to work, are capable of self-control, are willing to accept responsibility, are imaginative and creative, and are capable of self-direction.

An important aspect of McGregor's ideas is his belief that managers who hold either set of assumptions can create **self-fulfilling prophecies**, that is, through their behaviour they create situations where subordinates act in ways that confirm the original expectations. *Managers with Theory X assumptions* act in a very directive 'command-and-control' fashion that gives people little personal say over their work. These supervisory behaviours often create passive, dependent and reluctant subordinates who tend to do only what they are told or required to do. This reinforces the original Theory X viewpoint. In contrast, *managers with Theory Y perspectives* behave in 'participative' ways that allow subordinates more job involvement, freedom and responsibility. This creates opportunities to satisfy esteem and self-actualisation needs, and causes workers to perform as expected with initiative and high performance. This time the self-fulfilling prophecy is a positive one.

Theory Y thinking is very consistent with developments in the new workplace and its emphasis on valuing workforce diversity. It is also central to the popular notions of employee participation, involvement, empowerment and self-management.[27]

CRITICAL ANALYSIS

1. Do you think Maslow's needs hierarchy is realistic? As a need-based theory, it survives only if people do change their behaviour in order to meet specified needs. Does the need for self-actualisation, for example, drive people to seek experiences that confer meaning to life, as in a higher cause? Or are people more interested in 'getting and spending'?
2. Is Theory X just old Taylorist coercion revisited? Is Theory Y not much more than common sense? If we all prefer a Theory Y model, why do Theory X managers survive?

2.3 Quantitative approaches to management

LEARNING OBJECTIVE 2.3 What is the role of quantitative analysis in management?

About the same time that some scholars were developing human resource approaches to management, others were investigating how quantitative techniques could improve managerial decision-making. The foundation of the quantitative approach to management is the assumption that mathematical techniques can be used to improve managerial decision-making and problem-solving. Today these applications are increasingly driven by computer-based technology.

Management science

The terms **management science** and *operations research* are often used interchangeably to describe the scientific applications of mathematical techniques to management problems. A typical approach proceeds as follows. A problem is encountered, it is systematically analysed, appropriate mathematical models and calculations are applied, and the most appropriate solution is identified. In this process, a number of management science applications are commonly used. *Mathematical forecasting* helps make future projections that are useful in the planning process. *Inventory modelling* helps control inventories by mathematically establishing how much to order and when. *Linear programming* is used to calculate how best to allocate scarce resources among competing uses. *Queuing theory* helps allocate service personnel or workstations to minimise customer waiting time and service cost. *Network models* break large tasks into smaller components to allow for better analysis, planning and control of complex projects. And *simulation* makes models of problems so different solutions under various assumptions can be tested.

Regardless of the specific technique used, the essence of the quantitative management approach includes these characteristics. There is a focus on decision-making that has clear implications for management action. The techniques use ‘economic’ decision criteria, such as costs, revenues and return on investment. They also involve mathematical models that follow sophisticated rules and formulas.

Quantitative analysis today

Tertiary courses in management science, operations research and quantitative business analysis typically provide an introduction to these quantitative management foundations. Courses in operations management apply quantitative analysis to the physical production of goods and services. Since many of the techniques are highly sophisticated, organisations often employ staff specialists to help managers take advantage of them effectively. But software developments are making these techniques more readily available through easy-to-use applications for the desktop and mobile electronic devices. This availability greatly expands their use throughout the workplace and makes it even more important for managers to understand the value of each technique. In all cases, of course, mathematical solutions to problems must be supported by good managerial judgement and an appreciation of the human factor.

CRITICAL ANALYSIS

1. The advent of readily available spreadsheets on personal computers should have seen a huge upsurge in management science and quantitative management. Have we become so used to using software to explore our decision-making options that we don’t consider alternatives to quantitative management anymore?
2. Are the methods of management science like blood test results — valuable, and perhaps critical, but not conclusive without human judgement to interpret them? Does wisdom have a role after all?

2.4 Modern approaches to management

LEARNING OBJECTIVE 2.4 What is unique about the systems view and contingency thinking?

The modern approaches to management grew directly from foundations established by the classical, human resource and quantitative schools of thought. Importantly, they also recognise that no one model or theory applies universally in all situations or to the exclusion of the others.

According to the modern management approaches, people are complex and variable. They have many different needs that can change over time. They possess a range of talents and capabilities that can be developed. Organisations and managers, therefore, should respond to individual differences with a wide variety of managerial strategies and job opportunities. Key foundations of the modern management approaches include the systems view of organisations and contingency thinking.

GLOBALISATION

Asian leaders value creativity and intuition more than New Zealand leaders

A 2014 study by Grant Thornton found that business leaders in South-East Asian countries place a greater emphasis on creativity and innovation than leaders in New Zealand.[28] While 90 per cent of leaders in South-East Asia responded that creativity is important and 85 per cent recognised the importance of intuition, only 62 per cent of New Zealand leaders valued creativity and 66 per cent valued intuition.

The National Managing Partner at Grant Thornton New Zealand, Tim Downes, explains that this survey reveals how South-East Asian leaders take a ‘modernist’ approach that emphasises creativity and intuition in the coaching of team members, compared to the ‘traditionalist’ management philosophy of more developed economies. Although Quinn Mills from Harvard Business School has predicted that emerging economies will become more like developed countries as they mature, Downes believes that leaders in South-East Asia will develop responsive solutions relevant to local markets.

Shedding more light as to how the future of Asian leadership may look, another Grant Thornton study of Chinese leaders suggests that although analytics has become more prominent, the role of intuition will still have a role to play in a new ‘Chinese way’ of leadership.

Certainly, in a swiftly changing and digital world, creativity and intuition will play an important role in leveraging innovation as a competitive market tool. This view of the future of Asian leadership styles is supported by recent research findings that show that intuition has a role to play in strategic decision-making, positively affecting organisational performance.[29] Furthermore, a study of Singaporean and Malaysian companies demonstrates that intuition plays a significant role when making decisions in uncertain environments.

QUESTION

What are the advantages and disadvantages of introducing Eastern ‘modernist’ styles into contemporary Western management practices?

Systems thinking

A **system** is an aggregate of interrelated elements, where the properties of the relationships between the elements are as significant as the properties of the elements themselves. This perspective on a system allows examination of the processes involved in the interaction between the elements. A **subsystem** is a smaller component of a larger system.[30] One of the earliest management writers to adopt a systems perspective was Chester Barnard. His 1938 groundbreaking book *Functions of the Executive* was based on years of experience as a telephone company executive.[31] Barnard described organisations as cooperative systems in which the contributions of individuals are integrated for a common purpose. Importantly, Barnard considered this cooperation ‘conscious, deliberate and purposeful’. It was the job of the executives, or managers, through communication to make this cooperation happen.

Systems thinking continues to influence management theory and practice today.[32] One application is described in figure 2.4. This figure first depicts the larger organisation as an **open system** that interacts with its environment in the continual process of transforming inputs from suppliers into outputs for customers. Within the organisation any number of critical subsystems can be described. In the figure, the operations and service management systems are a central point. They facilitate the interactions between other subsystems — such as purchasing, accounting, sales and information — that are essential to the work of the organisation. Importantly, and as suggested by Barnard, high performance by the organisation as a whole occurs only when each subsystem performs its tasks well and works well in cooperation with the other subsystems. It is the job of managers throughout the organisation to make this coordinated action possible.

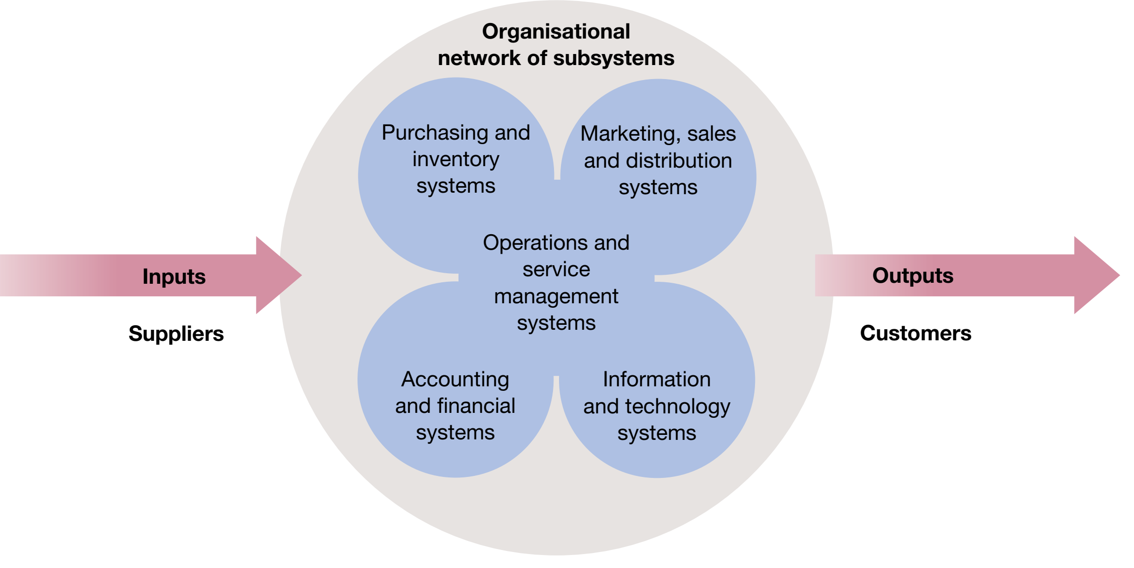

FIGURE 2.4 Organisations as complex networks of interacting subsystems

Contingency thinking

Modern management is situational in orientation — that is, it attempts to identify management practices that are the best fit with the unique demands of a situation. It uses **contingency thinking** that tries to match managerial responses with the problems and opportunities specific to different settings, particularly those posed by individual and environmental differences. In the modern management approach, there is no expectation that you can or should find the 'one best way' to manage in all circumstances. Rather, the contingency perspective tries to help managers understand situational differences and respond to them in appropriate ways.[33]

Contingency thinking is an important theme in this text, and its implications extend to all of the management functions — from planning and controlling for diverse environmental conditions, to organising for different environments and strategies, to leading in different performance situations. For example, consider again the concept of bureaucracy — something Weber offered as an ideal form of organisation. From a contingency perspective the strict bureaucratic form is only one possible way of organising things. What turns out to be the 'best' structure in any given situation will depend on many factors, including environmental uncertainty, an organisation's primary technology and the strategy being pursued. Only when the environment is relatively stable and operations are predictable does the bureaucracy work best; in other situations, alternative structures may be needed. Contingency thinking recognises that what is a good structure for one organisation may not work well for another, and what works well at one time may not work as well in the future as circumstances change.[34] This contingency approach to organisation structure and design is examined further later in the text.

CRITICAL ANALYSIS

1. If we affirm contingency management, does this contradict the 'excellence' movement, or the notion of 'best practice'? Is the notion of one best way a delusion?
2. Systems thinking may have helped popularise project management and supply chain management, but does it have its limitations? If so, what are they?

2.5 Continuing management themes

LEARNING OBJECTIVE 2.5 What are the continuing management themes of the 21st century?

The many accumulating insights into management practice have set the foundation for important trends and directions in management thought that are well in evidence in the 21st century. Among the most important is the recognition that we live and work in a dynamic and ever changing environment that puts unique and never-ending competitive pressures on organisations. Key themes reflected in discussions throughout *Management* include continuing pressures for quality and performance excellence, an expanding global awareness, and the importance of new leadership in an age of information, knowledge workers and highly competitive business environments.

Quality and performance excellence

The quality theme was first introduced in chapter 1 and will continue throughout this text.[35] It remains a very important direction in management today. Managers and workers in truly progressive organisations are quality conscious. They understand the basic link between competitive advantage and the ability to always deliver quality goods and services to their customers. The best organisational cultures include quality as a core value and reinforce the quality commitment in all aspects of the work environment.

Every effort is made in total quality management (TQM) to build quality into all aspects of operations — from initial acquisition of resources, through the transformation processes and work systems, all the way to ultimate product delivery to customers or clients. Figure 2.5 describes the systems context for TQM in respect to the **value chain** — a specific sequence of activities that transform raw materials into a finished good or service.[36] Quality must be maintained at each point in the value chain, whether this is done directly by the organisation or is part of its network of relationships with suppliers and contractors.

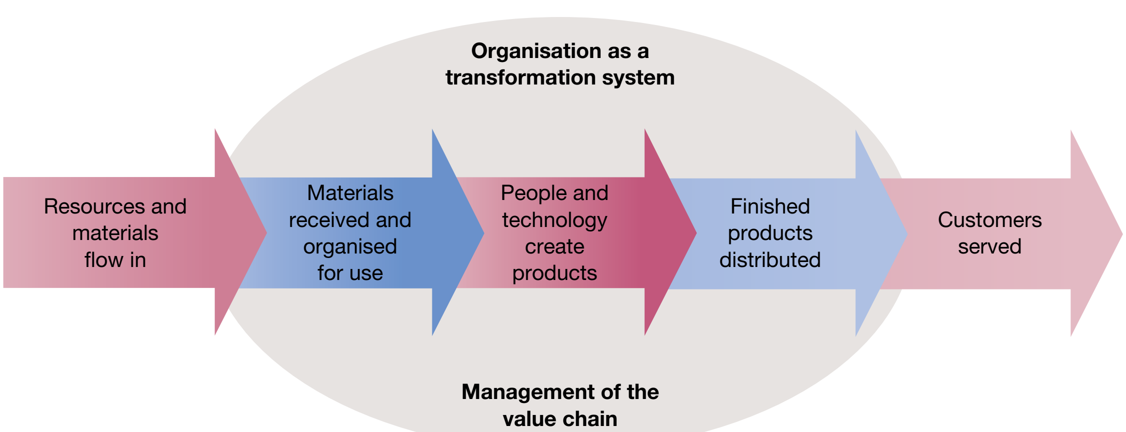

FIGURE 2.5 The organisational value chain

Closely aligned with the pursuit of quality is management commitment to performance excellence, a theme that became prominent when the book *In Search of Excellence: Lessons from America's Best-Run Companies* was published by Tom Peters and Robert Waterman.[37] Peters and Waterman investigated the practices of successful companies and identified the eight attributes of performance excellence shown in Manager's notepad 2.2. These attributes are further representative of many themes and directions that are now common practice in organisations today. In the Asia–Pacific region, Singapore is renowned for its focus on productivity. There is a government body known as SPRING (Standards, Productivity and Innovation Board) whose purpose is to promote productivity and innovation in Singaporean enterprises.

MANAGER'S NOTEPAD 2.2

Eight attributes of performance excellence

1. *Bias towards action* — making decisions and making sure that things get done.
2. *Closeness to the customers* — knowing their needs and valuing customer satisfaction.
3. *Autonomy and entrepreneurship* — supporting innovation, change and risk-taking.
4. *Productivity through people* — valuing human resources as keys to quality and performance.
5. *Hands-on and value-driven* — having a clear sense of organisational purpose.
6. *Sticking to the knitting* — focusing resources and attention on what the organisation does best.
7. *Simple form and lean staff* — minimising management levels and staff personnel.
8. *Simultaneous loose–tight properties* — allowing flexibility while staying in control.

Global awareness

We have emerged from a period in which the quality and performance excellence themes have been reflected in the rise of 'process re-engineering', 'virtual organisations', 'agile management', 'network firms' and other new concepts reviewed in this text. But while the best formulas for success continue to be tested and debated, an important fact remains — much of the pressure for quality and performance excellence is created by a highly competitive global economy. Nowhere is this challenge more evident than in the continuing efforts of businesses around the globe to transform themselves into truly world-class operations.

Like the lessons of performance excellence, current trends and directions in global awareness have ties back to the 1980s. That was a time when the success of Japanese industry caught worldwide attention and both scholars and consultants rushed to identify what could be learned from Japanese management practices. The books *Theory Z* by William Ouchi and *The Art of Japanese Management* by Richard Tanner Pascale and Anthony G. Athos were among the first that called attention to the possible link between unique Japanese practices and business success.[38]

Ouchi used the term 'Theory Z' to describe a management framework that incorporates into Australasian and US practices a variety of insights found in the Japanese models.[39] Prominent in the **Theory Z** management approach are things such as long-term employment, slower promotions and more lateral job movements, attention to career planning and development, use of consensus decision-making, and emphasis on use of teamwork and employee involvement. And even though the Japanese economy and management systems now face pressures of their own, these early insights into the Japanese business experience helped to establish a global awareness that continues to enrich management thinking today. This international dimension of management is examined thoroughly in the next chapter, with special attention on understanding cultural influences on management practices.

Learning organisations

This remains the age of the **learning organisation**, described in the chapter on information and decision-making as an organisation that operates with values and systems that result in 'continuous change and improvement based on the lessons of experience'.[40] Learning organisations require for their success a value-driven organisational culture that emphasises information, teamwork, empowerment, participation and leadership. Learning organisations also depend for their success on special leadership qualities. This topic is so important that several chapters of this text are devoted to it. Perhaps no other management theme is more influenced by directions in the new economy. Once again, history sets the stage for the future. In his book *No Easy Victories*, John Gardner speaks of leadership as a special challenge and his words from more than forty years ago are well worth considering today.

> Leaders have a significant role in creating the state of mind that is the society. They can serve as symbols of the moral unity of the society. They can express the values that hold the society together. Most important, they can conceive and articulate goals that lift people out of their petty preoccupations, carry them above the conflicts that tear a society apart, and unite them in the pursuit of objectives worthy of their best efforts.[41]

Former US President, Barack Obama, in seeking to avoid the groupthink phenomenon (discussed in further detail in the later chapter on information and decision-making), brought together rivals such as Hilary Clinton as Secretary of State and Joe Biden as Vice President, along with powerful Republicans in his cabinet, who felt free to question even his own authority and who were unafraid to argue with him. In the aftermath of the global financial crisis, a brave new style of leadership is required — with leaders needing to be capable of confronting the challenges that may still be ahead.

Leadership and the new directions of learning organisations will be singled out again and again in *Management* as important keys to personal and organisational performance. And performance by people and organisations, in turn, is the key to any society's economic development and growth. Managers of the 21st century have to excel as never before to meet the expectations held of them and of the organisations they lead. Importantly, we must all recognise that new managerial outlooks and new managerial competencies appropriate to the new workplace are requirements for future leadership success.

At the very least, the 21st-century manager must be:

- *a global strategist* — understands interconnections among nations, cultures and economies; plans and acts with due consideration of them
- *a master of technology* — comfortable with information technology; understands technological trends and their implications; able to use technology to best advantage
- *an effective politician* — understands growing complexity of government regulations and the legal environment; able to relate them with the interests of the organisation
- *an inspiring leader* — attracts highly motivated workers and inspires them with a high performance culture where individuals and teams can do their best work.

In the chapter on information and decision-making we will discuss the special challenges of this age of information. It is an age in which management expert Peter Drucker considered knowledge the principal resource of a competitive society. Drucker also cautioned that knowledge constantly makes itself obsolete.[42] In a society where knowledge workers are increasingly important, new managers must be well educated and they must continue that education throughout their careers. Success in turbulent times comes only through continuous improvement. Born in Vienna in 1809, the author of 35 books and more articles in the *Harvard Business Review* than anyone else ever, Drucker is best known for popularising the concept of management by objectives (MBO) in his 1954 book *The Practice of Management*. He advocated a process that required managers to allocate tasks according to objectives that served higher order objectives, set collaboratively with subordinates, and involved giving regular feedback on progress. However, in Drucker's approach the key question is 'What business are we in and what business should we be in?' He wanted businesses to aim high, to focus on opportunities rather than on problems and not merely imitate each other.

Drucker's interest was always in managing for business effectiveness. Although he was an advocate of the human relations approach to management, his areas of study were wide and deep. His view was that the first duty and continuing responsibility of the business manager is to strive for the best possible economic results from the resources currently employed or available. He also gave us a memorable quote distinguishing effectiveness from efficiency: 'There is surely nothing so useless as doing with great efficiency what should not be done at all'.[43]

According to Drucker, 90 per cent of results are produced by 10 per cent of events; this is true for profits and for losses. The other 90 per cent of events contribute little either way. His three recommendations were to: (1) know and analyse the facts, (2) allocate resources according to the results anticipated and (3) decide what products or staff activities need to be pursued, and what can be dropped. His categorisation was simple:

1. tomorrow's breadwinners (new products or today's breadwinners modified)
2. today's breadwinners (the innovations of yesterday)
3. products capable of becoming net contributors if something drastic is done
4. yesterday's breadwinners (high volume but costly to produce)
5. also rans (the high hopes of yesterday that consume too much support and managerial ego, and should be dropped)
6. the failures (that liquidate themselves).

It may be that his greatest legacy lies in his unswerving adherence to common sense in decision-making: 'in allocating resources, especially human resources of greatest potential, the needs of those areas which offer greatest promise must first be satisfied to the fullest extent possible. This calls for painful decisions, and risky ones. But that, after all, is what managers are paid for'.[44]

Drucker's contribution to management thinking has been enormous. He was the first to:

- define the role of top managers as the keepers of corporate culture
- advocate mentoring, career planning and executive development as top management tasks
- say that success hinges on the vision expressed by the CEO
- show that structure follows strategy
- suggest a reduction of management layers between the top and the bottom
- argue that success comes from sticking to the basics
- state that the primary purpose of the organisation is to create a customer
- say that success boils down to consumer sensitivity and the marketing of innovative products
- suggest that quality is a measure of productivity
- describe the knowledge worker
- state that new approaches to management would be needed in the post-industrial age.

One thing Drucker forecasted that has not quite happened as he foretold, however, was that the middle manager would continue to develop and evolve into the knowledge worker of post-industrial society.

In summary, the new economy requires everyone to be unrelenting in efforts to develop, refine and maintain job-relevant skills and competencies. It requires leaders with strong people skills, who are attuned to the nature of an information or service society, who understand the international dimensions, and who establish commitments to work–life balance.

The new economy places a premium on personal leadership qualities. The 21st-century manager must do the 'right' things — the things that really count, the things that add value to the organisation's goods and/or services, the things that make a real difference in performance results and competitive advantage, and the ethical things. Those are challenging directions for leadership, learning organisations and career success in the new economy.

Looking ahead

The next 50 years may prove challenging for management thinkers. Changes in the workplace, and in society, are likely to demand considered approaches to the new realities. Some topics for consideration are as follows.

- *Automation*. Anything that can be automated is being automated to save costs. Smart machines are likely to take over a lot of tasks formerly undertaken by managers. Analysing complex data, recruiting staff (e.g. using social media), compensation and benefits, inventory control and supply chain management are obvious candidates. IT is hastening management development with gains being made through, for example, lean production, agile technology, cloud-based computing and 3D printing.
- *Changing demographics.* One trend of significance is the world's ageing population along with falling rates of fertility. Countries such as Korea, Japan, Russia and Germany expect their populations to

shrink, and it is expected that the world's population will plateau. This trend sits alongside the mass movements of peoples from war-affected regions seeking a better life in Europe, which will pose enormous challenges for managers of social services in many countries for decades to come.

- *Productivity*. It is likely that productivity will become of greater importance as the number of people employed will increase by only 0.03 per cent over the next 50 years. This will produce enormous economic strain, and perhaps a redefinition of growth from quantity to quality, from being bigger to being better.
- *Sustainability*. With an increasing realisation that we live on a planet with finite space and material resources, management is giving greater attention to sustainability, to the use and reuse of materials and to replacing suboptimal materials with better ones (e.g. carbon-fibre composites to replace metal in cars).
- *Technology*. Advances in technology will bring a new age of artificial intelligence. Computing power will continue to expand exponentially with lower prices and proliferating devices. Only 20 years ago less than 3 per cent of the world's population had a mobile phone and less than 3 per cent had access to the internet. Now, two-thirds of the world has a mobile phone and one-third has net access.
- *Globalisation.* Half the world's GDP growth between 2010 and 2025 is expected to come from 440 cities in emerging markets by 2025. Forty five per cent of the Fortune 500 global companies will come from emerging countries, compared to only 5 per cent in 2000.[45] Just as Japanese companies Toyota and Sony shook the world in the 1970s, Samsung, LG, Hyundai and other massive Korean companies will continue to overturn trends in the future.

In terms of population growth, India looks likely to overtake China by 2022, and both India and China face massive challenges with ageing populations: 'China's working age population is already shrinking as the country greys. By 2050 about 500 million Chinese and 330 million Indians will be over 60'.[46]

While globalisation may bring economic benefits, management across cultures is not without challenges. Failure to take national culture into account can neutralise the best efforts of managers. An example was the retailing disaster when US giant Walmart bought German chains Wertkauf and Interspar. The imposition of heavy-handed US expatriate management practices was a social and economic failure and Walmart lost US$150 million a year before selling out to German rival Metro.[47] In *Fish Can't See Water*, Danish recruitment professional Kai Hammerich argues that company directors need to see the water they are swimming in.[48]

Failure to appreciate cultural differences almost certainly brings management failure. Interestingly, companies that show local sensitivity early on when entering foreign markets sometimes become more defensively nationalistic and revert to their old-country culture as they become more successful. With greater maturity they may become polycentric, taking country cultures more seriously and adapting to local cultures and traditions, appointing host rather than home country managers and using short-term expatriate assignments for professional development instead of enforcing headquarters culture and practices.

COUNTERPOINT

Think about your management theories

Management books tend to reflect the positive side of management theories, but it is important that students of management realise that management theories aren't the same as scientific principles because they should be constantly reviewed and re-evaluated. Therefore, the various theories of management need to be appraised in terms of the evidence supporting them and their relevance to practising managers. For example, a theory such as Maslow's was developed on the basis of clinical data about neurotic people. It was not based on information from a work setting. Indeed, Maslow himself had reservations about whether his theory could be generalised to explain work motivation.[49] Furthermore, empirical testing of Maslow's theory has provided little support for its ability to explain work behaviour. Despite this, in the mid 1970s it was still the most widely accepted theory of work motivation and ranked as the second most significant contribution in management and it is still widely accepted as an important motivational theory today. It is important that managers take a multi-perspective view that would allow them to cover a number of different explanations of people's behaviour instead of relying on just one theory.

QUESTION

If Maslow's theory of needs is now regarded as largely obsolete, what do we replace it with? Daniel Pink's famous TED Talk about motivation suggests that we are less likely to be motivated in our behaviour by money than by our desire for mastery of some particular skill, our sense of purpose in an activity in which we are engaged and autonomy.[50] He suggests that monetary rewards are effective only in very limited circumstances with simple tasks. Is this a new management theory in the making?

CRITICAL ANALYSIS

1. Is the list of ideal leader characteristics just too much? Are we setting our managers and leaders up to fail?
2. If developing a learning organisation is so important to maintaining 'the edge of innovation', what steps can managers in diverse organisations take to create this new way of working?
3. How important is it for a manager to be aware of their individual management style and of the alternatives available? Can the same be said for organisations and their management style?

SUMMARY

2.1 What can be learned from classical management thinking?

- Frederick Taylor's four principles of scientific management focused on the need to carefully select, train and support workers for individual task performance.
- Henri Fayol suggested that managers should learn what are now known as the management functions of planning, organising, leading and controlling.
- Max Weber described bureaucracy with its clear hierarchy, formal rules and well-defined jobs as an ideal form of organisation.
- Jaques emphasised hierarchy in organisations and the crucial role of the manager.

2.2 What ideas were introduced by the human resource approaches?

- The human resource approaches shifted attention towards the human factor as a key element in organisational performance.
- The historic Hawthorne Studies suggested that work behaviour is influenced by social and psychological forces and that work performance may be improved by better 'human relations'.
- Abraham Maslow's hierarchy of human needs introduced the concept of self-actualisation and the potential for people to experience self-fulfilment in their work.
- Douglas McGregor urged managers to shift away from Theory X and towards Theory Y thinking, which views people as independent, responsible and capable of self-direction in their work.
- Peter Drucker's influence on management thinking continues to be felt as a humanising common sense approach to the many and complicated tasks involved in managing contemporary organisations.

2.3 What is the role of quantitative analysis in management?

- The availability of high-powered desktop computing provides new opportunities for mathematical methods to be used for problem-solving.
- Many organisations employ staff specialists in quantitative management science and operations research to solve problems.
- Quantitative techniques in common use include various approaches to forecasting, linear programming and simulation, among others.

2.4 What is unique about the systems view and contingency thinking?

- Organisations are complex open systems that interact with their external environments to transform resource inputs into product outputs.
- Resource acquisition and customer satisfaction are important requirements in the organisation–environment relationship.
- Organisations are composed of many internal subsystems that must work together in a coordinated way to support the organisation's overall success.
- Contingency thinking avoids 'one best way' arguments, and recognises the need to understand situational differences and respond appropriately to them.

2.5 What are the continuing management themes of the 21st century?

- The commitment to meet customer needs 100 per cent of the time guides organisations towards total quality management and continuous improvement of operations.
- The global economy is a dramatic influence on organisations today, and opportunities abound to learn new ways of managing from practices in other countries.
- This is the age of information in which knowledge and knowledge workers are major resources of modern society.
- New managers must accept and excel at leadership responsibilities to perform as global strategists, technology masters, consummate politicians and leader–motivators.

KEY TERMS

A **bureaucracy** is a rational and efficient form of organisation founded on logic, order and legitimate authority.
Contingency thinking tries to match management practices with situational demands.
The **Hawthorne effect** is the tendency of people singled out for special attention to perform as expected.
The **human relations movement** suggests that managers using good human relations will achieve productivity.
A **learning organisation** continuously changes and improves using the lessons of experience.
Management science uses mathematical techniques to analyse and solve management problems.
Motion study is the science of reducing a task to its basic physical motions.
Needs are unfulfilled physiological or psychological desires.
Open systems transform resource inputs from the environment into product or service outputs.
Organisational behaviour is the study of individuals and groups in organisations.
Scientific management emphasises careful selection and training of workers, and supervisory support.
Self-fulfilling prophecies occur when people act in ways that confirm another's expectations.
A **subsystem** is a smaller component of a larger system.
A **system** is a collection of interrelated parts working together for a purpose. The relationships between the parts may be as important as the characteristics of the parts themselves
Theory X assumes people dislike work, lack ambition, are irresponsible and prefer to be led.
Theory Y assumes people are willing to work, accept responsibility and are self-directed and creative.
Theory Z describes a management framework emphasising long-term employment and teamwork.
A **value chain** is the sequence of activities that transform materials into finished products.

APPLIED ACTIVITIES

1 What were some of Henri Fayol's main contributions to the field of management?
2 How does systems thinking continue to influence management theory and practice today?
3 Is the Theory Z management approach still relevant today?
4 What are some continuing management themes in the 21st century?
5 According to the self-fulfilling prophecy, managers, through their behaviour, can create situations where employees act in ways that confirm the manager's original expectations. If you are a newly appointed manager, what would you do to create positive self-fulfilling prophecies in relation to your employees' behaviour?

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CHAPTER 3

Environment and diversity

LEARNING OBJECTIVES

3.1 What is the external environment of organisations?
3.2 What is the internal environment and organisational culture?
3.3 What is a customer-driven organisation?
3.4 What is a quality-driven organisation?
3.5 How is diversity managed in a multicultural organisation?

Australia is a diverse country, but older workers still struggle to find employment

Australia, along with Sweden, is the second most diverse country in the world after Luxembourg[1], thus the federal government actively encourages the employment of a diverse workforce. The Business.gov.au website states that 'diversity in the workplace means having employees from a wide range of backgrounds. This can include having employees of different ages, gender, ethnicity, physical ability, sexual orientation, religious belief, work experience, educational background, and so on'. Furthermore, it is illegal to disadvantage employees and job seekers in any way because of their:

- race
- colour
- gender
- sexual preference
- age
- physical or mental disability
- marital status
- family or carer's responsibilities
- pregnancy
- religion
- political opinion
- national extraction
- social origin.[2]

Focusing on age, because of Australia's rapidly ageing population, Churchill and colleagues suggest that 'to minimise the fiscal and economic impact of population ageing, the IGR [Intergenerational Report] asserts that greater labour force participation and increased productivity will be critical'.[3]

However, it does seem that in reality it is extremely difficult for older workers to find employment. Verity Edwards writes about the case of Richard Evans, 62, a former Liberal Party MP and executive director of the Australian Retailers Association, for whom securing full-time work has been very difficult. Evans claims that his years of experience in retail and business management have been overlooked by many employers, who have gone on to hire younger workers. He says 'older workers are more reliable, less likely to take sick leave and likelier to stay in the role longer compared with many younger workers who change jobs after a year or two without building experience. Evans has applied for more than 50 jobs and been interviewed for about 20 per cent of those. Out of frustration he is opening a consultancy business'.[4] Edwards also writes about international consultant Phil Rutherford, 65, who 'has spent more than a decade looking for a permanent job. He spends more time consulting on vocational and further training industries overseas than in Australia. He was overqualified for one position he sought but was passed over, and the company asked him to mentor the younger candidate instead. Rutherford was also listed with a prominent jobs agency for more than a decade but lost hope because it was not advocating for him. "It was because of my age," Rutherford says. "I had a number of experiences like that." Rutherford stopped putting his age on applications and was regularly short-listed for interviews, but when he sat before panels he noticed members would almost immediately put down their pens and cross their arms'.[5] This seems like a waste of valuable human resources.

A refreshing step in the right direction, however, is that of the company John Holland, a member of the publicly listed Leighton Group. In a case study from the *Employ Outside The Box: Mature Age People* guide produced by the Chamber of Commerce and Industry of Western Australia, Glen Palin, the Group Managing Director of John Holland, is reported as saying 'We have created the Flexible Futures Program to encourage and support employees aged 55 years of [sic] over to plan the next phase of their working life. People have always been central to John Holland's success and today it is more important than ever for us to have the skills, knowledge and experience we need to meet the challenges of growing our business. At the same time we know that more than one-third of our employees may be considering retirement in the next five to ten years. We want to ensure that those employees have flexible options to allow them to continue working for John Holland while preparing for their eventual retirement . . . John Holland created the Flexible Futures Program to support their employees to plan the next phase of their working life in line with changing needs and goals – while ensuring they support people in the workplace so they are able to pass on their considerable skills and knowledge to other colleagues'.[6]

QUESTIONS

1. What strategies would you suggest the Australian Government implement to make the employment of older people more attractive to businesses?
2. How can the John Holland success story be promoted to other companies so that they too employ older workers?

Introduction

Once a benchmark for science fiction writers, the 21st century is now placing unrelenting new demands on organisations and their members. Managers today are learning to operate in a world that places a premium on information, technology use, quality, customer service and speed. They are learning how to succeed in a world of intense competition, continued globalisation of markets and business activities, and rapid technological change. Indeed, the technology revolution is now spoken of in the same breath as the industrial revolution. This has major ramifications for businesses and their management around the world. This chapter introduces the external and internal environments of organisations as two important considerations in the quest for high performance in demanding and dynamic times. It also shows how the contemporary manager needs to ensure that quality products, services and customer care are provided to help withstand environmental economic turbulence. The modern manager should consider diversity to be another key to achieving competitive advantage. The chapter opening example of the problems faced by older workers sets the stage. It introduces the concepts of changing demographics, organisational culture and diverse workforces. It raises the question: What must organisations do to remain successful in the dynamic, complex and ever changing environment of today?

3.1 Environment and competitive advantage

LEARNING OBJECTIVE 3.1 What is the external environment of organisations?

Environmental shifts constantly affect companies and their operations. For example, widespread use of the personal computer, internet and mobile phones only began in Australia as recently as the last decade of the 20th century. Another example is the decline of Australia's manufacturing industry from about 25 per cent of gross domestic product (GDP) in 1960 to 6.5 per cent in 2014.[7] High-quality Japanese products, especially cars and electronic items; the rapid rise of China; and the advent of sweatshops in many developing countries have simply decimated Australia's manufacturing sector.

Companies, therefore, need to develop strategic or dynamic capabilities in order to advantageously compete in the face of these far reaching changes that emanate from the environment. **Strategic capabilities** are difficult to imitate, are of value to the customer, and are better than those possessed by the majority of competitors.[8] An example is a unique or differentiated product or service.

Taking the concept of strategic capabilities one step further, dynamic capabilities can be matched to environmental contingencies and opportunities, because they enable an organisation to reconfigure its resources to cope with exogenous shocks. **Dynamic capabilities** are physical (e.g. state-of-the-art equipment or advantageous location), organisational (e.g. an outstanding sales force) and human (e.g. expertise in a specialised field).[9] For this reason, in an 'information is power' age, the company that employs knowledgeable staff with a canny ability to scan the environment for shifts and ideas might gain a competitive advantage. Former IBM chief executive officer (CEO) Louis Gerstner Jr described the challenge this way:

> We believe very strongly that the age-old levers of competition — labour, capital and land — are being supplemented by knowledge, and that most successful companies in the future will be those that learn how to exploit knowledge — knowledge about customer behaviour, markets, economies, technology — faster than their competitors.[10]

Land has not really been supplanted by knowledge in Australia. Australians remain deeply hooked on escalating property prices much to the delight of estate agents, government stamp duty collectors and the banks but to the dismay of their children. Australia also remains the farm and quarry for a great many other countries. However, knowledge and speed are indispensable to success in this new economy.

What is competitive advantage?

Astute executives understand the management implications in the previous observations. They are ever alert to environmental trends that require adjustments in the ways their organisations operate and that offer opportunities to achieve **competitive advantage**.[11] This term refers to the use of a core competency that clearly sets an organisation apart from its competitors and gives it an advantage over them in the marketplace. Simply put, competitive advantage comes from an ability to do things better than your competitors. An organisation may achieve competitive advantage in many ways, including through its products, pricing, customer service, cost efficiency, quality, and even diversity, among other aspects of operating excellence. But regardless of how the advantage is achieved, the key result is the same — an ability to consistently do something of high value that your competitors cannot replicate quickly or do as well.

TECHNOLOGY

Interaction through screens replaces face-to-face contact

Baby boomers who were schooled in the 1960s and went to university in the 1970s would readily agree that the technology revolution can be spoken of in the same breath as the industrial revolution. A teenager in the final years of high school in the late 1960s would go to a local church or recreation centre social on a Friday or Saturday night to meet and hopefully dance with members of the opposite sex. He might thereafter use a landline dial phone to ask a girl out on a date. Black-and-white TV and a mono radio were the only sources of entertainment in the house, and the idea of a home theatre was inconceivable.

At university, lecturers would debate theories and write the occasional note on a chalkboard. The lecturers spoke so fast that students could not write everything down, so they would go to the library in the evenings and read hard-copy journals to fill in the missing bits. If they wanted to use a computer, they entered their data cards into mainframes via mechanical card readers.

In the last decade of the 20th century, all this changed. PCs appeared on desks, facilitating widespread use of the internet. Originally accessed on 286 MB PCs, the world wide web was understandably jokingly referred to as the 'world wide wait'. Simultaneously, brick-sized mobile phones, which could be serendipitously used to ward off potential muggers, appeared. Like computers, they were soon replaced by much smaller models that could access TV and radio. By 2011, smartphones could access the internet, be used as still and video cameras, and even as a GPS and handheld gaming device (not to mention to access social media sites like Facebook, Twitter and Google+). Nowadays, a range of services can be accessed using relevant apps on smartphones and tablets; for example, a receipt for a visit to the doctor can now be photographed using the phone, uploaded and submitted as a claim to Medicare via its app. These days, students can be seen walking around university campuses interacting with one another over mini screens. When asked for a metaphor to represent his university, one student suggested 'Apples'. When Steve Jobs died in 2011, United States President Barack Obama referred to him as a visionary who changed the world.[12] Such was the outpouring of tributes to his creative genius at the time of his death that one is driven to wonder whether he will one day be beatified as Saint Steven.

The face of university lecturing has also changed indelibly. Electronic versions of lectures, sometimes even recorded, are placed on learning systems via WebCT, Blackboard and Moodle. This has led to a marked drop in attendance at lectures, with some students now leaving university without ever making a friend.

QUESTION

Should managers allow workers to access social networking sites during their lunch hours? List the pros and cons that may affect this decision.

The general environment

Business excellence in organisations is only possible when business leaders understand the interdependencies between their organisation and the external environment. Studies by the International Institute for Management Development have highlighted the importance of Australia maintaining its world competitiveness. This is particularly important given that Australia trails just behind Hong Kong and the United States in the world rankings, after dropping from fifth place in 2010 to a lowly eighteenth place in 2015.[13] Competitive advantage in the demanding global economy can be achieved only by continuously scanning the environment for opportunities, and taking effective action based on what is learned.[14] The ability to do this begins with the answer to a basic question: what is in the external environment of organisations?

The **general environment** consists of all the background conditions in the external environment of an organisation. This part of the environment forms a general context for managerial decision-making. The major external environmental issues of our day include the factors listed in figure 3.1.

Economic conditions
This includes the general state of the economy in terms of inflation, interest rates, income levels, gross domestic product and unemployment and related indicators of economic health.

Sociocultural conditions
This includes the general state of prevailing social values on matters such as human rights, trends in education and related social institutions, and demographic patterns.

Political–legal conditions
This includes laws and government regulations and the general state of the prevailing philosophy and objectives of the political party or parties running the government.

Technological conditions
This includes the general state of the development and availability of technology, including scientific advancements.

Natural environment conditions
This includes the general state of nature and the conditions of the natural environment, including levels of public concern expressed through environmentalism.

FIGURE 3.1 Major elements of an organisation's general environment

While all of these forces in the general environment can influence business activities, three in particular have received much attention in recent times — economic, sociocultural and natural environment conditions. The global financial and Eurozone crises, the slowdown in China's economy in 2015 and their subsequent effects on economies around the world provided stark examples of how economic conditions can change quickly and dramatically. Managers can find themselves facing a very different economic environment within a short period of time. For example, as the global economic crisis began to undermine business investment, the demand for commodities such as coal and iron ore fell away dramatically. The economic slowdown in China, in particular, reduced demand for Australian mineral exports, and thus prices began to drop significantly. Further, the lower demand for Australian exports triggered a massive fall in demand for Australian currency, with the Australian dollar losing about 30 per cent of its value in a period of months after the global financial crisis emerged. This made exports cheaper and imports more expensive, which at the time helped local producers. However, in a roller-coaster ride, within twelve months the Australian dollar had rebounded to 'pre GFC' levels, much faster than had been anticipated. Indeed, by 2010, Chinese demand for Australian minerals soared again, and the Australian dollar reached US$1.06. However, it then fell back to 98c during the Eurozone crisis in 2011, but strengthened in January 2012. After the Chinese economic boom subsided in 2015 the dollar fell below 70c. This global financial uncertainty and the high Australian dollar were cited as the main reasons for Toyota axing 350 jobs at its Melbourne plant in 2012 and many Australian mines laying off workers in 2015, so these changes underscore just how volatile the general environment can be in the new millennium.[15] Unless attitudes soften towards older workers and jobs are found for them in Australia and overseas, taxation revenues will be reduced and aged pension liabilities increased. Managers need to keep a sharp eye out for such economic turbulence and make contingency plans.

The natural environment has also emerged as an increasingly important issue, with the world as a whole generally becoming more aware of the need to minimise the impact of human and organisational behaviour on our planet. This issue, and its potential implications for managers, is discussed in more detail in the boxed feature.

SUSTAINABILITY

Carbon taxes and emissions trading schemes

Amid warnings from scientists of global warming, pollution, the exhaustion of fossil fuels and the extinction of flora and fauna species, individuals, businesses and governments have begun to give much more weight to the need for business activities to be more responsible and sustainable for future generations.

One of the options to help achieve this is to allow market forces to reduce carbon pollution, which is one of the main contributors to global warming, in the form of a carbon tax. There is no limit to emissions, but a tax must be paid by companies that do emit. Under a carbon tax regime, companies cannot trade emissions permits, and all taxation revenue generated goes to the government.[16]

Emissions trading schemes aim to reduce the amount of carbon pollution generated by organisations and have been the focus of considerable debate in recent times.

A second approach is an 'emissions trading scheme'. The potential introduction of such schemes has been the focus of much political debate in many countries, including Australia, in recent years. Most schemes and proposed schemes are based on creating carbon permits, which entitles the organisation owning the permit to create a certain amount of carbon pollution. The number of permits is limited, so those organisations that generate carbon pollution need to buy enough permits to offset their emissions from organisations that do not require the permits. The theory is that this will push up the price of products that require carbon pollution, reducing demand, whereas carbon-friendly products will fall to be relatively low in price, increasing demand.

Although Australia only emits approximately 1.5 per cent of total global carbon emissions, it is the world's third largest emitter of carbon dioxide per capita. About 1000 Australian companies currently emit more than 25 000 tonnes of carbon dioxide equivalents a year.[17] By targeting these with a proposed emissions trading scheme, the Australian government hopes to reduce emissions to 26–28 per cent of 2005 levels by 2030.[18] Despite some debate as to whether or not a scheme would hurt small- to medium-sized enterprises, the Senate cleared the carbon tax legislation on 9 November 2011 (having been passed by the House of Representatives a month before).[19] However, when a new conservative government was elected in 2014 it repealed the carbon tax, stating it did so to relieve cost pressures on families and businesses.[20] New Zealand had made an earlier start, with the first transaction in its greenhouse gas emissions trading market taking place in 2009. New Zealand's emissions market deals in New Zealand Units (NZUs). New Zealand's first sale involved 50 000 NZUs at $20 a unit, and represented the sequestration of 50 000 tonnes of carbon in forests.[21]

QUESTION

Can you think of some ways that your university or workplace can reduce its carbon emissions? Provide an example.

The specific environment

The **specific environment** consists of the actual organisations, groups and people with whom an organisation interacts and conducts business. These are environmental elements of direct consequence to the organisation as it operates on a day-to-day basis. The specific environment is often described in terms of **stakeholders** — the individuals, groups and institutions who are affected in one way or another by the organisation's performance. Figure 3.2 shows multiple stakeholders as they may exist in the external environment of a typical business.

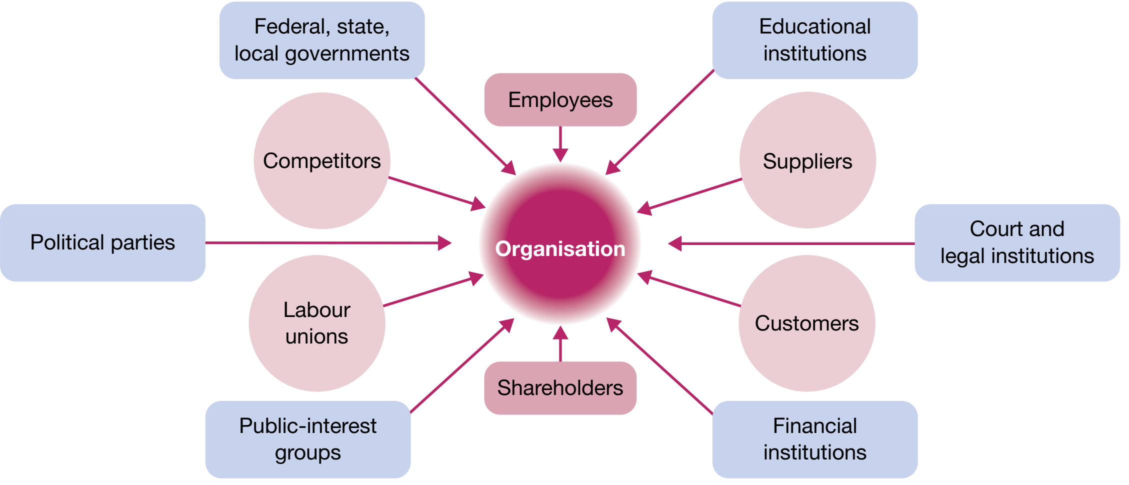

FIGURE 3.2 Multiple stakeholders in the environment of organisations

Sometimes called the *task environment*, the specific environment and the stakeholders are distinct for each organisation. They can also change over time according to the company's unique customer base, operating needs and circumstances. Important stakeholders common to the specific environment of most organisations include:

- *customers* — specific consumer or client groups, individuals and organisations that purchase the organisation's goods and/or use its services
- *suppliers* — specific providers of the human, information and financial resources and raw materials needed by the organisation to operate
- *competitors* — specific organisations that offer the same or similar goods and services to the same consumer or client groups
- *regulators* — specific government agencies and representatives, at the local, state and national levels, that enforce laws and regulations affecting the organisation's operations.

Environmental uncertainty

The fact is that many organisations today face great uncertainty in their external environments. In this sense, **environmental uncertainty** means that there is a lack of complete information regarding what developments will occur in the external environment. This makes it difficult to predict future states of affairs and to understand their potential implications for the organisation. Figure 3.3 describes environmental uncertainty along two dimensions — complexity, or the number of different factors in the environment, and the rate of change in these factors.[22]

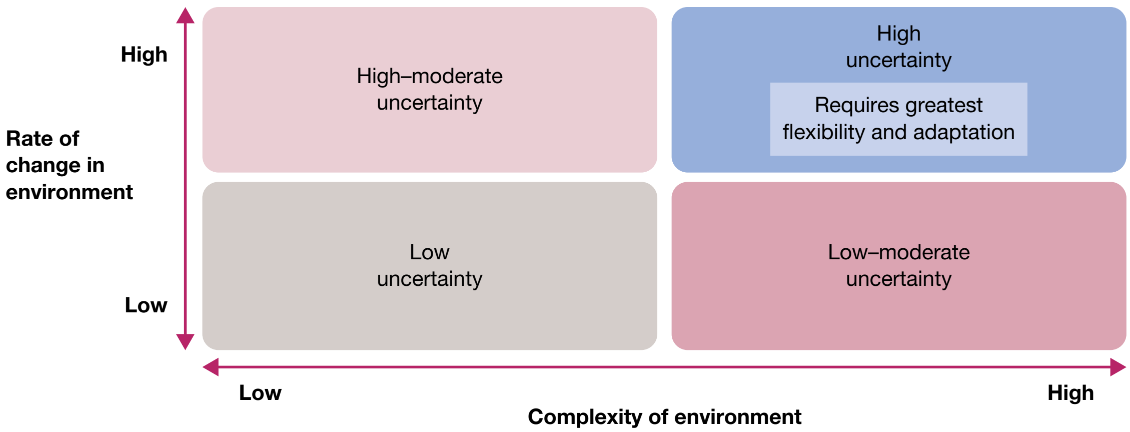

FIGURE 3.3 Dimensions of uncertainty in organisational environments

In general, the greater the environmental uncertainty, the more attention that management in an organisation must direct towards the external environment. It has to be continually studied and monitored to spot emerging trends. Also, the greater the environmental uncertainty, the more need there is for flexibility and adaptability in organisational designs and work practices. Because of this uncertainty, organisations must be able to respond quickly as new circumstances arise and information becomes available. Throughout this text you will find many examples of how organisations are becoming more flexible in the attempt to better deal with the high degree of environmental uncertainty that so often prevails in today's dynamic times.

ETHICS

Greed and the big four banks

The rollercoaster ride of interest rates in Australia illustrates how the general environment can have a major impact on business activities; but it also raises ethical questions. When Australian official rates were lowered several times during the global financial crisis (GFC), *none* of the big four banks passed on the full extent of the rate cuts.[23] Yet every time rates have been increased in the past, all four banks have very quickly passed on the full extent of the mark-up to their mortgage holders (and they have sometimes even increased rates despite no official increase from the Reserve Bank of Australia).[24] Their primary focus appears to be increased share price.

By 2015 the RBA had lowered the official interest rate to a record low of 2 per cent due to apprehension about the impact on the Australian economy of lessening demand for resources from China. However, the best variable mortgage rate on offer from the big four banks was 4.53 per cent, a mark-up of 2.53 per cent. A former second-in-command of the Bank of Melbourne stated that a fair margin for lending was between 1.5 and 2.0 per cent.[25] While not passing on rate cuts in full against a background of record profits is not illegal, it is questionable on moral grounds. Moreover, despite the RBA leaving the official cash rate unchanged at 2 per cent, the big four banks unilaterally increased their mortgage rates in October 2015 by a minimum of 0.15 basis points (CBA, 0.15; NAB, 0.17; ANZ, 0.18; Westpac, 0.20).[26]

What compounds the problem is that homeowners who hold big mortgages are scared of the RBA increasing the official cash rate, or banks not passing on cuts in full. As a result, many homeowners with mortgages are putting every spare cent into paying off their loans as soon as possible. Even when interest rates are lowered almost no one reduces the amount they pay off on their mortgage each month. Shane Wright, Economics Editor of *The West Australian,* wrote that 'most commercial lenders have reported Australians sticking with repayments struck when interest rates were higher, refusing to reduce their monthly payments in line with interest rates'.[27] Gail Kelly, former CEO of Westpac, said that customers were more likely to make additional debt repayments or put the money into savings than help stimulate a sluggish economy by spending.[28] Customers are spending less at retail outlets these days and many shoppers now make their smaller retail purchases online due to convenience and cheaper prices. This compounds to drive retailers to the wall, and one wonders whether the banks won't eventually get caught in a series of bad loans to their small business customers.

Had the Commonwealth Bank of Australia (CBA) not been privatised in the 1990s, it would have passed on rates cuts in full, and, consequently, the other banks would have had to follow suit. This raises questions about ethical considerations in privatisation, and the more recent privatisation of companies such as Qantas, Telstra and Medibank further highlight the issue.

QUESTION

Do you think privatisation of the CBA, Telstra, Qantas and Medibank has been good for the Australian economy and for consumers? Provide reasons for your answer.

CRITICAL ANALYSIS

1. Which dimensions of the general and specific environments can be related to the greedy banks case? Provide reasons for your answer.
2. Which dimensions of the general and specific environments can be related to the diversity case that opened this chapter? Provide reasons for your answer.

3.2 Internal environment and organisational culture

LEARNING OBJECTIVE 3.2 What is the internal environment and organisational culture?

Culture is a popular word in management these days. Important differences in national cultures are discussed in the chapter on the global dimensions of management. Here we talk about cultural differences in the internal environments of organisations. **Organisational culture** is defined by noted scholar and consultant Edgar Schein as the system of shared beliefs and values that develops within an organisation and guides the behaviour of its members.[29] Sometimes called the *corporate culture*, it is a key aspect of any organisation and work setting. Whenever people speak, for example, of 'the way we do things here', they are talking about the culture.

What strong cultures do

Although it is clear that culture is not the sole determinant of what happens in organisations, it is an important influence on what they accomplish and how they accomplish it. The internal culture has the potential to shape attitudes, reinforce common beliefs, direct behaviour and establish performance expectations and the motivation to fulfil them. A widely discussed study of successful businesses concluded that organisational culture made a major contribution to their long-term performance records.[30] Importantly, the cultures in these organisations provided for a clear vision of what the organisation was attempting to accomplish, allowing individuals to rally around the vision and work hard to support and accomplish it. In these and related ways, organisational culture is a bond that further mobilises resources for action.[31]

Strong cultures — ones that are clear and well defined and widely shared among members — discourage dysfunctional work behaviours and encourage positive ones. They commit members to do things for and with one another that are in the best interests of the organisation, and then they reinforce these habits. The best organisations have strong cultures that show respect for members and encourage adaptability and continuous improvement in all areas of operations. They are likely to have cultures that are performance-oriented, emphasise teamwork, allow for risk taking, encourage innovation and make the wellbeing of people a top management priority.[32] Google, Apple and the Virgin Group, are excellent examples of strong cultures. Honda is another good example. The firm's culture is tightly focused around what is known as 'The Honda Way' — a set of principles emphasising ambition, respect for ideas, open communication, work enjoyment, harmony and hard work.

Levels of organisational culture

Organisational culture is usually described from the perspective of the two levels shown in figure 3.4 — the 'observable' culture and the 'core' culture.[33] The *observable culture* is visible — it is what one sees and hears when walking around an organisation as a visitor, a customer or an employee. In strong culture organisations the observable culture will be readily apparent. It can be seen in the way people dress at work, how they arrange their offices, how they speak to and behave towards one another, the nature of their conversations and how they talk about and treat their customers. More formally stated, the observable culture includes the elements of daily organisational life — through them, new members learn the organisation's culture and all members share and reinforce its special aspects over time:

- *stories* — oral histories and tales, told and retold among members, about dramatic sagas and incidents in the life of the organisation
- *heroes* — the people singled out for special attention and whose accomplishments are recognised with praise and admiration among members; they include founders and role models
- *rites and rituals* — the ceremonies and meetings, planned and spontaneous, that celebrate important occasions and performance accomplishments
- *symbols* — the special use of language and other non-verbal expressions to communicate important themes of organisational life.

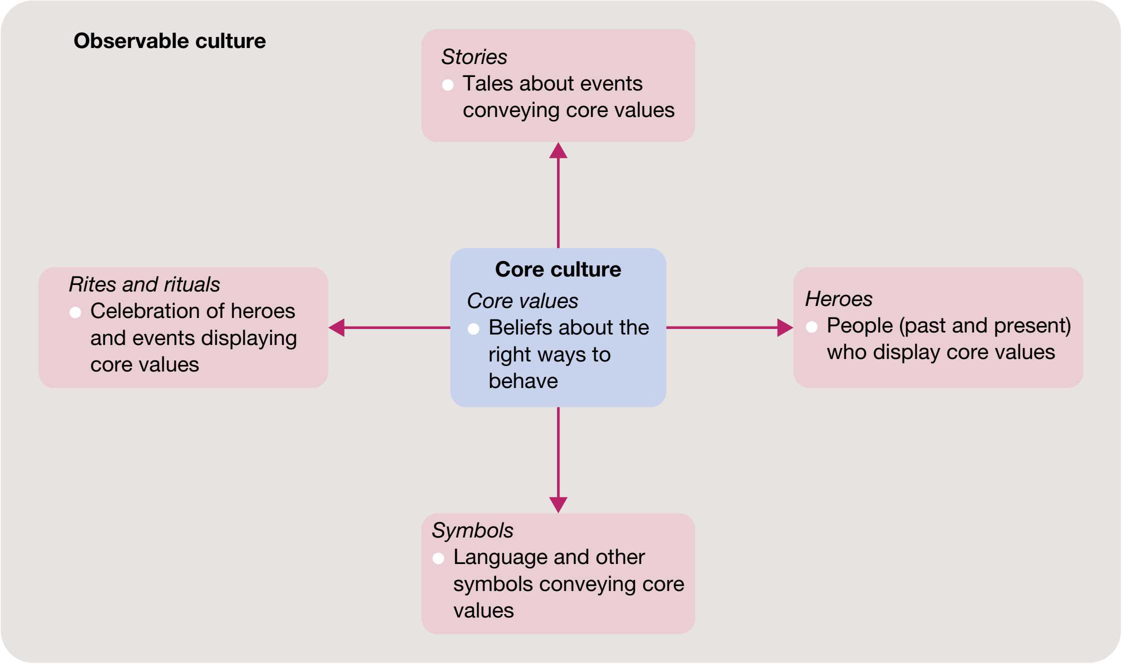

FIGURE 3.4 Levels of organisational culture — observable culture and core culture

Standing at the foundation of what can be observed directly in the daily life of an organisation is a second and deeper level of culture. This is the core culture, and it determines why things are the way they are. It consists of **core values** or underlying assumptions and beliefs that influence behaviour and actually give rise to the aspects of observable culture just described. Values are essential to strong culture organisations and are often widely publicised in formal statements of corporate mission and purpose. Strong culture organisations operate with a small but enduring set of core values. Researchers point out that the enduring commitment to core values is a major ingredient of organisations that achieve long-term success. Highly successful companies typically emphasise the values of performance excellence, innovation, social responsibility, integrity, worker involvement, customer service and teamwork. Examples of core values that drive companies such as Australia Post include: to act with integrity and fairness; to recognise the needs of the community; to be commercially competitive; to foster a performance-driven culture; to create a safe, challenging and fun workplace; and to encourage innovation and technological leadership.[34]

Leadership and organisational culture

Leadership of the organisational culture involves establishing and maintaining appropriate core values. Although this is most often considered a top management job, the same requirement holds for any manager or team leader at any level of responsibility. Just like the organisation as a whole, any work team or group will have a culture. How well this culture operates to support the group and its performance objectives will depend in part on the strength of the core values. At any level, these values should meet the test of three criteria: (1) *relevance* — core values should support key performance objectives; (2) *pervasiveness* — core values should be known by all members of the organisation or group; and (3) *strength* — core values should be accepted by everyone involved.[35]

Attention is increasingly being given to the concept of a **symbolic leader** — someone who uses symbols well to establish and maintain a desired organisational culture. Symbolic managers and leaders talk the 'language' of the organisation. They are always careful to use spoken and written words to describe people, events and even the competition in ways that reinforce and communicate core values. *Language metaphors* — the use of positive examples from another context — are very powerful in this regard.

Good symbolic leaders highlight the observable culture. They tell key stories over and over again, and they encourage others to tell them. They often refer to the 'founding story' about the entrepreneur whose personal values set a key tone for the business. They often talk about organisational heroes, past and present, whose performances exemplify core values. They often use symbolic rites and rituals that glorify the performance of the organisation and its members. For example, Ken Terry, former Managing Director of Otis Elevator, used symbolic leadership to get staff behind him. Otis was losing market share, so Terry held meetings around Australasia shortly after joining the company. The best way he thought he could make his point was to dress up in military uniform half way through each meeting, and say: 'Right, the war is on, we are going to take on our competition [and so on]'. He used this as a symbol of aggression and marketing, and positive outlook.[36]

Managers previously focused mainly on elements of the external and internal environment. However, the modern manager must also consider quality, customers and diversity if he or she wants to construct an efficient and effective organisation and achieve a competitive advantage.

CRITICAL ANALYSIS

1. What do you believe are the key elements of a strong organisational culture?
2. Could Virgin Group Chairman Sir Richard Branson be considered a symbolic leader? Why or why not?

3.3 Customer-driven organisations

LEARNING OBJECTIVE 3.3 What is a customer-driven organisation?

Question: What's your job?
Answer: I run the cash register and pack groceries.
Question: But isn't it your job to serve the customer?
Answer: I guess, but it's not in my job description.

This conversation illustrates what often becomes the missing link in the quest for total quality and competitive advantage — customer service.[37] On the other hand, many companies recognise that maintaining a customer focus is vital for their continuing success. The customer is 'captain' in the eyes of Singtel, one of Singapore's leading telecommunications operators. Its stated vision is to be Asia's best communications group and the company measures this by delivering sustainable shareholder value, maximising customer satisfaction and being an employer of choice. Singtel's commitment to customers is evident from its numerous awards, including the awards for Asia's best managed company, best corporate governance and best investor relations.[38]

Who are the customers?

Figure 3.5 expands the open-systems view of organisations introduced in chapter 1 to depict the complex internal operations of the organisation as well as its interdependence with the external environment. In this figure, the organisation's *external customers* purchase the goods produced or use the services provided. They may be industrial customers — other firms that buy a company's products for use in their own operations — or they may be retail customers or clients who purchase or use the goods and services directly. *Internal customers*, on the other hand, are found within the organisation. They are the individuals and groups who use or otherwise depend on the results of others' work in order to do their own jobs well. Any job or function is both a supplier and a customer. Customers have the right to expect high-quality and on-time inputs from the earlier points in the workflow; suppliers, in turn, have the responsibility to deliver high-quality and on-time inputs to the next point. The notion of customer service applies equally well to workflows within the organisation and to the relationship between the organisation and its ultimate consumers in the external environment.

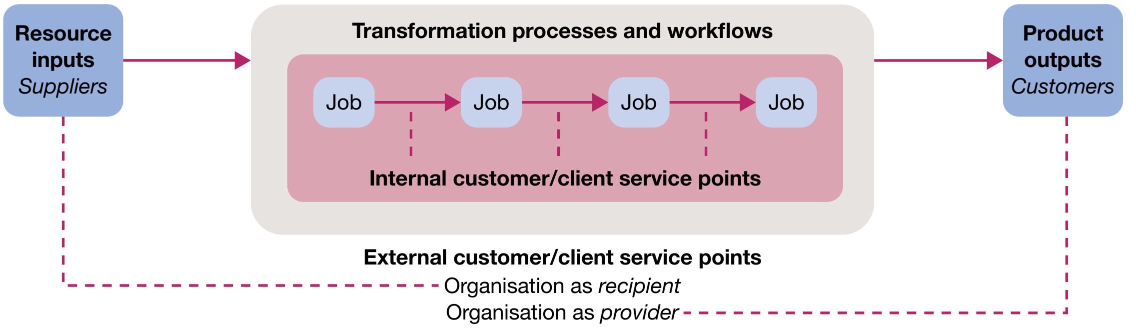

FIGURE 3.5 The importance of external and internal customers

What customers want

Customers sit at the top when organisations are viewed as the upside-down pyramids described in chapter 1. And without any doubt, customers put today's organisations to a very stiff test. In the main, they want three things in the goods and services they buy — high quality, low cost and on-time delivery. Offering them anything less is unacceptable.

Organisations that can't meet these customer expectations suffer the market consequences — they lose competitive advantage. Some time ago, for example, Intel Corporation faced a crisis in customer confidence when a defect was found in one of its Pentium chips. At first, top management of this highly regarded company baulked at replacing the chips, suggesting that the defect was not really important. But customers were angry and unrelenting in their complaints. Eventually the customers won, as they should. Intel agreed to replace the chips without any questions asked. The company also learned two important lessons of successful businesses today: (1) always protect your reputation for quality products — it is hard to get and easy to lose — and (2) always treat your customers right — they, too, are hard to get and easy to lose.

Customer relationship management

When pursued relentlessly as a goal, customer service can be an important source of competitive advantage. Just imagine the ramifications if every customer or client contact for an organisation was positive. Not only would they return again as members of a loyal customer base, but they would also tell others and expand the size of that base. Progressive managers understand this concept and work hard to establish and maintain high standards of customer service. They try to provide every customer with goods and services that are high in quality and low in cost, meet their needs and require only short waiting times. Operating a business or other type of organisation with a customer-centred focus that strategically tries to build relationships with, and add value for, customers is known as **customer relationship management** (CRM).

The use of CRM in pursuit of competitive advantage is rapidly evolving with the support of information technology that allows organisations to maintain intense communication with customers as well as to gather and use data regarding customers' needs and desires. At Marriott International, for example, CRM is supported by special customer management software that tracks information on customer preferences. When you check in, the likelihood is that your past requests for things like a king-size bed, no smoking room and computer access will already be entered in your record. Says Marriott's chairman: 'It's a big competitive advantage'.[39]

Customer relationship management clearly belongs on the list of any manager's top strategic priorities. To meet the challenge, organisations must first find out what customers want and then give it to them. This simple prescription is at the heart of a comprehensive strategy for CRM. Just as organisations need to manage customers on the output side, they are also customers of their suppliers. Supplier relationships must be well managed too.[40] The concept of **supply chain management** involves strategic management of all operations relating an organisation to the suppliers of its resources, including purchasing, manufacturing, transportation and distribution.[41] The goals of supply chain management are straightforward — achieve efficiency in all aspects of the chain while ensuring the necessary flow and on-time availability of quality resources for customer-driven operations.[42]

CRITICAL ANALYSIS

1. Provide an example of how an organisation with which you are familiar, either as a customer or staff member, could sustainably exceed its customer's expectations.
2. Why could a strategic alliance with one or two suppliers be preferable to using multiple suppliers?

3.4 Quality-driven organisations

LEARNING OBJECTIVE 3.4 What is a quality-driven organisation?

If managing for high performance and competitive advantage is the theme of the day, 'quality' is one of its most important watchwords. Customers want quality whether they are buying a consumer product or receiving a service. The achievement of quality objectives in all aspects of operations is a universal criterion of organisational performance in manufacturing and service industries alike. The competitive demands of a global economy are an important force in this race towards total quality operations. The **ISO certification** standards set by the International Organization for Standardization in Geneva, Switzerland, have been adopted by many countries of the world as quality benchmarks. Businesses that want to compete as 'world-class companies' in delivering consistent quality are increasingly expected to have ISO 9000 certification at various levels. To gain certification in this family of standards, they must refine and upgrade quality in all operations and then undergo a rigorous assessment by outside auditors to determine whether they meet ISO requirements. Increasingly, the ISO 'stamp of approval' is viewed as a necessity in international business — the ISO certification provides customers with assurance that a set of solid quality standards and processes is in place. In respect to quality of environmental management systems, for example, the ISO 14000 series sets international standards. In 2010, voluntary ISO 26000 social responsibility standards were introduced. They contain seven core principles — organisational governance, community involvement and development, human rights, labour practices, the environment, fair operating practices, and consumer issues.[43]

Total quality management

The term **total quality management (TQM)** was introduced in chapter 1. It describes the process of making quality principles part of the organisation's strategic objectives, applying them to all aspects of operations, committing to continuous improvement, and striving to meet customers' needs by doing things correctly the first time. The quality movement around the world has been strongly influenced by the pioneering work of W. Edwards Deming and Joseph M. Juran. Interestingly, their ideas became popular in Japan, starting in the early 1950s, and gained prominence in Western countries only after the Japanese became so successful in world markets by competing with a product quality advantage.[44] The commitment to total quality operations is now a way of life in world-class organisations everywhere. The Australian Business Excellence Awards are the showcase for Australian organisations that have achieved high performance across 12 principles in business excellence according to a quality framework.

There are many quality improvement approaches being tested and used around the world. Most begin with an insistence that the total quality commitment applies to everyone in an organisation and to all aspects of operations, right from resource acquisition through to the production and distribution of finished goods and services.[45] One well-known consultant, Philip Crosby, became quite famous for offering these 'four absolutes' of management for total quality control: (1) *quality means conformance to standards* — workers must know exactly what performance standards they are expected to meet; (2) *quality comes from defect prevention, not defect correction* — leadership, training and discipline must prevent defects in the first place; (3) *quality as a performance standard must mean defect-free work* — the only acceptable quality standard is perfect work; and (4) *quality saves money* — doing things right the first time saves the cost of correcting poor work.[46]

Quality and continuous improvement

Among the many approaches to quality commitment, the work of W. Edwards Deming is another useful benchmark. The story begins in 1951, when he was invited to Japan to explain quality control techniques that had been developed in the United States. The result was a lifelong relationship epitomised in the Deming prize, which is still awarded annually in Japan for excellence in quality. When Deming spoke, we might say, the Japanese listened. The principles he taught the Japanese were straightforward . . . and they worked: tally defects, analyse and trace them to the source, make corrections, and keep a record of what happens afterward.[47] Deming's '14 points to quality' emphasise constant innovation, use of statistical methods and commitment to training in the fundamentals of quality assurance.[48]

The search for quality is closely tied to the emphasis on **continuous improvement** — always looking for new ways to improve on current performance.[49] A basic philosophy of total quality management is that one can never be satisfied — something always can and should be improved on. Continuous improvement must be a way of life. Another important aspect of total quality operations is cycle time — the elapsed time between receipt of an order and delivery of the finished product. The quality objective here is to reduce cycle time by finding ways to serve customer needs more quickly.

MANAGER'S NOTEPAD 3.1

Key principles of TQM

- Continuous improvement of the quality of products, processes and services.
- Reduced waste.
- Less variation and defect prevention.
- Supplier partnership.
- Team process.
- Reduced cycle time.
- Commitment and participation by all.
- Customer focus.
- Exceeding the external customer's needs.

Employee participation is crucial for the success of a TQM program.[50] One way to combine employee involvement and continuous improvement is through the popular **quality circle** concept.[51] This is a group of workers (usually no more than ten) who meet regularly to discuss ways of improving the quality of their products or services. Their objective is to assume responsibility for quality and apply every member's full creative potential to ensure that it is achieved. Such worker empowerment can result in cost savings from improved quality and greater customer satisfaction. It can also improve morale and commitment, as the following remarks from quality circle members indicate: 'This is the best thing the company has done in 15 years . . . The program proves that supervisors have no monopoly on brains . . . It gives me more pride in my work'.[52]

Quality, technology and design

This is the age of technology, and technology plays a major role in the quality aspects of operations. It also facilitates the customisation of products to suit specific requirements. For example, Stuck On You is a highly innovative labelling company in Melbourne that uses flexible manufacturing systems to offer a range of personalised products including notepads, dog tags and even children's wristbands that contain identification details for security. Tamawood Homes is another organisation that uses the latest developments in computer-aided design, computerised estimating and project management to provide numerous plans from which clients can choose. These plans can then be customised to the specifications of potential homeowners.

These are examples of how new technologies are changing the nature of manufacturing and improving both quality and efficiency of operations. Among the terms describing these developments, *lean production* uses new technologies to streamline systems and allow work to be performed with fewer workers and smaller inventories. The use of *flexible manufacturing* allows processes to be changed quickly and efficiently to produce different products or modifications to existing ones. Through such techniques as *agile manufacturing* and *mass customisation*, organisations are able to make individualised products quickly and with production efficiencies once only associated with the mass production of uniform products.[53] All such systems use computer-based technologies to better integrate the various aspects of manufacturing with customer preferences. They allow modifications to be made quickly, with high quality and in a cost-efficient fashion.

Another timely and important contribution to quality management is found in product design. We are all aware of design differences among products, be they cars, computers, mobile phones, stereos, watches, clothes or whatever. But what may not be recognised is that design makes a difference in how things are produced and at what level of cost and quality. A 'good' design has eye appeal to the customer and is easy to manufacture with productivity. In today's competitive global economy, such designs are strategic weapons. 'Design is it', says consultant Tom Peters, arguing that it will be the key to competitive advantage in the future.[54] We have already shown how exceeding customers' needs can produce a major source of competitive advantage for a company. But a company that is innovative can also create value and competitive advantage.[55] So an innovative company with a strong customer focus places itself at a very strong advantage.

Progressive manufacturers now emphasise *design for manufacturing*. This means that products are styled to lower production costs and smooth the way towards high-quality results in all aspects of the manufacturing processes.[56] Styling is now often developed on the computer and then tested via simulation for its manufacturing implications.

Teamwork among engineering, production, marketing and other functional areas is also improving the design process. A manufacturing approach that shows respect for the natural environment is *design for disassembly*. The goal is to design products taking into account how their component parts will be reused at the end of product life. For example, car manufacturers are using more parts that can be recycled; computer makers are now more willing to take back obsolete machines, disassemble them and recycle the parts.

Quality products, such as Mercedes Benz cars and Haines Signature boats, and services, such as those provided by Apple stores or Flight Centre travel agencies, are better able to withstand environmental economic shocks. These companies also possess excellent strategic and dynamic capabilities.

CRITICAL ANALYSIS

1. How do you think Japanese companies may have benefited from the philosophies of W. Edwards Deming?
2. Why are both employee participation and top management commitment critical to the success of a TQM initiative?

3.5 Diversity and multicultural organisations

LEARNING OBJECTIVE 3.5 How is diversity managed in a multicultural organisation?

At the very time that we talk about the culture of an organisation as a whole, we must also recognise the presence of diversity. Organisations are made up of people, each of whom comes as a unique individual. An important key to competitive advantage is respecting this diversity and allowing everyone's talents to be fully realised.

As first introduced in chapter 1, **diversity** is a term used to describe differences among people at work. Diversity includes mainly age, race, ethnicity, gender, physical ability, disability, personality, culture and sexual orientation.[57] But workplace diversity is a broader issue still, also including such things as religious beliefs, education, experience and family status, among others.[58] In his book *Beyond Race and Gender*, consultant R. Roosevelt Thomas Jr makes the point that 'diversity includes everyone'. He says: 'In this expanded context, white males are as diverse as their colleagues'.[59] Thomas also links diversity and organisational culture, believing that the way people are treated at work — with respect and inclusion, or with disrespect and exclusion — is a direct reflection of the organisation's culture.

Thomas's diversity message to those who lead and manage organisations is straight to the point. Diversity is a potential source of competitive advantage,[60] offering organisations a mixture of talents and perspectives that is ready and able to deal with the complexities and uncertainty in the ever changing 21st century environment. If you do the right things in organisational leadership, in other words, you will gain competitive advantage through diversity. If you do not, you will lose it.

What is a multicultural organisation?

A key issue in the culture of any organisation is *inclusivity* — the degree to which the organisation is open to anyone who can perform a job, regardless of age, race, sexual preference, gender or other diversity attribute.[61] The term **multiculturalism** refers to pluralism and respect for diversity in the workplace. There is no reason organisational cultures cannot communicate core values and encourage common work directions that respect and empower the full demographic and cultural diversity that is now characteristic of our workforces. The 'best' organisational cultures in this sense are inclusive.[62] They value the talents, ideas and creative potential of all members. The model in this regard is the truly **multicultural organisation** with these characteristics.

- *Pluralism*. Members of both minority cultures and majority cultures are influential in setting key values and policies.
- *Structural integration*. Minority-culture members are well represented in jobs at all levels and in all functional responsibilities.
- *Informal network integration*. Various forms of mentoring and support groups assist in the career development of minority-culture members.
- *Absence of prejudice and discrimination*. A variety of training and task force activities continually deal with the need to eliminate culture-group biases.
- *Minimum intergroup conflict*. Diversity does not lead to destructive conflicts between members of majority and minority cultures.[63]

Organisational subcultures

Like society as a whole, organisations contain a mixture of **subcultures** — that is, cultures common to groups of people with similar values and beliefs based on shared work responsibilities and personal characteristics. There are *occupational cultures* in organisations, and they must be understood for their work and managerial implications.[64] For example, salaried professionals such as lawyers, scientists, engineers and accountants have been described as having special needs for work autonomy and empowerment that may conflict with traditional management methods of top-down direction and control.[65] Unless these needs are recognised and properly dealt with, salaried professionals may prove difficult to integrate into the culture of the larger organisation.

There are also *functional subcultures* in organisations, and people from different functions often have difficulty understanding and working well with one another. For example, employees of a business may consider themselves 'systems people' or 'marketing people' or 'manufacturing people' or 'finance people'.[66] When such identities are overemphasised, there is a tendency to separate in-group members from the rest of the organisation. Members of the functional groups may spend most of their time with each other, develop a 'jargon' or technical language that is shared among themselves, and view their role in the organisation as more important than the contributions of the other functions.

Differences in *ethnic or national cultures* are discussed in the chapter on the global dimensions of management.[67] Although it is relatively easy to recognise that people from various countries and regions of the world may have different cultural backgrounds, it is far harder to turn this awareness into the ability to work well with people whose ethnic cultures differ from our own. The best understanding is most likely gained through direct contact and a personal commitment to remaining open-minded when working with people from different ethnic backgrounds. As imprecise as our understanding of ethnic subcultures may be, things seem even less clear on matters of race. Importantly, a key question remains largely unanswered: Where can we find frameworks for understanding ethnic and racial subcultures? If improved cross-cultural understanding can help people work better across national boundaries, why can't improved cross-cultural understanding help people from different racial subcultures work better together?

We live at a time when the influence of *generational subcultures* at work is of growing importance. But these are more subtle than young–old issues alone. It is possible to identify 'generational gaps' among 'baby boomers' now in their 50s, 60s and early 70s, 'generation X' now in their 30s and 40s, 'generation Y' now in their 20s and early 30s and the next generation still in school, finishing or just finished school. Members of these generations grew up and are growing up in quite different worlds — they have been and are being influenced by different values and opportunities. Their work preferences and attitudes tend to reflect the influence of those differences. Someone who is 60 years old today, a common age for senior managers, may have difficulty understanding, supervising and working with younger managers who were teenagers during the 1970s, 1980s and 1990s. And if you are one of the younger generations, you'll need to ponder how well you will do in the future when working with colleagues who grew up in the early years of the 21st century.[68] Montana and Lenaghan believe that generations X and Y are motivated by steady employment and promotional opportunities, unlike their older counterparts who seek freedom on the job and respect.[69]

Issues of gender relationships and gender discrimination also continue to complicate the workplace. Some research shows that when men work together, a group culture forms around a competitive atmosphere, in which the games and stories deal with winning and losing in various situations. It also often involves the use of sport metaphors.[70] As one of the interviewees in a recent research study said:

> A defining moment was when someone gave me an opportunity to work in a finance role, which I asked for, for which I had no qualifications. I was a male in a male dominated structure. I played golf and I was in the cricket team. I had no management experience but I was 'normal' (meaning white male).[71]

When women work together, a rather different culture may form, with more emphasis on personal relationships and collaboration. One can reasonably ask: What happens when gender subcultures mix in the organisation?

Challenges faced by minority groups and women

The term *diversity* basically means the presence of differences. But what does it mean when those differences are distributed unequally across organisational levels or among work functions?

What difference does it make when one subculture is in 'majority' status while others become 'minorities' in respect to representation within the organisation? For example, even though organisations are changing today, it is still the case that most senior executives in large organisations are older, white and male. There is still likely to be more workforce diversity at lower and middle levels of most organisations than at the top. Take a look at the situation described by figure 3.6. What are the implications for members of minority groups such as women, people with a disability, people from non–English speaking backgrounds or people of colour in organisations traditionally dominated by a majority culture, such as English-speaking white males? Recently the phrase 'bamboo ceiling' was coined for Asian immigrants to Australia.[72] What are the likely implications for Australian society of discrimination against the large professional class of Asian migrants? Consider disability discrimination. This type of discrimination occurs when a person is treated unfairly or badly compared with others because they have an impairment or disability. Very often this happens because people have unfair, old-fashioned, stereotypical or prejudiced ideas or beliefs about people with disabilities. Discrimination could also occur indirectly when a condition, rule or policy that seems to be fair or neutral has a negative impact on people with a particular disability or impairment. For example, it would be indirect discrimination against those with visual impairments if everyone were required to provide a drivers licence for identification; a visually impaired person is ineligible for such a licence and therefore would not be able to comply with the requirement.[73]

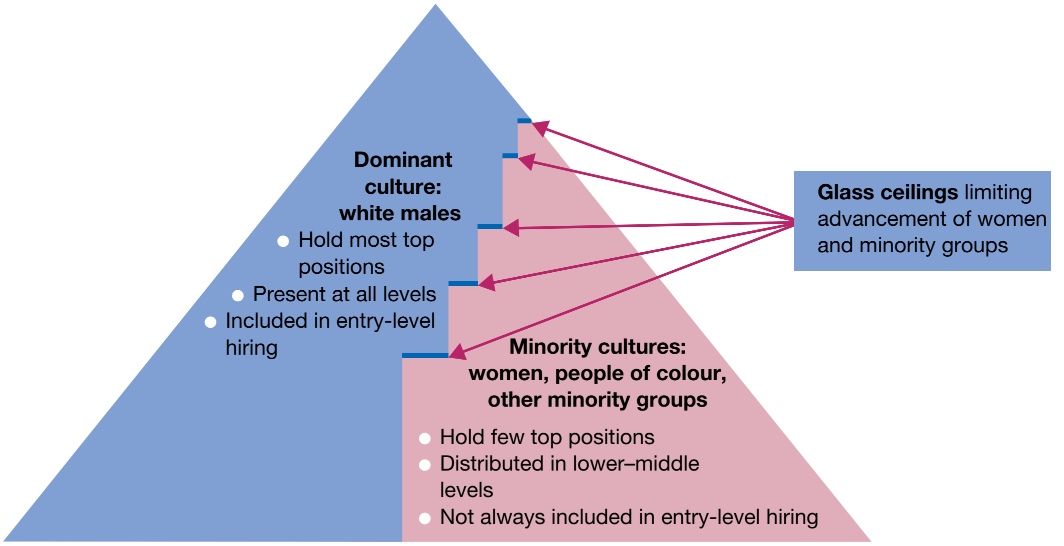

FIGURE 3.6 Glass ceilings as barriers to women and minority cultures in traditional organisations

The daily work challenges faced by minority cultures or populations in organisations can range from having to deal with misunderstandings and lack of sensitivity on the one hand to suffering harassment and discrimination, active or subtle, on the other. *Sexual harassment* in the form of unwanted sexual advances, requests for sexual favours and sexually laced communications is a problem female employees in particular may face. Minority-group workers can also be targets of cultural jokes — one survey reports some 45 per cent of respondents had been the targets of such abuse. Minority-group members may also face job discrimination. Microsoft, for example, has been criticised for treating the firm's temporary workers unfairly in terms of access to benefits and work assignments. Some temporaries (who wear orange identification badges at work) claim that they are treated as second-class citizens by the permanent employees (who wear blue badges).[74] Discrimination against pregnant women is another issue.

All parties to the employment relationship should be well informed about their rights and responsibilities with regard to workplace discrimination. Various national and state laws in Australia cover equal employment opportunity and workplace discrimination. The Equal Employment Opportunities (EEO) Trust in New Zealand advises employers on how to avoid discriminatory practices and maintain good workplace relationships. It recommends employers adopt a flexible policy in relation to parental leave. In 2002, New Zealand introduced government-funded paid maternity leave — Australia and the United States were the only OECD countries with no paid maternity leave up to 2009.[75] However, the Australian government instituted 18 weeks of paid parental leave from 1 January 2011 for families whose primary carer earned less than $150 000 a year.

COUNTERPOINT

Queensland women motorcycle police beating the odds

Queensland will see its first female motorcycle cops hitting the road, as the police force celebrates a major milestone. Senior Constables Rozanna Henriksen and Linda Tajnai were among five officers who passed the force's rigorous motorcycle training course. Officers must be able to handle motorbikes weighing more than 300 kilograms and three failed the most recent test. Police Commissioner Ian Stewart said it was a very demanding course.

'The size of our standard motorcycles is an issue for some of the people who participate, both men and women,' he said.

'This is the first time that a female has successfully completed it.'

Police Minister Jo-Ann Miller said the last time a female officer did the course was in the 1970s and she had to pull out when she discovered she was pregnant. Senior Constable Henriksen said she had been determined to get through the gruelling three-week course.

'Giving up was not an option for me and it is a very proud moment — I'm excited to get out on the road,' she said.

Mr Stewart said no special concessions were made for the female senior constables.

'It just shows that gender diversity is alive and well in our organisation and it's supported, but we will never drop our standards,' he said.

'They have met the standards and gone over and above and I wish them well in the future to ensure that our roads are safe.'[76]

QUESTION

If Queensland female motorcycle cops were given smaller and lighter motorcycles than their male counterparts could they be accused of being weaker and softer? Do you think they would therefore be treated with less respect than they deserve?

Sometimes the adaptation of minority groups to organisations dominated by a majority culture takes the form of tendencies towards biculturalism — the display by members of minority cultures of characteristics of the majority culture that seem necessary to achieve success in the organisational environment. For example, you might find gays and lesbians hiding their sexual orientation from co-workers out of fear of prejudice or discrimination. Similarly, you might find a person from a non-English-speaking background carefully training herself not to use certain words or phrases at work that might be considered part of her cultural 'slang'.

The special economic and work challenges faced by minority groups are not always highly visible. We all know, for example, that much of the last two decades was one of global economic expansion. But how many of us know that workers with disabilities largely failed to share in the gains? At the same time that demand for workers in general rose, the employment rate of the disabled fell. Fortunately there are not-for-profit organisations working hard to reverse this trend. For example, Employers Making a Difference operates as a strategic partner with businesses and governments employing people with a disability. It also develops and implements solutions to problems relating to workplace disability and works with employers to better manage problems associated with the employment of staff with disabilities.[77]

The special economic and work challenges faced by minority groups are not always highly visible, even in modern workplaces

Manager's notepad 3.2 highlights important diversity trends in the sociocultural environment of organisations.[78] It is also important to note that differences in any and all general environmental factors are especially noticeable when organisations operate internationally. External conditions vary significantly from one country and culture to the next. Managers of successful international operations understand these differences and help their organisations make the operating adjustments needed to perform within them.

MANAGER'S NOTEPAD 3.2

Diversity trends in the sociocultural environment

- People from a non-English-speaking background are an increasing percentage of the workforce.
- More women are working.
- People with disabilities are gaining more access to the workplace.
- Workers are increasingly from non-traditional families (e.g. single parents, dual wage earners).
- Average age of workers is increasing.
- Diversity of workers' religious beliefs is increasing.

Managing diversity

There is no doubt today what minority-group workers want.[79] They want the same thing everyone wants. They want respect for their talents and a work setting that allows them to achieve their full potential. It takes the best in diversity leadership at all levels of organisational management to meet these expectations. Companies must evolve to meet the changing workforces in countries such as Australia, New Zealand and Singapore as they continue to become more diverse. Achieving this diversity will benefit the organisation also, as diversity is becoming a key factor in giving an organisation a degree of competitive advantage. R. Roosevelt Thomas Jr defines **managing diversity** as the process of comprehensively developing a work environment that is for everyone. He says that it involves creating an internal environment that allows 'all kinds of people to reach their full potential' in the pursuit of organisational objectives.

Figure 3.7 describes managing diversity as the most comprehensive of three leadership approaches to diversity. The first is **affirmative action**, in which leadership commits the organisation to hiring and advancing minority groups and women. The second is *valuing diversity*, in which leadership commits the organisation to education and training programs designed to help people better understand and respect individual differences. The third is *managing diversity*, in which leadership commits to changing the organisational culture to empower and include all people. For Thomas, managing diversity offers the most value in respect to competitive advantage.[80]

FIGURE 3.7 Multicultural organisations — from affirmative action to managing diversity

Source: Developed from R. Roosevelt Thomas Jr, *Beyond Race and Gender* (New York: AMACOM, 1992), p. 28.

A diverse workforce offers a rich pool of talents, ideas and viewpoints useful for solving the complex problems of highly competitive and often uncertain environments. When well managed, this diversity becomes a major asset. A diverse workforce is best aligned with the needs and expectations of a diverse customer and supplier base, including those increasingly distributed around the world and among its cultures. For example, Alcatel-Lucent Technologies' clients come from diverse markets throughout the world. To help understand the needs of the global marketplace, Alcatel-Lucent Technologies developed a management team and workforce that reflects that diversity through all areas of its business.[81]

Organisations that Thomas calls 'diversity mature' are well positioned to tap into these and other sources of competitive advantage. In these organisations there is a diversity mission as well as an organisational mission — diversity is viewed as a strategic imperative and the members understand diversity concepts.[82] Ultimately, however, he considers the basic building block of a diversity-mature organisation to be the diversity-mature individual. This is someone who can positively and honestly answer questions such as those posed in Manager's notepad 3.3.[83]

MANAGER'S NOTEPAD 3.3

Are you mature about diversity?

- Do you accept responsibility for improving your performance?
- Do you accept responsibility for improving the performance of your organisation?
- Do you understand yourself and your organisation?
- Do you understand important diversity concepts?
- Do you make decisions involving differences based on ability to meet job requirements?
- Do you understand that diversity is complex and accompanied by tensions?
- Are you able to cope with tensions when dealing with diversity?
- Are you willing to challenge the way things are?
- Are you willing to learn continuously?

Managing diversity is both a personal and an organisational challenge. On a personal level, it means accepting the goal of diversity maturity as described in the notepad. As an organisation, it means committing leadership to making fundamental changes in the organisational culture and its guiding mission and practices. Managers and people working at all levels of responsibility must benefit from a strong organisational culture based on true participation, involvement and empowerment. Such cultures value the talents, ideas and creative potential of all members, not just the majority members.

Perhaps the most important word in human resource management today is 'inclusiveness'. By valuing diversity and building multicultural organisations that include everyone, we can strengthen organisations and bring them into better alignment with the challenges and opportunities of today's environment. Importantly, the foundations of future success will be built on the foundations of diversity. As Michael R. Losey, former president of the Society for Human Resource Management (SHRM), said:

> Companies must realise that the talent pool includes people of all types, including older workers; people with disabilities; people of various religious, cultural and national backgrounds; people who are not heterosexual; minorities; and women.[84]

DIVERSITY

Diversity and the multicultural organisation in Singapore

At first sight, Singapore might not seem to be a very diverse society. The language of choice for politics and business is English, and Chinese people make up more than three-quarters (76.7 per cent) of the island's population. The remaining populations are Malay (14 per cent), Indian (7.9 per cent), with a combination of other ethnicities making up the remaining 1.4 per cent. Singapore has attempted to promote a national identity since its independence from Britain in 1965. However, Singapore has four national languages — Mandarin, Malay, Tamil and English.

Coca-Cola Singapore has 680 employees at its plant in Tuas and, together with its bottler, has 12 different nationalities represented in the company. Hence, it has implemented a diversity workplace strategy in striving for an inclusive culture. Coca-Cola Singapore defines diversity as '(1) respecting individuals, (2) valuing differences and (3) representing our consumers and the markets where we do business'.[85]

On the other hand, an Australian expatriate manager or tourist could be forgiven for thinking that Singapore is 'just like home'. They would be struck by the plethora of modern buildings and shopping malls, the metropolitan train service and the general first-world state of the infrastructure, economy and communication systems. In reality, though, there are significant cultural differences between the two societies. For example, the group is more important than the individual in Singapore, there is greater respect for the extended family, Singaporeans do not like losing face, and pay more deference to older people in the workplace. This is a result of Confucianism, which emphasises respect for and obedience to one's elders. Disagreeing with, or criticising, an older person in a business meeting may lead to a loss of face and destroy the personal relationship — which is the key to doing successful business in Singapore.

Singaporeans will also often rely on non-verbal signals such as tone of voice, body language and facial expression more than the spoken word. In general, communications are less direct than in Australia. Importantly, Singaporeans want multi-national companies to demonstrate that they have come to the island for the long-term, rather than just to make short-term gains. This would also apply to an Australian manager, not just the company they work for. Singaporeans prefer expatriate managers who learn Mandarin and immerse themselves in the precepts of the host culture. In particular, they are averse to expatriates who come along just for a short time with a view to returning home to a promotion position as quickly as possible. So, an Australian manager on an expatriate assignment in Singapore (or anywhere else, for that matter) needs to understand cultural differences before taking up appointment.[86]

QUESTION

Do you think Singapore really is diverse, or is it still largely a Western state?

CRITICAL ANALYSIS

1. Describe the ways in which a travel agency could utilise a diverse workforce in order to create a competitive advantage.
2. Why do you think it is that relatively few women have been able to break through the glass ceiling?

SUMMARY

3.1 What is the external environment of organisations?

- Competitive advantage and distinctive competency can only be achieved by organisations that deal successfully with dynamic and complex environments.
- Strategic and dynamic capabilities assist organisations to gain a competitive advantage and deal with environmental economic shocks.
- The external environment of organisations consists of both general and specific components.
- The general environment includes background conditions that influence the organisation, including economic, sociocultural, legal–political, technological and natural environment conditions.
- The specific or task environment consists of the actual organisations, groups and people an organisation deals with, including suppliers, customers, competitors, regulators and pressure groups.
- Environmental uncertainty challenges organisations and their management to be flexible and responsive to new and changing conditions.

3.2 What is the internal environment and organisational culture?

- The internal environment of organisations includes organisational culture, which establishes a personality for the organisation as a whole and has a strong influence on the behaviour of its members.
- The observable culture is found in the rites, rituals, stories, heroes and symbols of the organisation.
- The core culture consists of the core values and fundamental beliefs on which the organisation is based.
- In organisations with strong cultures, members behave with shared understandings that support the accomplishment of key organisational objectives.
- Symbolic managers are good at building shared values and using stories, ceremonies, heroes and language to reinforce these values in daily affairs.

3.3 What is a customer-driven organisation?

- Any organisation must develop and maintain a base of loyal customers or clients, and a customer-driven organisation recognises customer service and product quality as foundations of competitive advantage.
- Customer service is a core ingredient of total quality operations, and it includes concerns for both internal customers and external customers.
- The ‘upside-down pyramid’ is a symbol of how organisations of today are refocusing on customers and on the role of managers to support work efforts to continually improve quality and customer service.
- Operations management is specifically concerned with activities and decisions through which organisations transform resource inputs into product outputs.
- Supply chain management involves strategic management of all operations relating an organisation to its suppliers.

3.4 What is a quality-driven organisation?

- To compete in the global economy, organisations are increasingly expected to meet ISO 9000, ISO 14000 and ISO 26000 certification standards of quality.
- Total quality management involves making quality a strategic objective of the organisation and supporting it by continuous improvement efforts.
- The commitment to total quality operations requires meeting, or preferably exceeding, customers’ needs — on time, the first time and all the time.
- The use of quality circles — groups of employees working to solve quality problems — is a form of employee involvement in quality management.

3.5 How is diversity managed in a multicultural organisation?

- The organisational culture should display a positive ethical climate or shared set of understandings about what is considered ethically correct behaviour.
- Multicultural organisations operate through a culture that values pluralism and respects diversity.
- Organisational cultures typically include the existence of many subcultures, including those based on occupational, functional, ethnic, racial, age and gender differences in a diverse workforce.
- Challenges faced by organisational minority groups include sexual harassment, pay discrimination, job discrimination and the glass ceiling effect.
- Managing diversity is the process of developing a work environment that is inclusive and allows everyone to reach their full work potential.
- Diversity leadership helps mobilise the full talents of an organisation to achieve and sustain competitive advantage.

KEY TERMS

Affirmative action commits the organisation to hiring and advancing minority groups and women.

A **competitive advantage** allows an organisation to deal with market and environmental forces better than its competitors.

Continuous improvement involves always searching for new ways to improve operations quality and performance.

Core values are underlying beliefs shared by members of the organisation that influence their behaviour.

Customer relationship management strategically tries to build lasting relationships with, and add value for, customers.

Diversity describes race, gender, age and other individual differences.

Dynamic capabilities enable an organisation to quickly reconfigure its resources in the face of environmental economic shocks.

Environmental uncertainty is a lack of complete information about the environment.

The **general environment** comprises economic, sociocultural (including demographic patterns), political–legal, technological and natural environment conditions.

ISO certification indicates conformance with a rigorous set of international quality standards.

Managing diversity is building an inclusive work environment that allows everyone to reach their full potential.

A **multicultural organisation** is based on pluralism and operates with respect for diversity.

Multiculturalism involves pluralism and respect for diversity.

Organisational culture is the system of shared beliefs and values that develops within an organisation and guides the behaviour of its members.

A **quality circle** is a group of employees who periodically meet to discuss ways of improving work quality.

The **specific environment** includes the people and groups with whom an organisation interacts.

Stakeholders are individuals, groups and institutions directly affected by an organisation's performance.

Strategic capabilities are difficult to imitate, of value to customers and better than the competition.

Subcultures are common to groups of people with similar values and beliefs based on shared work responsibilities and personal characteristics.

Supply chain management strategically links all operations dealing with resource supplies.

A **symbolic leader** uses symbols to establish and maintain a desired organisational culture.

Total quality management (TQM) is managing with commitment to continuous improvement, product quality and customer satisfaction.

APPLIED ACTIVITIES

1 What is competitive advantage and why is it important to contemporary organisations?
2 What is the difference between a strong and a weak organisational culture? Give an example of a company with a strong organisational culture.
3 What is the difference between an organisation's external customers and its internal customers?
4 In general, the greater the environmental uncertainty, the more attention management in organisations must direct towards the external environment. What is the external environment of an organisation? Use examples to illustrate your explanation.
5 After you have read the section on organisational culture, choose an organisation to analyse and discuss. What are the observable elements in the culture of your chosen organisation?

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CHAPTER 4

International dimensions of management

LEARNING OBJECTIVES

4.1 What are the international management challenges of globalisation?
4.2 What are the forms and opportunities of international business?
4.3 What are multinational corporations and what do they do?
4.4 What is culture and how does it relate to global diversity?
4.5 How do management practices and learning transfer across cultures?

Selling out Australia

Australia has robust mining and farming industries and China's attempts to buy mines, farms and blue chip real estate, particularly in Sydney and Melbourne, has troubled many Australians. A Daymark monitoring survey found that 41 per cent of Australians were uneasy about Chinese direct investment in agriculture and commercial real estate.[1] One of the concerns voiced by federal Member of Parliament Bob Katter is that the Chinese are not really investing, 'they're not opening mines or building dams or anything of that nature, they're just buying the asset that is there. So it's not investment, it's selling your country off'.[2]

The Chinese are looking to secure a food supply for their burgeoning population, but questions are being raised about why the Australian Government is not doing the same for future Australian generations, allowing land to be seized by the banks from Australian farmers and sold to the Chinese.[3]

Also of concern is that Chinese demand for commercial and residential properties, particularly in Sydney and Melbourne, is swelling house prices as the cost of an apartment in Beijing can be the same as a small house in Melbourne.[4]

Additional concerns were raised about the leasing of the Port of Darwin to a Chinese company because there is a strong US and Australian military presence in that city.[5]

The purchase of 43 New South Wales farms for coal exploration for A$213 million also caused alarm.[6]

New Zealand is not exempt from this trend, with a Chinese property developer winning approval in 2012 to buy 16 farms for the purposes of exporting dairy products to Asia.[7]

Lastly, the Electrical Trades Union feared that the Free Trade Agreement signed by Australia and China in June 2015 would mean the loss of Australian jobs to temporary 457 Visa Chinese workers on building sites. The Union was especially bothered by what it 'called a "secretive side deal" made by the federal government to remove China from a list of nations where skills tests are mandatory before obtaining a skilled migrant visa'.[8] However, regulation was put in place that will ensure Chinese workers have the right skills to work on Australian construction sites and that foreign workers' salaries are benchmarked against those of local workers, reducing any incentive to bring a worker who could be paid less than an Australian into the country.[9]

It may be the case that many of the concerns are being overstated. Firstly, China is now Australia's major trading partner, as will be seen in this chapter. It imports almost twice as much from Australia in dollar terms than it exports to it. Verrender points out that the Australia–China Free Trade Agreement is mutually beneficial because it gives Australian businesses improved access to a huge market.[10]

Secondly, by mid-2013, 87.5 per cent of farmland was in fact Australian, not foreign, owned.[11] Thirdly, overseas companies will invest in Australia and develop rural land in a country where the plight of so many drought stricken farmers is sometimes ignored by government. Rodney Bell, a property lawyer at McCullogh Robertson, believes that astute Chinese investors will employ experienced local managers, thus increasing employment opportunities.[12]

Furthermore, the Foreign Investment Review Board introduced a tougher monitoring system on 1 December 2015: 'the Turnbull Government's robust new foreign investment regime provid[es] stronger enforcement and a better resourced system with clearer rules for foreign investors . . . The Government welcomes foreign investment that is not contrary to our national interest. Without foreign investment, production, employment and income would all be lower. But it is important that foreign investment is appropriately monitored to ensure that it benefits all Australians', Treasurer Scott Morrison said.[13] A month earlier, Australia had blocked the sale of the country's largest landowner, private farming group S. Kidman and Co., to foreign investors, saying 'an agricultural area the size of South Korea should remain in Australian hands'.[14]

QUESTIONS

1. What form of international business strategy has been used by China to acquire Australian farms, mines and real estate? What forms of international business do you think are most advantageous for Australia?
2. List the advantages and disadvantages of Chinese investment in Australia.

Introduction

There is no doubt about it, we live and work in an increasingly global community, one that seemingly becomes smaller and more immediately accessible by the day. Network television brings on-the-spot news from around the world into our homes 24 hours a day. Newspapers from around the world — such as *The New York Times*, *The Times of India* and *The Japan Times* — can be read on your desktop computer or tablet via the internet at the touch of a keyboard. Increasingly, mobile phones offer the same opportunity. Soon it will be possible to board a plane in Sydney and fly nonstop to London; it is sometimes less expensive to fly from Brisbane (Australia) to New Zealand than to Melbourne. Universities and other tertiary institutions offer an increasing variety of study-abroad programs. Email, Skype, online chat rooms and social networking sites link us to friends and work partners around the world and at low cost.

This world of opportunities isn't just for tourists and travellers. It is time to recognise the emergence and implications of a global workplace. Multinationals are increasingly locating parts of their 'value chains' in different countries or time zones. For example, most of Nike's manufacturing is located in Indonesia, with its marketing and advertising located in the United States.[15] In today's business world, national boundaries are increasingly blurred. The petrol station with the 'BP' logo in green, yellow and white is by British Petroleum, known as BP; the familiar 'Shell' station is brought to you courtesy of Royal Dutch Shell.

And did you know that the majority of McDonald's sales are outside the United States, and that some of its most profitable restaurants are located in places like Moscow, Budapest and Beijing? Astute business investors know all this and more. They buy and sell only with awareness of the latest financial news from Hong Kong, London, Tokyo, New York, Johannesburg, Singapore, Sydney and other world financial centres. In this time of high technology, furthermore, they don't even have to leave home to do it — the latest information is readily available on the internet.

Yes, we live and work today in a truly global village. You, like the rest of us, must get connected with the world's opportunities.

4.1 International management and globalisation

LEARNING OBJECTIVE 4.1 What are the international management challenges of globalisation?

This is the age of the **global economy** in which resource supplies, product markets and business competition are worldwide rather than purely local or national in scope.[16] It is also a time heavily influenced by the forces of **globalisation**, the process of growing interdependence among these components in the global economy. Harvard scholar and consultant Rosabeth Moss Kanter describes it as 'one of the most powerful and pervasive influences on nations, businesses, workplaces, communities and lives'.[17]

The global economy offers great opportunities for worldwide sourcing, production and sales capabilities.[18] But as businesses spread their reach around the world, the processes of globalisation also bring many adjustments to traditional patterns. Large multinational businesses are increasingly adopting transnational or 'global' identities, rather than being identified with a singular home. The growing strength and penetration of these businesses worldwide is viewed by some as a potential threat to national economies, and their local business systems, labour markets and cultures.[19] All this adds up to great uncertainty as executives move into new and uncharted competitive territories. AOL's co-founder, Stephen M. Case, once described the scene this way:

> I sometimes feel like I'm behind the wheel of a race car. One of the biggest challenges is there are no road signs to help navigate. And in fact . . . no one has yet determined which side of the road we're supposed to be on.[20]

The term used to describe management in organisations with business interests in more than one country is **international management**. There is no denying its importance. Procter & Gamble for example, one of the largest consumer goods manufacturers in the world, pursues a global strategy with a presence in more than 70 countries. As the leaders of companies press forward with global initiatives, the international management challenges and opportunities of working across borders — national and cultural — must be mastered. New tests of managerial skills and viewpoints are emerging. A new breed of manager, the **global manager**, is increasingly sought after. This is someone informed about international developments, transnational in outlook, competent in working with people from different cultures, and always aware of regional developments in a changing world.

In order to survive, organisations have to ensure that their people are ready, willing and able to manage in the global environment. Having the right people in the right place at the right time is essential to a company's successful international growth. However, when an employee accepts an international assignment there are numerous administrative issues to deal with. These include managing the cost of the entire assignment; minimising security risk and healthcare in certain countries; continuing to operate in a legal fashion taking into account changing laws across the world; making a link between career development and the international assignment; and career disruption of the partner of the expatriate. What about you? Are you prepared for the challenges of international management? Are you informed about the world and the forces of globalisation?

GLOBALISATION

Australian Volunteers International in Vietnam

In this age of globalisation, it's not just big business that spreads its tentacles to all four corners of the world. Volunteer organisations have been doing this for years, and one good example of these is Australian Volunteers International (AVI). On its homepage, AVI notes that it works in an increasingly globalised world characterised by poverty, climate change, global financial and political instability, and pandemics. For this reason, AVI's vision is to contribute to a:

> peaceful, just and sustainable world; a world of respectful global relationships where all people have access to the resources they need, the opportunity to achieve their potential, the right to make decisions about the kind of development they want and to participate in the future of their communities.[21]

Its values are 'guided by principles of equity and social justice, integrity, diversity and inclusion, partnership and respect for human rights'.[22]

In 2012, AVI was honoured at their celebration of sixty years of volunteering in Hanoi. Mr Vu Hong (on behalf of the President of the Socialist Republic of Vietnam) presented AVI with the prestigious Friendship Medal.[23] This is a real turnaround from the days of the Vietnam War (when Australia and North Vietnam were deadly enemies) and the early years following its end in 1976. In recent times, Communist Vietnam has taken some steps towards opening up its economy, but poverty remains an issue, as does spreading inequality and deforestation. Health has improved for the Vietnamese, but traffic accidents, air pollution and discharge of wastewater into rivers have increased due to the larger population.

Clearly, there is a huge amount for an organisation like AVI to do, and it has been working in the territory since 1985. In total, about 380 personnel have been deployed in Vietnam since 1985, but there were only 21 placements in July 2011.[24] Over the years, its AVI volunteers have included teachers (especially English language teachers), nurses, foresters, and helpers to deal with duck plague and increase pig nutrition.

QUESTION

What other types of volunteers can organisations like AVI engage in order to assist developing countries that are attempting to embrace a market economy?

Asia and the Pacific Rim

Asia has attained superpower status in the world economy. China looms centre stage and its economy is closely intertwined with the world at large. This country of more than 1.3 billion people is the world's largest consumer marketplace. In the years preceding the **global financial crisis**, its economy averaged over 10 per cent growth.[25] Notwithstanding the subsequent global economic downturn and problems in the Eurozone, Asian and Pacific Rim economies are soon expected to be larger than those of the current European Union (EU). In Asia, the historical strength of Japanese businesses must be recognised — Honda, Toyota and Sony, to name just three. Then there is the growing prominence of firms like Samsung and Hyundai of South Korea, as well as those in other regional powers like Taiwan and Singapore. Elsewhere in South-East Asia, countries such as Malaysia and Thailand are prominent, Vietnam is fast advancing, and the Philippines is gaining strategic importance with a high literacy rate, an educated workforce, and a population that speaks English.[26] Asian countries, while subject to economic cycles like the rest of the world, are well positioned to take advantage of economic recoveries. Their building blocks are neatly in place.

The Asia–Pacific Economic Cooperation (APEC) group has become the region's leading forum. The APEC countries are shown in figure 4.1.

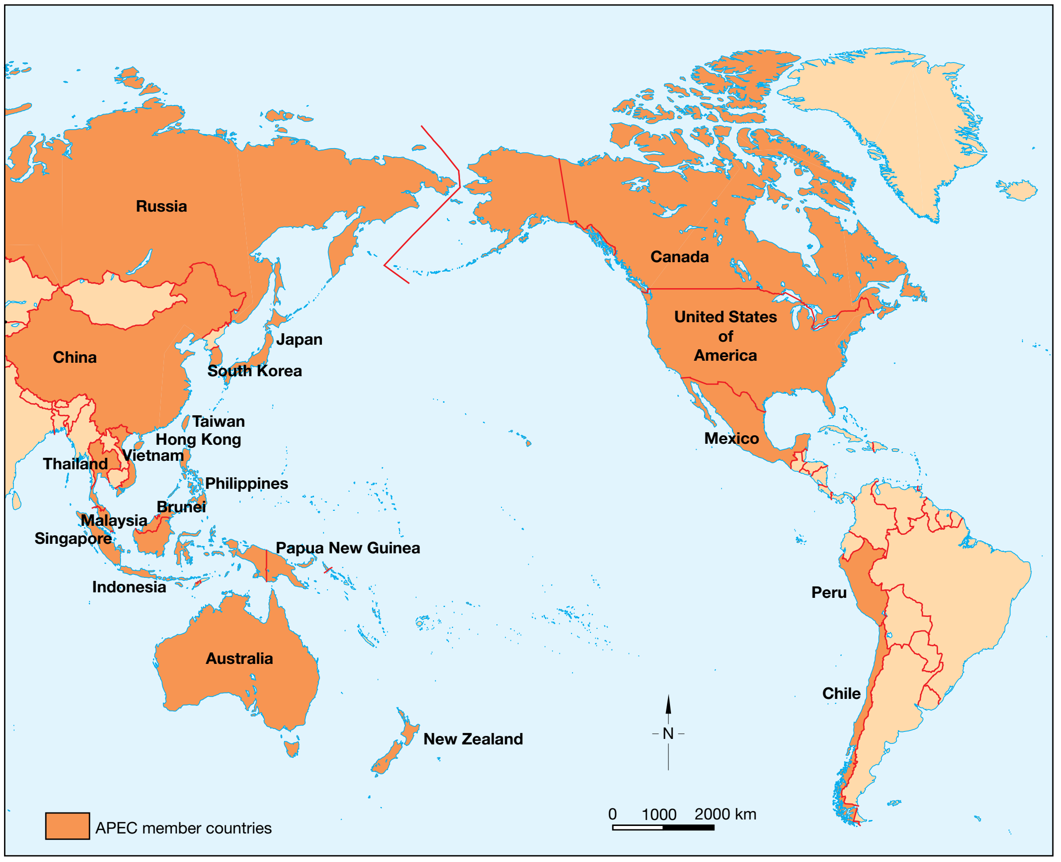

FIGURE 4.1 The Asia–Pacific Economic Cooperation member countries

The APEC forum aims to strengthen 'regional economic integration' and 'regional links' and encourages the pursuit of common trade goals.[27] Businesses from the 21 APEC member nations — including Australia and New Zealand — have potential access to over 2.7 billion consumers and around 60 per cent of the global income that is generated by these economies. Much of APEC members' trade is with other APEC members. For example, APEC accounts for about 70 per cent of Australia's total trade with the rest of the world.[28] Table 4.1 shows the significance of major APEC players in terms of Australia's and New Zealand's trade.

Australia and New Zealand pursue their trading interests bilaterally, regionally and in international forums. Both are members of the Organisation for Economic Co-operation and Development (OECD, www.oecd.org), which brings together representatives from 30 developed, democratic countries that have open market economies. Its aim is 'to play a critical role in analysing developments in the international trading system' as well as 'to analyse the impact of government policies on trade and performance'.[29]

TABLE 4.1 **Significance of major APEC nations to Australia and New Zealand's trade**

	Australia	New Zealand
Exports		
Total goods and services	$327 billion	$67.5 billion
Top merchandise export markets	1. China $98 billion 2. Japan $50 billion 3. Republic of Korea $22 billion 4. United States $18 billion 5. NZ & Singapore 12 billion	1. Australia $13 billion 2. China $10.3 billion 3. EU & United States $8 billion 4. Japan $3.6 billion 5. Republic of Korea $2.1 billion
Imports		
Total goods and services	$336 billion	$65.1 billion
Top import APEC countries	1. China $54 billion 2. United States $41 billion 3. Japan $20 billion 4. Singapore $18 billion	1. EU & Australia $11 billion 2. China $9.4 billion 3. United States $8 billion 4. Japan $3.3 billion

Source: 'Australian Government, 'Composition of Trade Australia, 2013–14', www.dfat.gov.au; Statistics New Zealand, 'Exports and Imports Tables 2015', www.stats.govt.nz.

Australia's engagement with South-East Asia at a regional level remains an important priority. North Asia's economic importance to Australia is also on the increase. Strengthening its cooperation with these economies contributes to Australia's security and is integral to promoting international interests. The rise in trade with China and South Korea is particularly strong. This deepening economic relationship with China is evident from increased trade collaboration between the two countries. For example, an Australian insurance company secured a Chinese insurance licence soon after China entered the **World Trade Organization (WTO)** (the largest international body dealing with the rules of trade between nations, discussed later in the chapter) in 2001. By 2007, China had, in fact, overtaken Japan to become Australia's overall largest trading partner (when analysing both imports and exports).[30] Table 4.1 shows that in 2014 China was Australia's biggest trading partner by far and in 2015 the government signed the China–Australia Free Trade Agreement, which will solidify this relationship.

Notwithstanding some of the issues discussed in the case on diversity in this chapter, the bilateral relationship between Australia and New Zealand remains strong, as is evident from the progress on the continuing trans-Tasman trade and economic agenda. There is significant convergence between the two countries regarding their respective business law regimes — in seeking to ensure that they reflect developing international norms and that there is a reduction in compliance costs for companies operating in both countries, for example. There is a drive to increase industry competitiveness by closer collaboration between industry sectors in both countries in the interests of maximising the global competitiveness of Australian and New Zealand companies.[31]

Europe

Europe is a place of dramatic political and economic developments.[32] The **European Union (EU)** is an institutional framework for the construction of a united Europe. It was created after World War II to unite the nations of Europe economically so another war among them would be unthinkable. This grouping of countries has agreed to support mutual economic growth by removing barriers that previously limited cross-border trade and business development. There are 27 member (and 5 candidate) countries, and some 500 million people share the common institutions and policies that have brought an unprecedented era of peace and prosperity (up until 2010) to Western Europe.[33] Recent events in the Eurozone, most notably in Greece, Italy and Ireland, have caused financial turmoil and led to the **Eurozone crisis**. Until 2010, markets acted as though the:

> debt of peripheral EU countries, such as Greece and Ireland, was as safe as that of core EU countries, such as Germany. But when bond investors realized that Greece had been cooking its books and that Ireland's fiscal posture was unsustainable, they ran for the door.[34]

In short, lenders wanted their money paid back — so, all over Europe, member states responded by reducing their deficits and repaying public debt. However, these austerity measures were insufficient to satisfy lenders for long.[35] Citizens of several of these countries also rejected these measures and voted in favour of alternative political parties who opposed them.[36] The European Union countries (and candidate countries) are shown in figure 4.2.

FIGURE 4.2 The European Union countries

In June 2016 a referendum was held to decide whether the UK should leave or remain in the EU. Despite widespread expectations that the leave campaign would fail, 52 per cent of voters elected to exit the EU. The formal exit process will take some time and the long-term economic and political implications remain to be seen.

As an economic union, the EU for many years put the rest of the world on notice that European business was a global force to be reckoned with. Members are linked through favourable trade and customs laws intended to facilitate the free flow of workers, goods and services, and investments across national boundaries. Businesses in each member country have access to a market of about 500 million consumers, compared with about 300 million in the United States and about 120 million in Japan. Among the important business and economic developments in the EU are agreements to eliminate frontier controls and trade barriers, create uniform minimum technical product standards, open government procurement to businesses from all member countries, unify financial regulations, lift competitive barriers in banking and insurance, and even offer a common currency — the **euro**. The growing worldwide impact of the euro is being watched carefully. The GFC and Eurozone crisis have caused major headaches for the euro as the serious debt levels of member countries have been exposed. Although there are still political and economic uncertainties, especially the in aftermath of the GFC, the expected regional benefits of an expanding EU include higher productivity, lower inflation and slower but steady growth. Table 4.2 shows the major trading partners of the European Union.

TABLE 4.2 **European Union major trade partners**

Partners	Total trade in euros (million)	%
World	3 383 079	100.0
1. USA	517 162	15.3
2. China	466 826	13.8
3. Russia	284 583	8.4
4. Switzerland	236 998	7.0
5. Norway	136 993	4.0
6. Turkey	129 013	3.8
7. Japan	108 483	3.2
8. South Korea	81 992	2.4
9. India	72 587	2.1
10. Brazil	67 961	2.0
11. Saudi Arabia	63 852	1.9
12. Canada	59 093	1.7
13. Algeria	52 849	1.6
14. United Arab Emirates	50 934	1.5
15. Mexico	46 419	1.4
16. Hong Kong	45 584	1.3
17. Singapore	45 176	1.3
18. South Africa	41 872	1.2
19. Taiwan	40 174	1.2
20. Nigeria	39 706	1.2

Source: Adapted from European Commission, Directorate General for Trade, 'Top Trading Partners — Trade Statistics' (2014), http://trade.ec.europa.eu/doclib/docs/2006/september/tradoc_122530.pdf.

All of this must also be considered in context with another dynamic element in the European scene — continuing legacies of the collapse of communism in the former Soviet Union and in nations formerly dominated by it. Changes in political systems and governments can add to the risk for foreign investors, but can also create opportunities. Western businesses are responding to opportunities not only in Russia but also in such diverse places as Belarus, Latvia and the Ukraine. The EU is among New Zealand's major trading partners in terms of two-way trade, and is a large source of foreign direct investment. One of the main objectives for Australia and New Zealand is the advancement of trade and investment in the EU economies, notwithstanding recent problems.

The Americas

Turning now to the Americas, the United States, Canada and Mexico have joined together in the North American Free Trade Agreement (**NAFTA**). This agreement largely frees the flow of goods and services, workers and investments within a region that has more potential consumers than its European rival, the EU. Getting approval for NAFTA from all three governments was not easy. Whereas Canadian firms worried about domination by US manufacturers, American politicians were concerned about the potential loss of jobs to Mexico. Some calls were made for more government legislation and support to protect domestic industries from foreign competition. Mexicans feared that free trade would bring a further intrusion of US culture and values into their country, and Americans complained that Mexican businesses did not operate by the same social standards, particularly with respect to environmental protection and the use of child labour. Often at issue in NAFTA controversies are the operations of *maquiladoras*, foreign manufacturing plants allowed to operate in Mexico with special privileges in return for employing Mexican labour.[37]

Along with Asia and the EU, the United States is among Australia's and New Zealand's largest trading partners and sources of foreign direct investment. Australia's and New Zealand's interests in high-quality US engagement in the Asia–Pacific region continues, especially the importance of good US relations with Japan, China, Indonesia and the Republic of Korea.[38] In 2005, Australia entered into a bilateral free trade agreement with the United States, known as the Australia–United States Free Trade Agreement (AUSFTA). This agreement was designed to encourage even stronger trade links between the two countries through measures such as reducing tariffs, easing various market restrictions and streamlining investment processes. The United States is Australia's fourth largest export market (behind China, Japan and Korea), and New Zealand's joint third largest (with the EU and behind Australia and China).[39] Australia and New Zealand also maintain extensive bilateral cooperation with Canada, with exchanges on a range of government issues such as health and migration.[40]

Optimism regarding business and economic potential extends throughout Central America and South America as well. Many countries of the region are cutting tariffs, updating their economic policies and welcoming foreign investors.

Australia and New Zealand are working towards greater opportunities for increased trade and investment with Latin America and improved market access. Examples of successful collaborations include a tariff exemption for wool, access for cereals and meat, and the supply of coal to Mexico's power industry. Other examples of collaborations include he opening of the Argentine markets to Australian producers, the exemption of Australian dairy products from Brazilian anti-dumping measures, the signing of the Cooperation on Education and Training Agreement, the initialling of a Nuclear Safeguards Agreement with Argentina, and the finalisation of the text of an Investment Promotion and Protection Agreement between Australia and Uruguay.[41] The significance of Latin America to world trade is increasingly being recognised by international businesses and government leaders.

Africa

Africa is a continent increasingly featured in the news.[42] Although the focus of reports is often on ethnic turmoil and civil strife in countries struggling along pathways to peace and development, Africa also stands as a region that beckons international business. Whereas foreign businesses tend to avoid the risk of trouble spots, they are giving increased attention to stable countries with growing economies. The Congo, Nigeria and Angola are especially rich in natural resources. On the discouraging side, many parts of the region suffer from terrible problems of poverty and the ravages of a continuing HIV/AIDS epidemic. Africa's need for sustained assistance from the industrialised countries, including business investments and foreign aid, is well established.

The Southern Africa Development Community (SADC) links 14 countries of southern Africa in trade and economic development efforts. The objectives of SADC include harmonising and rationalising strategies for sustainable development among member countries.[43] Post-apartheid South Africa, in particular, has benefited from political revival. A country of nearly 50 million people and great natural resources, South Africa is experiencing economic recovery and attracting outside investors. It already accounts for half the continent's purchasing power.[44] Foreign investments in the country increased sharply after minority white rule ended and Nobel-prize winner Nelson Mandela became the nation's first black president. Since the end of apartheid (1993–94), Australia's exports to South Africa have more than doubled and it is Australia's largest trading partner on the African continent.[45] However, in relative terms, South Africa still only ranks as Australia's 21st largest trading partner in the world.[46]

CRITICAL ANALYSIS

1. Why is it important that managers understand the importance of global issues?
2. What characteristics might help a manager to be successful internationally?

4.2 International business challenges

LEARNING OBJECTIVE 4.2 What are the forms and opportunities of international business?

John Chambers, CEO of Cisco Systems, Inc., a major networking technology firm with a worldwide reach, says: 'I will put my jobs anywhere in the world where the right infrastructure is, with the right educated workforce, with the right supportive government'.[47] Cisco and other firms like it are **international businesses**. They conduct for-profit transactions of goods and services across national boundaries. International businesses of all types and sizes are the foundations of world trade. They are the engines for moving raw materials, finished products and specialised services from one country to another in the global economy. The reasons for international business, the forces that drive companies to the marketplaces of the world, include the search for:

- *profits* — global operations offer profit potential
- *customers* — global operations offer new markets to sell products
- *suppliers* — global operations offer access to needed raw materials
- *capital* — global operations offer access to financial resources
- *labour* — global operations offer access to lower labour costs.

Competitive global business environment

The global environment of international business is complex and dynamic, and highly competitive. At the level of the task environment, global business executives must master the demands of operating with worldwide suppliers, distributors, customers and competitors. They must also understand and deal successfully with general environment conditions that present many differences in economic, legal–political and educational systems, among other aspects of business infrastructure.

Regional economic cooperation is increasing, but differences in *economic systems* around the world must still be recognised. Countries such as Russia, Poland, Estonia and others of the former Soviet Union used to operate with *central-planning economies*. That is, the central government made basic economic decisions for an entire nation. Such decisions largely determined the allocations of raw materials, set product or service output quotas, regulated wages and prices, and even distributed qualified personnel among alternative employers. Now these countries are trying to establish viable *free-market economies* such as those common to Australia, New Zealand, Germany, Canada, the United States and other industrialised nations. Although they may vary in exact form, free-market economies operate under capitalism and the laws of market supply and demand. As economies transform from central planning to free markets, they often face controversies over rising prices, unemployment, business competition and the challenges of **privatisation** — the selling of state-owned enterprises into private ownership. Foreign investment is crucial to the success of these developments.[48]

Among the chief worldwide economic issues, the WTO deserves special attention. The WTO is organised around an international accord setting up a mechanism for monitoring international trade and resolving disputes among countries. Member nations agree to ongoing negotiations and the reduction of tariffs and trade restrictions, but trading relationships are often complicated. **Protectionism**, in the form of political calls for tariffs and favourable treatments to help protect domestic businesses from foreign competition, is a common and complicating theme. For example, in the past Australia has registered its concern over US assistance to agricultural exports and the impact of US food-aid allocations in commercial markets, especially of grains and dairy products, which disadvantaged Australian farmers.[49]

Legal environments vary widely from place to place, and organisations are expected to abide by the laws of the host country in which they are operating. The more home and host-country laws differ, the more difficult and complex it is for international businesses to adapt to local ways. Common legal problems in international business involve incorporation practices and business ownership; negotiating and implementing contracts with foreign parties; protecting patents, trademarks and copyrights; and handling foreign exchange restrictions. In countries such as Australia, New Zealand and the United States, executives of foreign-owned companies must worry about competition (antitrust) issues that prevent competitors from regularly talking to one another. They also must deal with a variety of special laws regarding occupational health and safety, equal employment opportunity, sexual harassment and other matters — all constraints potentially different from those they find at home. For example, the global company Levi Strauss & Co. responds to the needs of its global employees by incorporating into its training programs detailed instruction on assessing compliance with discrimination standards.[50] An earlier extract from the Levi Strauss and Co. timeline reads:

> The Human Rights Campaign Foundation rates Levi Strauss & Co. among the top of Fortune 500 companies based on how it treats gay, lesbian, bisexual and transgender employees, consumers and investors. LS&CO. receives a perfect score of 100 percent.[51]

People are essential resources of organisations, and as *education systems* vary from one country to the next so too does the availability of labour. A survey of business leaders around the world reports that many are worried about actual or potential 'human resource deficits'.[52] They recognise that problems of illiteracy and the absence of appropriate skills in the available workforce can compromise operations. They also recognise, increasingly, the broader social challenge of becoming more actively involved in education and training to help build supplies of qualified labour in a host country.

Forms of international business

The common forms of international business are shown in figure 4.3. When a business is just getting started internationally, global sourcing, exporting/importing and licensing and franchising are the usual ways to begin. These are *market entry strategies* that involve the sale of goods or services to foreign markets but do not require expensive capital investments. Joint ventures and wholly owned subsidiaries are *direct investment strategies*. They require major capital commitments but create rights of ownership and control over operations in the foreign country.

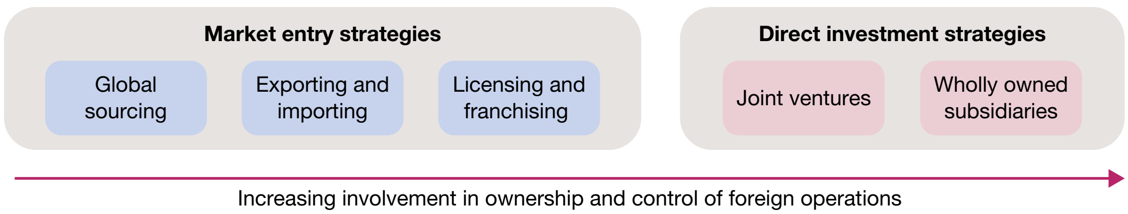

FIGURE 4.3 Common forms of international business — from market entry to direct investment strategies

Market entry strategies

A common first step into international business, **global sourcing** is the process of purchasing on a contract basis manufacturing components and/or services from points around the world. It is an international division of labour in which activities are performed in countries where they can be done well at the lowest cost. In manufacturing, global sourcing for cars assembled in Australia may mean purchasing windshields, instrument panels, seats and fuel tanks from Asia as well as electronics for antilock braking systems from Germany. In services, global sourcing is rapidly expanding in a variety of white-collar fields ranging from accounting, IT and customer support to scientific research and technology development, and more. In all cases the global sourcing opportunity is to take advantage of international wage gaps and the availability of skilled labour by dispersing more and more work to foreign locations.

A second form of international business involves **exporting**, selling locally made products in foreign markets, and/or **importing**, buying foreign-made products and selling them in domestic markets. Because the growth of export industries creates local jobs, governments often offer special advice and assistance to businesses that are trying to develop or expand their export markets. Austrade's Australian Export Awards and the New Zealand Trade & Enterprise Awards aim to showcase and promote leading exporters and to identify home-grown corporate role models.[53]

A foreign firm may pay a fee and enter into a **licensing agreement**, giving it the rights to make or sell another company's products. This international business approach typically grants access to a unique manufacturing technology, special patent, or trademark rights held by the licensor. It is one way to transfer technology from one country to another. Ripcurl, the Victorian manufacturer of iconic wetsuits and other surfwear, established its first offshore licence in California in 1981. Today there are a total of eight other licensees in France, South Africa, Indonesia, Brazil, Japan, Argentina, Chile and Peru.[54] **Franchising** is a form of licensing in which the licensee buys the complete 'package' of support needed to open a particular business. Firms such as McDonald's, Subway and others sell facility designs, equipment, product ingredients and recipes, and management systems to foreign investors, while retaining certain product and operating controls.

Direct investment strategies

To establish a direct investment presence in a foreign country, many organisations enter into **joint ventures** or co-ownership arrangements that pool resources and share risks and control for business operations. This form of international business may be established by equity purchases and/or direct investments by a foreign partner in a local operation; it may also involve the creation of an entirely new business by foreign and local partners. International joint ventures are 'strategic alliances' that help participants gain things through cooperation that otherwise would be difficult to achieve independently. This is a popular and expanding form of international business. In return for its investment in a local operation, for example, the outside or foreign partner often gains new markets and the assistance of a local partner who understands them. In return for its investment, the local partner often gains new technology as well as opportunities for its employees to learn new skills by working in joint operations. Manager's notepad 4.1 offers a checklist for choosing joint venture partners.[55]

MANAGER'S NOTEPAD 4.1

Checklist for joint ventures

Choose a partner:
- familiar with your firm's major business.
- with a strong local workforce.
- with future expansion possibilities.
- with a strong local market for its own products.
- with shared interests in meeting customer needs.
- with good profit potential.
- with a sound financial standing.

A **wholly owned subsidiary** is a local operation completely owned and controlled by a foreign firm. Like joint ventures, foreign subsidiaries may be formed through direct investment in start-up operations or through equity purchases in existing ones. When making such investments, foreign firms are clearly taking a business risk. They must be confident that they possess the expertise needed to manage and conduct business affairs successfully in the new environment. This is where previous experience gained through joint ventures can prove very beneficial.

COUNTERPOINT

Challenges of a slowing Chinese economy for Australia

A prominent Australian investor says a slowing Chinese economy is one of the challenges facing the global economy and Australia.

Billionaire Kerr Neilson runs Platinum Asset Management in Sydney, which invests in international shares, not Australian stocks.

Mr Neilson said he was not unusually worried about China and noted that the world economy faced several challenges.

'In China, the country is slowing down quite quickly and they will have rising bad debts, non-performing assets on their banking,' he said in an interview with the ABC on the sidelines of an investor presentation to another Sydney-based fund manager Park Street Group.

Mr Neilson travels frequently overseas, including to China and India. He said the Chinese economy is likely to grow much more slowly than the government's target, and official statistics bureau result, of 7 per cent per annum.

'All the indicators we look at, and I'm not talking about electricity or those old fashioned measures, but the other measures suggest that it's growing more like 4 [per cent] or so,' Mr Neilson said.

'The reason the government is sticking to a high growth figure is a sort of confidence boosting measure as far as we can see and, to some extent, face saving.'

Mr Neilson thinks the volatility may continue on Chinese share markets and the government had mis-managed the situation.

He said Chinese authorities should have taken steps to reduce the amount of margin lending much sooner.

'Where the mistake was made is to allow the amount of margin credit to be used to buy shares and the consequence of that is that it became a bit of a free for all and we had very extraordinary levels of speculation,' Mr Neilson argued.

'Then, of course, we found valuations that were just crazy.'[56]

QUESTION

What contingency plans should Australian managers have made for a slowing Chinese economy?

CRITICAL ANALYSIS

1. What role could education and training play for organisations choosing to operate internationally?
2. What are some potential advantages and disadvantages of each of the different market entry strategies?

4.3 Multinational corporations

LEARNING OBJECTIVE 4.3 What are multinational corporations and what do they do?

Many companies participate in international business in one form or another. A true **multinational corporation (MNC)** is a business firm with extensive international operations in more than one foreign country. Premier MNCs found in annual listings such as *Fortune* magazine's Global 500 include such global giants as Telstra, News Corporation, AMP and National Australia Bank from Australia, Rio Tinto from the United Kingdom and Australia, China Mobile and Hang Seng Bank from Hong Kong, Taiwan Semiconductor from Taiwan, Singapore Telecommunications from Singapore and General Electric and Wal-Mart from the United States. Also important on the world scene are multinational organisations (MNOs) — such as the International Federation of Red Cross and Red Crescent Societies, the United Nations and the World Bank — with not-for-profit missions and operations that span the globe.

Types of multinational corporations

A typical MNC operates in many countries but has corporate headquarters in one home or host country. Microsoft, Rio Tinto and McDonald's are among the ready examples. Although deriving substantial sales and profits from international sources, they and other companies like them typically also have strong national identifications. Yet, as the global economy grows more competitive, many multinationals are acting more like **transnational corporations**. They increasingly operate worldwide without being identified with one national home.[57] Executives in transnationals view the entire world as the domain for acquiring resources, locating production facilities, marketing goods and services, and for brand image. They seek total integration of global operations, try to operate across borders without home-based prejudices, make major decisions from a global perspective, distribute work among worldwide points of excellence, and employ senior executives from many different countries.[58] BHP Billiton and PricewaterhouseCoopers are good examples of this. Microsoft, Facebook, Twitter, Google and eBay are examples of **virtual borderless companies**.

One major challenge transnational companies face is how they should respond to human rights violations in a country in which they operate, because the impact on business performance and public perceptions of the company could be severe. A comprehensive, transparent and verifiable corporate human rights policy has increasingly become essential. Visit the United Nations website www.un.org to learn more about the 'Norms on the Responsibilities of Transnational Corporations and Other Business Enterprises with regard to Human Rights' (UN Norms).

Born global companies

Traditionally, firms have started out by selling products or services in domestic markets and thereafter developed their international activities incrementally.[59] More recently, however, this has changed. Firms that commence operating internationally at or near their inception are known as **born global companies**. These firms are usually new ventures that are designed to be international from the first day of their operations. This definition distinguishes them from companies that have grown into global operations from their domesticity over time.[60] Examples include Skype and Logitech.[61] Some computers do not have inbuilt cameras, so Logitech supplies devices that can be attached to computers to enable live video streaming during Skype conversations.

However, it is not just large multinationals that can start international operations from the word go. Small- and medium-sized companies that face competition from international firms are also able to enter the global market. The proviso is that their CEOs should be entrepreneurs with an international outlook.[62] Stormy Australia is a Tasmanian company that makes comfortable lifejackets that can be worn at all times and is accredited with the international standard ISO 12402-3; Stormy, in fact, invented the first internationally accredited wearable lifejacket.[63] These days, born global companies are often hi-tech enterprises. A well-known recent example is wi-fi. The technology enables users to tap into the internet virtually anywhere — at home, in cafés or at work — and is an Australian invention that rapidly went global.[64]

Pros and cons of multinational corporations

Now that consumer demand, resource supplies, product flows and labour markets often span national boundaries, the actions of MNCs are increasingly influential in the global economy. The United Nations has reported that MNCs hold one-third of the world's productive assets and control 70 per cent of world trade. Furthermore, more than 90 per cent of these MNCs are based in the Northern Hemisphere. Although this may bring a sense of both accomplishment and future opportunity to some business leaders, it can also be very threatening to countries and their domestic industries.

Host-country issues

Both the global corporations and the countries that 'host' their foreign operations should benefit from any business relationship. Figure 4.4 shows how things can and do go both right and wrong in MNC–host-country relationships. The potential host-country benefits include larger tax bases, increased employment opportunities, technology transfers, the introduction of new industries and the development of local resources. In respect to potential host-country costs, it has been claimed that MNCs extract excessive profits, dominate the local economy, interfere with the local government, do not respect local customs and laws, fail to help domestic firms develop, hire the most talented of local personnel and do not transfer their most advanced technologies.[65]

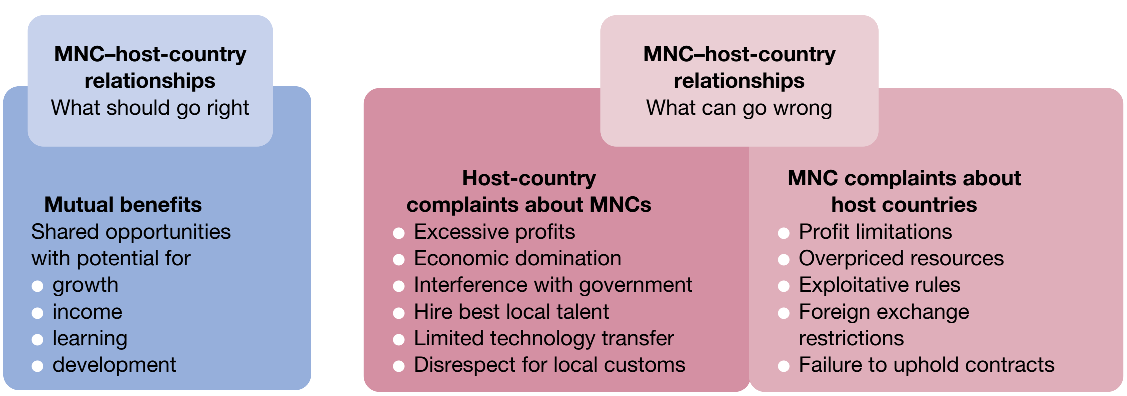

FIGURE 4.4 What should go right and what can go wrong in MNC–host-country relationships

Of course executives of MNCs sometimes feel exploited as well in their relations with host countries. Consider China, for example, where major cultural, political and economic differences confront the outsider.[66] Profits have proved elusive for some foreign investors; some have faced government restrictions that make it difficult to take profits out of the country; some have struggled to get needed raw materials, both domestically and from abroad.[67] The protection of intellectual property is an ongoing concern for foreign manufacturers, and managing relationships with government agencies can be very complicated. When Motorola ran the largest foreign-owned operation inside China, for example, it still had to negotiate business plans with the government. The firm's chief country representative, K. P. To, said 'Even if you're wholly owned, you still need strong support from the government'.[68]

Home-country issues

MNCs may also encounter difficulties in the country where their headquarters are located. Even as many MNCs try to operate more globally, home-country governments and citizens tend to identify them with local and national interests. When an MNC outsources, cuts back or closes a domestic operation to shift work to lower cost international destinations, the loss of local jobs is controversial. Corporate decision-makers are likely to be engaged by government and community leaders in critical debate about a firm's domestic social responsibilities. Home-country criticisms of MNCs, such as Westpac, BHP Billiton, Blundstone and Pacific Brands, include complaints about transferring jobs out of the country and shifting capital investments abroad.

Ethical issues for multinational operations

The ethical aspects of international business deserve special attention, and will be discussed further in the chapter on managerial ethics and social responsibility. However, the issue of questionable practices must be raised in the international business context.

Corruption, engaging in illegal practices to further your business interests, is a source of continuing controversy in various countries. The heads of government within the Commonwealth have committed themselves to a policy of 'zero tolerance' of corruption. APEC has developed principles, albeit voluntary, that focus on issues such as transparency in the tender process and accountability; and the Council of Europe and the European Union have finalised comprehensive anti-corruption policies. However, critics believe these policies fail to recognise the 'reality' of business as practised in many foreign nations. They complain that companies adhering to these policies are at a competitive disadvantage because they can't offer the same 'deals' as competitors from other nations — deals that locals may regard as standard business practice.

Sweatshops, business operations that employ workers at low wages for long hours and in poor working conditions, are another concern in the global business arena. Networks of outsourcing contracts are now common as manufacturers follow the world's low-cost labour supplies — countries such as the Philippines, Sri Lanka and Vietnam are popular destinations. Yet Nike has learned from problems in Asia that a global company will be held publicly accountable for the work standards and employment practices of its foreign subcontractors. Facing activist criticism, the company revised its labour practices with recommendations from a review by the consulting firm Goodworks International. Nike now offers a special website, Transparency 101, which contains reports and audit results on its international labour practices.[69]

The use of **child labour**, the full-time employment of children for work otherwise done by adults, is another controversial issue in some countries, along with global concerns for environmental protection. Not only are the world's citizens worried about pollution, but more generally they expect global corporations to respect the natural environment and pursue safe industrial practices. Industrial pollution of cities, hazardous waste, depletion of natural resources and related concerns are now worldwide issues. The concept of **sustainable development** is gaining increasing awareness. Sustainable development is 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs'.[70] As global corporate citizens, MNCs are increasingly expected to uphold high standards in dealing with sustainable development and protection of the natural environment — whenever and wherever they operate. The available guidelines for responsible environmental policies include **ISO 14000**, a set of certification standards developed by the International Organization for Standardization and recognised worldwide.

CRITICAL ANALYSIS

1. What are the alternatives to international companies transferring jobs out of their home countries?
2. In what ways can MNCs contribute towards sustainable development in both their home and host countries?

4.4 Culture and global diversity

LEARNING OBJECTIVE 4.4 What is culture and how does it relate to global diversity?

Culture is the shared set of beliefs, values and patterns of behaviour common to a group of people. Anyone who has visited another country knows that cultural differences exist. **Culture shock**, the confusion and discomfort a person experiences when in an unfamiliar culture, is a reminder that many of these differences must be mastered just to travel comfortably around the world. But the important business and managerial implications of sociocultural differences must also be understood.

Ethnocentrism is the tendency to view your own culture as superior to others. It is surprisingly common in international business, but it must be avoided. Local customs vary in too many ways for most of us to become true experts in the many cultures of our diverse world. Yet there are things we can do to respect differences, successfully conduct business abroad and minimise culture shock. Self-awareness and reasonable sensitivity are the basic building blocks of cultural awareness, as suggested in Manager's notepad 4.2.[71]

MANAGER'S NOTEPAD 4.2

Stages in adjusting to a new culture

- *Confusion*. First contacts with the new culture leave you anxious, uncomfortable and in need of information and advice.
- *Small victories*. Continued interactions bring some 'successes', and your confidence grows in handling daily affairs.
- *The honeymoon*. A time of wonderment, cultural immersion and infatuation, with local things viewed most positively by you.
- *Irritation and anger*. A time when the 'negatives' overtake the 'positives', and the new culture becomes a target of your criticism.
- *Reality*. A time of rebalancing; you are able to enjoy the new culture while recognising its less desirable elements.

Popular dimensions of culture

The first impressions of a traveller often include recognition and even 'shock' over cultural differences. Among the popular dimensions of culture that should be understood are those relating to language, use of space, time orientation, religion and the role of contracts.[72] When executives at British Airways (BA) surveyed international customers, for example, a simple lesson emerged — don't assume people from different cultures will have the same dining habits and preferences. Japanese passengers, for example, commented that BA's food was 'not bad for Westerners'. They also pointed out that the white china dishes were similar to those used in Japanese hospitals and prisons. 'The further away from our Western culture we go, the less satisfied our customers are', said one BA marketing manager. 'People from other cultures have felt looked down upon.' A major overhaul was undertaken to give the carrier a more truly global identity.[73] Having an appreciation of different cultural views is vital for organisations like BA that wish to achieve a global identity.

Language

Language is a medium of culture. It provides access to the type of cultural understanding needed to conduct business and develop relationships. Not only do languages vary around the world; the same language (such as English) can vary in usage from one country to the next (as it does from the United States to England to Australia to New Zealand). Although it isn't always possible to know a local language, such as Hungarian, it is increasingly usual in business dealings to find some common second language in which to communicate, such as English, French, German or Spanish. The importance of good foreign language training is vital for the truly global manager.

According to anthropologist Edward T. Hall, there are systematic and important differences in the way cultures use language in communication.[74] He describes **low-context cultures** as those in which most communication takes place via the written or spoken word. In places such as the United States, Canada, Germany, New Zealand and Australia, for example, the message is delivered in very precise wording. You have to listen and read carefully to best understand what the message sender intends. Things are quite different in **high-context cultures**, where much communication takes place through non-verbal and situational cues, in addition to the written or spoken word. In such settings the words communicate only a (sometimes small) part of the message. The rest must be interpreted from the situational 'context' — body language, physical setting and even the past relationships among those involved. This process is often time-consuming and very deliberate. In high-context Japan, for example, much emphasis is given to social settings in which potential partners develop a relationship and get to know one another; once this is accomplished, future business dealings can then be formulated.

Interpersonal space

Hall considers the use of interpersonal space as one of the important 'silent languages' of culture.[75] Arabs and many Latin Americans, for example, prefer to communicate at much closer distances than is standard in Australian and New Zealand practice. Misunderstandings are possible if one businessperson moves back as another moves forward to close the interpersonal distance between them. Some cultures of the world also value space more highly than others. Americans tend to value large and private office space. The Japanese are highly efficient in using space; even executive offices are likely to be shared in major corporations.

Time orientation

Time orientation is another dimension of the silent language of culture.[76] The way people approach and deal with time tends to vary widely. In some countries it may not be expected (or even impolite) to arrive punctually or early for a scheduled appointment. When working in Vietnam, in contrast, punctuality is important and communicates respect for your host.[77] Hall describes **monochronic cultures** in which people tend to do one thing at a time, such as scheduling a meeting and giving the visitor your undivided attention for the allotted time.[78] This is standard business practice in Australia and New Zealand. In **polychronic cultures**, on the other hand, time is used to accomplish many different things at once. The New Zealand or Australian visitor to an Egyptian client may be frustrated by continued interruptions as people flow in and out of the office and various transactions are made.

Religion

Religion is also important as a cultural variable, and you should always be aware of religious traditions when visiting and working in other cultures. Religion is a major influence on many people's lives, and its impact may extend to practices regarding dress, food and interpersonal behaviour. It is a source of ethical and moral teaching, with associated personal and institutional implications. Islamic banks in the Middle East, for example, serve their customers without any interest charges to remain consistent with the teachings of the Koran. The traveller and businessperson should be sensitive to the rituals, holy days and other expectations associated with religions in other countries. When working with Muslims in Malaysia, for example, it is polite to schedule business dinners after 8 pm. This allows them to complete the evening prayer before dining. Similarly, it should be remembered that the Islamic holy month of Ramadan is a dawn-to-dusk time of fasting.

Role of agreements

Cultures vary in their use of contracts and agreements. In Australia and New Zealand, a contract is viewed as a final and binding statement of agreements. This tends to hold true in general with low-context cultures. In other parts of the world with high-context cultures, such as China, the written contract may be viewed as more of a starting point. Once in place, it will continue to be modified as the parties work together over time. McDonald's found this out when the Chinese government ignored the firm's lease on a restaurant site in Beijing and tore down the building to make room for a development project. In Australia and New Zealand, contracts are expected to be in writing; however, requesting a written agreement from an Indonesian who has given his 'word' may be quite disrespectful.

Values and national cultures

As companies go global, their managers must become more global in their viewpoints, experiences and cultural appreciation. An Australian project manager, for example, who started work on a project in Bandung, Indonesia, did not fully appreciate the significance of religious holidays in Indonesia, and that the office staff devoutly observed these. She also did not understand the emphasis staff placed on tending to the needs of their families in the morning — particularly their elderly relatives and their children — as she had only herself to look after each morning. During the month of Ramadan, staff would often leave early and arrive late to meet the requirements of fasting and religious devotion. She felt quite frustrated until a colleague explained to her the importance of these issues to Indonesians.[79]

Westerners often have trouble recognising which is a Chinese person's given name and which is the family name when seeing them written down. Names are usually written in the following order: the family name, followed by any middle name and finally the given name. Titles are also used with names whenever possible. An understanding of these protocols can make a big difference when meeting Asian business associates.

It is helpful to have a framework for understanding how basic cultural differences can influence management and organisational practices. Geert Hofstede, a Dutch scholar and international management consultant, studied personnel from a US-based MNC operating in 40 countries. First published in his book *Culture's Consequences: International Differences in Work-Related Values*, his research offers one framework for understanding the management implications of broad differences in national cultures.[80] Figure 4.5 shows how selected countries rank on the five dimensions Hofstede now uses in his model:

1. *power distance* — the degree to which a society accepts or rejects the unequal distribution of power in organisations and the institutions of society
2. *uncertainty avoidance* — the degree to which a society tolerates risk and situational uncertainties
3. *individualism–collectivism* — the degree to which a society emphasises individual accomplishment and self-interests, versus collective accomplishments and the good of groups
4. *masculinity–femininity* — the degree to which a society values assertiveness and material success, versus feelings and concern for relationships
5. *time orientation* — the degree to which a society emphasises short-term considerations versus greater concern for the future.[81]

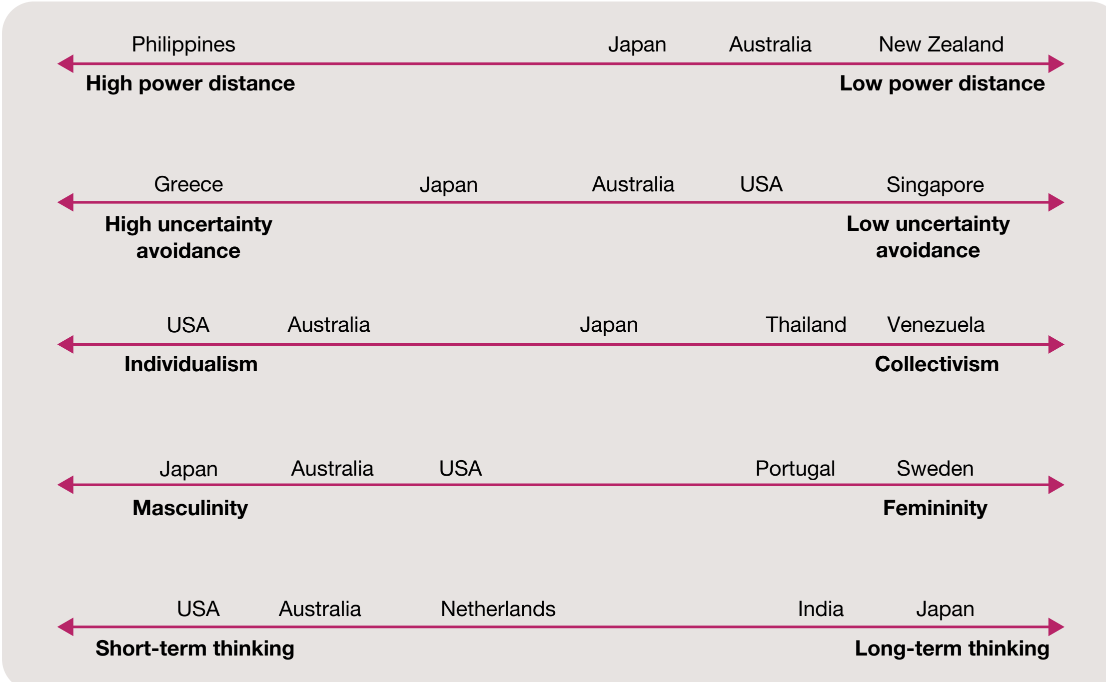

FIGURE 4.5 How countries compare on Hofstede's dimensions of national culture

Hofstede's framework helps identify useful managerial implications from these potential cultural differences. For example, workers from high power-distance cultures, such as Singapore, can be expected to show great respect to seniors and those in authority. In high uncertainty-avoidance cultures, employment practices that increase job security are likely to be favoured. In highly individualistic societies (the United States ranked as the most individualistic in Hofstede's sample), workers may be expected to emphasise self-interests more than group loyalty. Outsiders may find that the workplace in more masculine societies, such as Japan, displays more rigid gender stereotypes. Also, corporate strategies in more long-term cultures are likely to be just that — more long-term oriented.

Understanding cultural diversity

Consider this not uncommon scenario — a senior Western manager being brought into an Asian operation. Both the manager and staff will likely experience some degree of clash between two different business cultures. While Western managers may be used to working with staff in their own countries who feel free to express their ideas and work towards clear objectives; staff in Asian countries may be more used to following orders and working through relationships. Such situations require understanding and a process of learning how to work effectively together.

Stepping into cross-cultural work and managerial situations of any sort is complicated; those associated with mergers and acquisitions are especially so. It takes all of your understanding and skills to deal well with the challenges. In addition to the descriptions of popular and national cultures already discussed, the integrative framework of management scholar Fons Trompenaars can be helpful. In research with some 15 000 respondents from 47 countries, he identifies systematic cultural differences in the ways relationships are handled among people, attitudes towards time, and attitudes towards the environment.[82] By better understanding these patterns of difference, he suggests we can improve our cross-cultural work effectiveness.

DIVERSITY

Australia, New Zealand and the United States

New Zealand is probably best known for its rugby team.

New Zealand's dairy products are renowned worldwide, but the country is probably best known for its mighty All Blacks rugby team, winner of the World Cup in 1987, 2011 and 2015. New Zealand is the only country to have won the Rugby World Cup three times.

Given that both Australia and New Zealand have enjoyed enormous successes in their own right and appear (at least on paper) to be very similar culturally, one is driven to wonder why New Zealand might appear 'in awe' of Australia and why trans-Tasman rivalry is so fierce, rather than just friendly. New Zealanders may worry about being Australianised and losing their national identity, and they also express concern that Australia takes advantage when they begin business operations across the Tasman. In an article titled 'Kicked By the Same Kangaroo? Metaphor's Effects in Tragic Tales of Acquisition', Liu and Riad discuss three cases in which New Zealand companies have acquired Australian ones. These are The Warehouse's acquisitions of Silly Solly's and Clint's Crazy Bargains, New Zealand Telecom's takeover of Australian Associated Press Telecommunications (AAPT), and Air New Zealand's purchase of the failed Ansett Airlines.

The Warehouse is the biggest retailer in New Zealand, and Liu and Riad believe that it is also the most popular one. However, the company failed to repeat its New Zealand success in Australia, and eventually sold its acquired companies. Telecom wrote off billions of the value of AAPT's network and, eventually, closed it down — integrating with PowerTel with the aim of continuing operations in Australia's telecommunications market.[83] AAPT was subsequently purchased by iiNet for AU$60 million, and later also acquired Intermode for AU$105 million.[84]

Air New Zealand took a well-documented hammering when it placed its wholly owned subsidiary, Ansett Airlines, in voluntary administration. To rescue Air New Zealand from collapse, the government took an 83 per cent holding by injecting more than $850 million to keep it flying. So, as a result of the perceived 'Australianisation' of New Zealand by Australian businesses and expatriate personnel who take up senior positions in New Zealand firms, and the belief that Australian companies are taking New Zealand firms that invest there to the cleaners, the rivalry is sometimes not quite so friendly anymore.[85]

At the same time, Australia appears in awe of the United States, a reasonably similar English-speaking country with a much bigger population. Many North Americans have been appointed as CEOs of Australian blue-chip listed companies — such as Paul Anderson at BHP, Bob Joss at Westpac; Sol Trujillo at Telstra and Don Voelte at Woodside. Similarly, it is common for North American academics to be appointed to senior academic positions at Australian universities. International appointments to senior local positions can potentially be seen as casting aspersions on the efficacy of homegrown talent.

QUESTION

What would you suggest to New Zealanders and Australians to help them get over their cultural rivalry?

Relationships with people

According to Trompenaars's framework, there are five ways in which people differ culturally in how they handle relationships with one another: *Universalism vs particularism* is the degree to which a culture emphasises rules and consistency in relationships, or accepts flexibility and the bending of rules to fit circumstances. *Individualism vs collectivism* is the degree to which a culture emphasises individual freedoms and responsibilities in relationships, or focuses more on group interests and consensus. *Neutral vs affective* is the degree to which a culture emphasises objectivity and reserved detachment in relationships, or allows more emotion and expressed feelings. *Specific vs diffuse* is the degree to which a culture emphasises focused and in-depth relationships, or broader and more superficial ones. Finally, *achievement vs prescription* is the degree to which a culture emphasises an earned or performance-based status in relationships, or awards status based on social standing and non-performance factors.

Attitudes towards time

Attitudes towards time in the Trompenaars framework differ in the relative emphasis given to the present versus the past and future. In cultures that take a *sequential view*, time is considered a continuous and passing series of events. This somewhat casual view of time may be represented by a circle and the notion that time is recycling, in the sense that a moment passed will return again. In cultures that take a *synchronic view*, on the other hand, time takes on a greater sense of urgency. It is more linear, with an interrelated past, present and future. Pressures to resolve problems quickly so that time won't be 'lost' are more likely in synchronic than sequential cultures.

Attitudes towards the environment

Trompenaars also recognises that cultures vary in their approach to the environment. In cultures that are *inner-directed*, people tend to view themselves as quite separate from nature. They are likely to consider the environment as something to be controlled or used for personal advantage. In cultures that are *outer-directed*, people tend to view themselves as part of nature. They are more likely to try and blend with or go along with the environment than to try to control it.

CRITICAL ANALYSIS

1. What forms of culture shock might an Australian or New Zealand sporting coach experience if he or she took up an appointment in South Africa?
2. Use Hofstede's dimensions to compare managing in Japan, Singapore and Australia.

4.5 Management across cultures

LEARNING OBJECTIVE 4.5 How do management practices and learning transfer across cultures?

The management process — planning, organising, leading and controlling — is as relevant to international operations as to domestic ones. Yet, as the preceding discussion of culture should suggest, these functions must be applied appropriately from one country and culture to the next. **Comparative management** is the study of how management systematically differs between countries and/or cultures. Today we recognise the importance of learning about how management is practised around the world. Competition and the global economy have given rise to global managers, defined earlier as managers comfortable with cultural diversity, quick to find opportunities in unfamiliar settings, and able to marshal economic, social, technological and other forces for the benefit of the organisation.[86] Global managers, simply put, apply the management functions successfully across national and cultural borders.

Planning and controlling

The complexity of the international operating environment makes global planning and controlling especially challenging. Picture a home office in Auckland, New Zealand. Foreign operations are scattered in Asia, Africa, South America and Europe. Planning must somehow link the home office and foreign affiliates, while taking into account different environments, cultures and needs. Increasingly, new technology facilitates the planning and control of global operations through vastly improved communications systems. Computer-based global networks allow home and field offices to share databases, electronically transfer documents, and even hold conferences and make group decisions through computer links and videoconferencing.

Organisations with investments in foreign countries must also factor into their planning the risks of doing business across political and economic borders. One risk is *currency risk*. Companies such as McDonald's, for example, must eventually convert their foreign currency earnings into dollars. But, the value of the dollar against other currencies varies over time and is not always easy to predict. Another risk is **political risk**, the potential loss of an investment in, or managerial control over, a foreign asset because of political changes in the host country. In general, the major threats of political risk come from social instabilities as a result of ethnic or other differences, armed conflicts and military disruptions, shifting government systems through elections or forced takeovers, and new laws and economic policies. Think about the political risks occurring in the world today. What ramifications can you see for organisations?

Political-risk analysis is a planning process that forecasts the probability of these and other political events that can threaten the security of a foreign investment. The stakes can be quite high. It is obvious, for example, that foreign investors suffer in the political turmoil of war and terrorism. It may be less obvious that an Australian company in a developing country could lose most of its foreign assets in a single day. This could happen if the host country decided to float its currency in the international money markets, resulting in the loss in Australian dollar value of the company's assets in that country. Organisations that do political-risk analysis would be able to take protective measures against such a situation.

Organising and leading

The same factors that challenge the planning and controlling functions in the international arena also affect managerial efforts to organise and lead. The forces of globalisation are complex indeed. For Caltex, it has meant closing a corporate headquarters in Dallas, Texas, and moving to Singapore. It has meant setting up a website development division in South Africa and an accounting division in the Philippines. Large companies such as Caltex are increasingly locating centres of excellence around the world.

A rule of thumb for staffing international operations can be stated this way: 'Hire competent locals, use competent locals and listen to competent locals'. But, in addition, global success also often depends on the work of **expatriates**, employees who live and work in foreign countries on short-term or long-term assignments. For progressive firms, assigning home-office personnel to foreign operations is increasingly viewed as a strategic opportunity.[87] Not only does this offer the individuals challenging work experiences, it also helps bring into the executive suite culturally aware managers with truly global horizons and interpersonal networks of global contacts. Of course, not everyone performs well in an overseas assignment. Among the foundations for success are such personal attributes as a high degree of cultural awareness and sensitivity, a real desire to live and work abroad, family flexibility and support, as well as technical competence in the job.

Of great importance, but not often discussed, is **repatriation**. This occurs at the time when the expatriate manager goes home. Often, the company simply places the repatriate in his or her former job, but this is usually unsatisfactory for an executive who has moved on from a previous position and has gained a wealth of experience overseas. This often results in the employee leaving the company or heading off on another expatriate adventure.[88]

A common organising approach for organisations just getting started in international business is to appoint a senior manager to oversee all foreign operations. This may be fine for limited international activity, but as global involvement expands it usually requires a more complex arrangement. The *global area structure* shown in figure 4.6 arranges production and sales functions into separate geographical units. This allows activities in major areas of the world to be given special executive attention. Another organising option is the *global product structure*, also shown in the figure. It gives worldwide responsibilities to product group managers, who are assisted by area specialists on the corporate staff. These specialists provide expert guidance on the unique needs of various countries or regions.

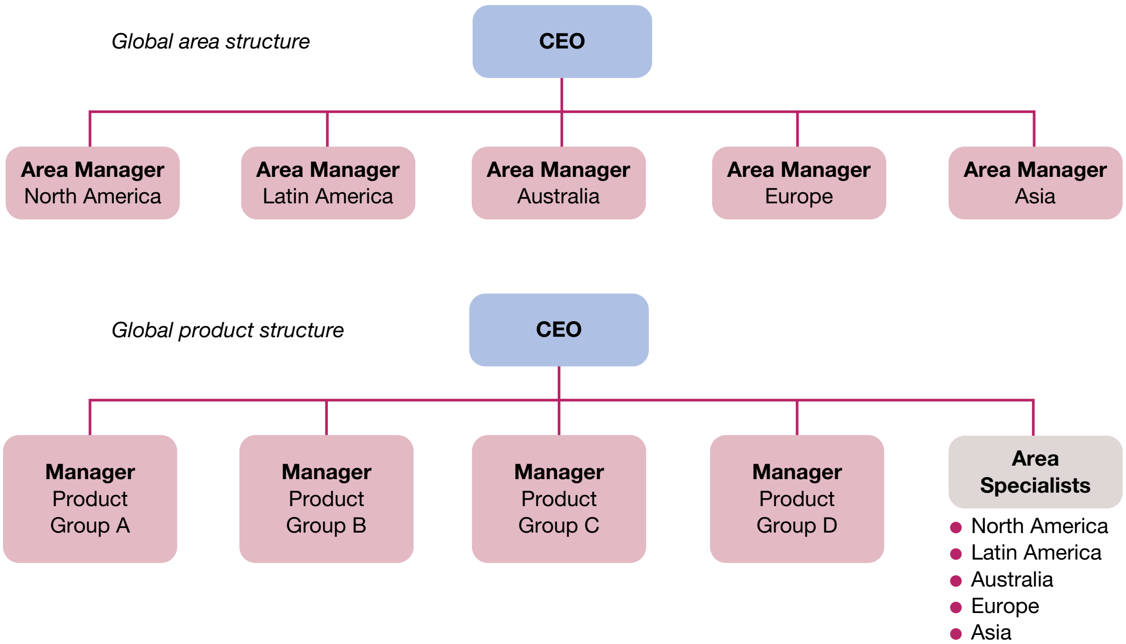

FIGURE 4.6 Alternative multinational structures for global operations

Are management theories universal?

Management practices in the United States and Western Europe have often been used as models around the world. Increasingly, however, a significant question is asked: 'Are management theories universal?' Geert Hofstede, whose framework for understanding national cultures was introduced earlier, believes they should not be applied universally.[89] He worries that many of these theories are ethnocentric and fail to take into account cultural differences. For example, he argues that the United States emphasis on participation in leadership reflects the culture's moderate stance on power distance. National cultures with lower scores, such as Sweden and Israel, are characterised by even more 'democratic' leadership initiatives. France and some Asian countries with higher power-distance scores seem less concerned with participative leadership.

Hofstede also points out that the motivation theories of United States scholars are value laden, with an emphasis on individual performance. He considers this viewpoint consistent with the high individualism found in Anglo-American countries such as the United States, Canada, New Zealand and Australia. Elsewhere, where values are more collectivist, the theories may be less applicable. Even a common value, such as the desire for increased humanisation of work, may lead in different management directions. Until recently, practices in the United States largely emphasised designing jobs for individuals. Elsewhere in the world, such as in Sweden, the emphasis has been on designing jobs to be performed by groups of workers.

Consider as well the implications of transferring to the United States and other Western countries some of the Japanese management practices that have attracted great interest over the years.[90] These include lifetime employment, gradual career advancement, collective decision-making and quality emphasis. All have been associated in one way or another with past successes in Japanese industry.[91] But as interesting as the practices may be, any transfers of practice must factor into account the distinctive Japanese cultural traditions in which they emerged, such as long-term orientation, collectivism and high power distance.[92] Note also that management and organisational practices are changing in Japan, some argue towards the Western models, as its businesses adjust to the demands of a new economy and shifting trends in social values.[93]

Context also counts in evaluating management and organisational practices. In Japan, **keiretsu** have been part of the success stories. They are long-term industry alliances or business groups that link together various businesses — manufacturers, suppliers and finance companies — to attain common interests. The companies involved often own shares in one another, their boards of directors often overlap and they often do business with one another on a preferential basis. Not only must the influence of keiretsu on Japanese business success be recognised, it may be considered an unfair business practice in other countries such as the antitrust-conscious United States.

Global organisational learning

In the dynamic and ever expanding global economy, cultural awareness is helping to facilitate more informed transfers of management and organisational practices. We live at a fortunate time when managers around the world are realising they have much to share with and learn from one another. Global organisational learning is a timely and relevant theme. This point is evident in the following words of Kenichi Ohmae, noted Japanese management consultant and author of *The Borderless World*:

> Companies can learn from one another, particularly from other excellent companies, both at home and abroad. The industrialized world is becoming increasingly homogeneous in terms of customer needs and social infrastructure, and only truly excellent companies can compete effectively in the global marketplace.[94]

Yes, we do have a lot to learn from one another. Yet it must be learned with full appreciation of the constraints and opportunities of different cultures and country environments. Like the United States management practices before them, Japanese approaches and those from other cultures must be studied very carefully and adapted for local use. This applies to the way management is practised in Singapore, Korea, Indonesia, New Zealand, or any other part of the world. As Hofstede states:

> Disregard of other cultures is a luxury only the strong can afford . . . [The] consequent increase in cultural awareness represents an intellectual and spiritual gain. And as far as management theories go, cultural relativism is an idea whose time has come.[95]

The best approach to comparative management and global management learning is an alert, open, inquiring and always cautious one. It is important to identify both the potential merits of management practices found in other countries and the ways cultural variables may affect their success or failure when applied elsewhere. We can and should be looking for new ideas to stimulate change and innovation. But we should hesitate to accept any practice, no matter how well it appears to work somewhere else, as a universal prescription to action. Indeed, the goal of comparative management studies is not to provide definitive answers but to help develop creative and critical thinking about the way managers around the world do things, and about whether they can and should be doing them better.

CRITICAL ANALYSIS

1. Why do you think that returning home — that is, repatriation — can sometimes be more challenging than expatriation?
2. Why are management and organisational practices in Japan changing towards the Western models?

GLOBALISATION

Supply and demand of labour — a global phenomenon

Labour shortages have significantly contributed to the need to increase the mobility of workers around the globe. Organisations in some countries have had problems attracting and retaining good workers, but the workplace issues of an ageing population and widespread skills shortages have not been prevalent worldwide. While the population statistics for Australia and New Zealand are similar to those for other developed countries such as Northern America and much of Europe, many countries have older or younger populations. For example, Japan, Latvia, Slovenia, Italy and Estonia are expected to have the oldest populations midway through this century — with a median age of around 53 years. Much younger populations are anticipated in future years in Africa, Asia (broadly), Latin America and the Caribbean.[96] As populations age and when labour markets become strained in Australia and New Zealand, it is predicted skilled people in 'younger' nations will be attracted to more rewarding job opportunities available to workers who are prepared to migrate elsewhere. This trend towards migrating for better work conditions and pay might result in a 'brain drain' from 'younger' countries, but it will also likely help meet rising organisational demands in associated nations.

In Australia, where labour shortages and an ageing population have caused considerable concern, the federal government has a Migration Occupations in Demand List (MODL) which explicitly states the occupations that will be favoured for immigration purposes. These range from the general to the specific, for example, construction project managers and project builders to dental technicians and dental therapists.[97] A number of options for employers to help cope with 'importing' workers is also available.[98] For instance, a program assisting electricians with migrating to Australia from India, Sri Lanka, the United Kingdom, South Africa and the Philippines began in September 2007. The workers were given assistance in gaining provisional licences and getting work under supervision as well as help with gap training until full licences could be obtained. Immigration New Zealand also has lists for immediate skills shortages and long-term shortages.[99] In 2009, the global financial crisis led the Australian Government to temporarily cut back its immigration target by 14 per cent.[100] However, whenever China's demand for Australian resources picks up, it leads to an increased need for foreigners to work in the Australian mining sector.[101] For example, many temporary 457 visas were granted by the Western Australian Government during the resources boom of 2006–12. The top three countries from which workers came were the United Kingdom, the Philippines and South Africa.[102] The Australian Government immigration targets have remained at 190 000 (128 550 skilled and 61 450 family stream migrants) since 2012.[103]

The implications for focusing on motivating workers are significant. It is likely workforces will be more diverse in the future. In some organisations, a good percentage of the workforce may be from different cultural backgrounds. Our current approaches to understanding needs and the cognitive processes of motivation may need to broaden if we are to move beyond Western cultural biases. For example, individualistic Western cultures (such as Australia and the United States) may have different ways of perceiving what people need from their work than what Islamic cultures do. In Islamic cultures, work is valued for sustaining confidence and self-reliance and it has moral, psychological and social (relational) dimensions.[104] Such differences require more research and societal understanding.

Immigrant workers might have new needs that develop as their circumstances change. For example, the challenge of working in a new country without the security of family and community ties they had at 'home' may affect their motivational experience. Importing workforces can appear to be straightforward, but there are inherent problems. Managers of migrant workers need to be alert to cultural differences in motivation if they want to attract and retain these workers and also encourage productivity in the workplace.

QUESTION

What can you, as a potential manager and leader, do to help integrate migrant workers into the Australian or New Zealand workforce?

SUMMARY

4.1 What are the international management challenges of globalisation?

- International management is practised in organisations that conduct business in more than one country.
- Global managers are informed about international developments, transnational in outlook, competent in working with people from different cultures, and always aware of regional developments in a changing world.
- The global economy is making the diverse countries of the world increasingly interdependent regarding resource supplies, product markets and business competition.
- The global economy is now strongly influenced by regional developments that involve growing economic integration in Europe, the Americas, Asia and Australasia, and the economic emergence of Africa.

4.2 What are the forms and opportunities of international business?

- Five forms of international business are global sourcing, exporting and importing, licensing and franchising, joint ventures and wholly owned subsidiaries.
- The market entry strategies of global sourcing, exporting/importing and licensing are common for organisations wanting to get started internationally.
- Direct investment strategies to establish joint ventures or wholly owned subsidiaries in foreign countries represent substantial commitments to international operations.

4.3 What are multinational corporations and what do they do?

- Global operations are influenced by important environmental differences among the economic, legal–political and educational systems of countries.
- A multinational corporation (MNC) is a business with extensive operations in more than one other country.
- True MNCs are global firms with worldwide missions and strategies that earn a substantial part of their revenues abroad.
- MNCs offer potential benefits to host countries in broader tax bases, new technologies and employment opportunities. MNCs can also disadvantage host countries if they interfere in local government, extract excessive profits and dominate the local economy.
- Virtual borderless MNCs use the internet to expand globally.
- Born global companies operate internationally from inception.

4.4 What is culture and how does it relate to global diversity?

- Management and global operations are affected by the dimensions of popular culture, including language, space perception, time perception, religion and the nature of contracts.
- Management and global operations are affected by differences in national cultures, including Hofstede's dimensions of power distance, uncertainty avoidance, individualism–collectivism, masculinity–femininity and time orientation.
- Differences among the world's cultures may be understood with respect to how people handle relationships with one another and their attitudes towards time and the environment.

4.5 How do management practices and learning transfer across cultures?

- The management process must be used appropriately and applied with sensitivity to local cultures and situations.
- The field of comparative management studies how management is practised around the world and how management ideas are transferred from one country or culture to the next.
- Cultural values and management practices should be consistent with one another. Practices that are successful in one culture may work less well in others.
- The concept of global management learning has much to offer as the 'borderless' business world begins to emerge and as the management practices of diverse countries and cultures become more visible.

KEY TERMS

Born global companies trade internationally from their beginning.
Child labour is the full-time employment of children for work otherwise done by adults.
Comparative management studies how management practices differ between countries and cultures.
Corruption involves illegal practices to further one's business interests.
Culture is a shared set of beliefs, values and patterns of behaviour common to a group of people.
Culture shock is the confusion and discomfort a person experiences when in an unfamiliar culture.
Ethnocentrism is the tendency to consider one's culture superior to others.
The **euro** is the common European currency.
The **European Union (EU)** is a political and economic alliance of European countries.
The **Eurozone crisis** has been caused by unsustainable debt levels in several member countries.
Expatriates live and work in a foreign country.
In **exporting,** local products are sold abroad.
Franchising provides the complete 'package' of support needed to open a particular business.
In the **global economy,** resources, markets and competition are worldwide in scope.
The **global financial crisis** was a consequence of sub-prime mortgage defaults in the United States in 2008 and culminated in a worldwide recession.
A **global manager** is culturally aware and well informed on international affairs.
In **global sourcing,** materials or services are purchased around the world for local use.
Globalisation is the worldwide interdependence of resource flows, product markets and business competition.
High-context cultures rely on non-verbal and situational cues as well as spoken or written words in communication.
Importing is the process of acquiring products abroad and selling them in domestic markets.
International businesses conduct commercial transactions across national boundaries.
International management involves managing operations in more than one country.
ISO 14000 offers a set of certification standards for responsible environmental policies.
Joint ventures establish operations in a foreign country through joint ownership with local partners.
A **keiretsu** is a group of Japanese manufacturers, suppliers and finance firms with common interests.
A **licensing agreement** occurs when a firm pays a fee for the rights to make or sell another company's products.
Low-context cultures emphasise communication via spoken or written words.
In **monochronic cultures** people tend to do one thing at a time.
A **multinational corporation (MNC)** is a business with extensive operations in more than one foreign country.
NAFTA is the North American Free Trade Agreement linking Canada, the United States and Mexico in a regional economic alliance.
Political risk is the possible loss of investment or control over a foreign asset because of political changes in the host country.
Political-risk analysis forecasts how political events may affect foreign investments.
In **polychronic cultures** time is used to accomplish many different things at once.
Privatisation is the selling of state-owned enterprises into private ownership.
Protectionism is a call for tariffs and favourable treatments to protect domestic firms from foreign competition.
Repatriation occurs when an expatriate manager returns to their home country.
Sustainable development meets the needs of the present without hurting future generations.
Sweatshops employ workers at very low wages, for long hours and in poor working conditions.
Transnational corporations are MNCs that operate worldwide without being identified with one home country.

Virtual borderless companies are MNCs that make use of the internet to conduct business worldwide on a borderless basis.

A **wholly owned subsidiary** is a local operation completely owned by a foreign firm.

In the **World Trade Organization (WTO),** member nations agree to negotiate and resolve disputes about tariffs and trade restrictions.

APPLIED ACTIVITIES

1. What is the difference between 'global economy' and 'globalisation'?
2. Why do companies engage in international business?
3. What are some of the main functions of the World Trade Organization (WTO)?
4. What is the meaning of the term 'global sourcing'? Write a definition.
5. Kim has just returned from her first business trip to Japan. While there, she was impressed with the use of quality circles and work teams. Now back in Brisbane, she would like to start the same practices in her book publishing company of 75 employees. Based on the discussion of culture and management in this chapter, what advice would you offer Kim?

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CHAPTER 5

Ethical behaviour and social responsibility

LEARNING OBJECTIVES

5.1 What is ethical behaviour?
5.2 How do ethical dilemmas complicate the workplace?
5.3 How can high ethical standards be maintained?
5.4 What is organisational social responsibility?
5.5 How do organisations and government work together in society?

Taking corporate social responsibility to the next level

In Australia, the charity and not-for-profit sector makes up a $55 billion industry owing to Australian tax payers' generous values and billions of dollars in tax concessions. There are a plethora of registered charities for Australians to choose from when electing to 'dig deep' — in 2016 there were more than 54 000 registered charities.[1]

Many corporations that subscribe to the quadruple bottom line of being accountable for their financial, environmental and social performance, and staff wellbeing want to give something back and so make donations to one or more of these registered charities. McDonald's sponsoring of Ronald McDonald Houses is a well-documented example of a business donating to a worthy charitable cause. Ronald McDonald Houses are 'attached to major women's or children's hospitals and provide a home away from home for seriously ill children and their families'.[2] Notwithstanding attacks on the fast-food chain for contributing to unhealthy eating habits and obesity, it does provide a good example of how a business can help a worthwhile cause.

But how do you decide upon what is a worthwhile charity? Given that it is such a huge industry in Australia and elsewhere in the developed world, aspersions are sometimes cast and questions raised about how much money actually gets through to the needy once salaries, administrative costs and government commissions have been deducted. For this reason, the alternative presented by Richard Branson's Branson Centre for Entrepreneurship is an attractive one. Taking as its springboard the misery caused by unemployment, the charity provides seeding loans to small businesses in townships in developing countries. While this is not a brand new idea — the Nobel prize-winning Grameen bank was founded in 1976 to give microloans to impoverished Bangladeshis, effectively founding a business on corporate social responsibility (CSR) principles — Branson says:

> For too many years we've been trying to solve the world's issues by pouring trillions of dollars into aid. While this has been (and still is) absolutely necessary to ensure we stop human suffering in times of emergency, we all need to start looking beyond the emergencies, to stop constantly trying to save the world and instead look at reinventing how we live in the world. It can no longer be about putting sticking plasters on issues and hoping they will go away; it has to be about creating opportunities for people so that they can build the lives they deserve. And who better to create opportunities than entrepreneurs? Every time I visit our Branson Centre of Entrepreneurship in South Africa I leave feeling that I just emerged from the epicentre of hope in the world.[3]

One might think that these loans would never be paid back, but perhaps somewhat surprisingly 95 per cent of them are.[4]

QUESTION

Can a case be made for companies to continue donating to charities as part of their CSR obligations? Or should they only help clean up the environment and provide seeding loans to budding young entrepreneurs in developing countries or outlying communities?

Introduction

The good news is that some organisations employ 'environmental' managers to work on everything from a company's recycling program to long-term corporate environmental policies. Global warming, global sustainability and environmental protection are all on the agenda as organisations pursue what some call 'the greening of the bottom line'.[5] More and more companies are engaging in social outreach and including environmental issues and social concerns among top corporate goals.[6] Says the CEO of one large firm:

> A lot of the blue-chip multinationals have a long tradition of charitable and community programs that date back to their foundation. What is new is that corporate responsibility is being written into the business model.[7]

Lend Lease is a good example. A statement on the company's website reads:

> Sustainability has been an integral part of our culture for more than 50 years. Today, our employees insist that making a difference in our communities, improving health and safety standards, and reducing our environmental impacts are central to our business strategy.[8]

Perhaps one of the 'best' news stories in recent years was the willingness of Australian businesses and sports heroes to make substantial donations to victims of the horrific bushfires that affected Victoria in 2009. Telstra employees worked around the clock to restore damaged telephone lines, and the company donated $500 000 to the bushfire appeal fund, promising to match dollar for dollar any donations made by its employees. Wesfarmers donated the profits from a day of trading in its Coles supermarkets to the appeal, while Cricket Australia donated the proceeds from a one-day match played between Australia and New Zealand in Adelaide.[9] Australian soccer players handed match fees to the fund too. More recently, many Australians and Australian businesses even donated money to the victims of the Fukushima disaster via the Save the Children Fund.[10] Another good news story is Richard Branson's strategy of making small loans to help create employment, which could provide the impetus for participation by more companies.

There are many other examples, which are too numerous to mention. The bad news is that not all stories from the corporate world are positive examples. Consider these actual reports from past news stories: 'Firm admits lowering phone contract bid after receiving confidential information from an insider that an initial bid "was not good enough to win"'; 'Company admits overcharging consumers and insurers more than $13 million for repairs to damaged rental cars'; 'Executives get prison terms for selling adulterated apple juice — the juice labelled "100% fruit juice" was actually a blend of synthetic ingredients'. In Eastern China, Zhang Yujun, a cattle farmer, allegedly made $1.5 million from selling a toxic concoction that milk buyers used to doctor dairy products and increase profits. He was sentenced to death after eight babies died and nearly 300 000 children were harmed.[11] Perhaps one of the worst examples of ethical misconduct in recent times is the *News of the World* voicemail hacking scandal.

And that is not all. Consider these words from an address delivered some years ago at a well-known US business school: 'Greed is all right', the speaker said. 'Greed is healthy. You can be greedy and still feel good about yourself.' The students, it is reported, greeted these remarks with laughter and applause. The speaker was Ivan Boesky, once considered the 'king of the arbitragers'.[12] It was not long after his speech that Boesky was arrested, tried, convicted and sentenced to prison for trading on inside information.

It is time to get serious about the moral aspects and social implications of decision-making in organisations. In your career and in the work of any manager, the ultimate task must be more than simply meeting performance expectations. Performance goals must always be achieved through ethically and socially responsible action. The following reminder from Desmond Tutu, the former archbishop of Cape Town, South Africa, and a winner of the Nobel Peace Prize, is applicable to managers everywhere:

> You must take a stand on important issues: the environment and ecology, affirmative action, sexual harassment, racism and sexism, the arms race, poverty, the obligations of the affluent West to its less-well-off sisters and brothers elsewhere.[13]

5.1 What is ethical behaviour?

LEARNING OBJECTIVE 5.1 What is ethical behaviour?

For our purposes, **ethics** can be defined as the code of moral principles that sets standards of good or bad, or right or wrong, in a person's conduct and thereby guides the behaviour of that person or group.[14] These principles guide behaviour and help people make moral choices among alternative courses of action. In practice, **ethical behaviour** is that which is accepted to be 'good', 'right' and 'proper' as opposed to 'bad', 'wrong' or 'improper' in the context of the governing moral code.

Law, values and ethical behaviour

It makes sense that there should be a legal component to ethical behaviour; that is, you would expect that any legal behaviour should be considered ethical. Yet the White Australia Policy — which determined Australia's approach to immigration from the time of Federation until the latter part of the 20th century and which favoured applicants from certain countries — was once law in Australia.[15] That does not mean the policy was ever ethical; it was clearly not. Furthermore, just because an action is not strictly illegal doesn't make it ethical. Living up to the 'letter of the law' is not sufficient to guarantee that your actions will or should be considered ethical.[16] Is it truly ethical, for example, for an employee to take longer than necessary to do a job? to make personal telephone calls on company time? to call in sick to take a day off for leisure? to fail to report rule violations by a co-worker? None of these acts is strictly illegal, but many people would consider any one or all of them to be unethical.

Most ethical problems in the workplace arise when people are asked to do, or find themselves about to do, something that violates the dictates of their conscience. For some, if the act is legal they proceed with confidence. For others, the ethical test goes beyond the legality of the act alone. The ethical question extends to personal **values** — the underlying beliefs and attitudes that help determine individual behaviour. To the extent that values vary among people, we can expect different interpretations of what behaviour is ethical or unethical in a given situation.

Alternative views of ethical behaviour

There are many different interpretations of what constitutes ethical behaviour. Figure 5.1 shows four views of ethical behaviour that philosophers have discussed over the years.[17] The first is the **utilitarian view**. Behaviour that would be considered ethical from this perspective delivers the greatest good to the greatest number of people. Founded in the work of 19th century philosopher John Stuart Mill, this is a results-oriented point of view that tries to assess the moral implications of decisions in terms of their consequences. Business decision makers, for example, are inclined to use profits, efficiency and other performance criteria to judge what is best for the most people. A manager may make a utilitarian decision to cut 30 per cent of a factory's workforce in order to keep the factory profitable and save jobs for the remaining 70 per cent.

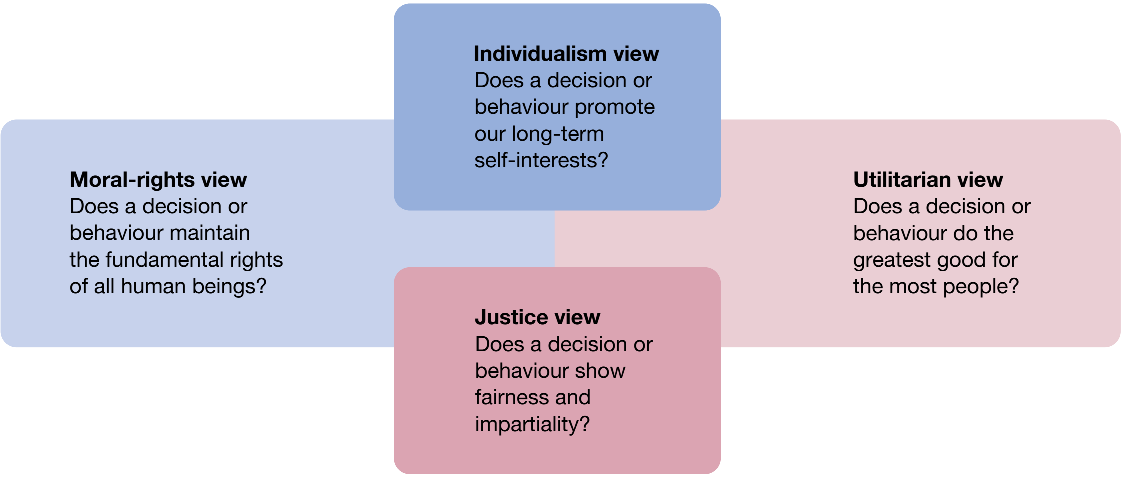

FIGURE 5.1 Four views of ethical behaviour

The **individualism view** of ethical behaviour is based on the belief that our main commitment is to the advancement of long-term self-interests. When people pursue individual self-interests, they supposedly become self-regulating. For example, such things as lying and cheating for short-term gain should not be tolerated. If one person does it, everyone will do it, and no-one's long-term interests will be served. The individualism view is supposed to promote honesty and integrity. But in business practice it may result in a pecuniary ethic, described by one business executive as the tendency to 'push the law to its outer limits' and 'run roughshod over other individuals to achieve one's objectives'.[18]

Ethical behaviour under a **moral-rights view** is that which respects and protects the fundamental rights of people. For example, the rights of all people in Australia, New Zealand, the United States, the United Kingdom and other countries to life, freedom and fair treatment under the law are considered inviolate. In many organisations today, this concept extends to ensuring that employees are always protected in their rights to privacy, due process, free speech, free consent, health and safety, and freedom of conscience. The issue of human rights, so characteristic of ethical concerns in the international business environment, is central to this perspective. The United Nations stands by the Universal Declaration of Human Rights passed by the General Assembly in 1948. Peter Drucker would probably subscribe to this view because he:

> recognised and preached that people are not a cost; they are a resource. He concluded that considerations for workers in and out of the workplace were the responsibility of the corporate leader just as much as the profits, survival, and growth of the business or organisation.[19]

Starbucks, for example, seeks to enhance the lives of the small independent coffee bean farmers who make up their suppliers, and mentioned them first in an annual report, while shareholders were mentioned last.[20]

Finally, the **justice view** of moral behaviour is based on the belief that ethical decisions treat people impartially and fairly according to guiding rules and standards. This approach evaluates the ethical aspects of any decision on the basis of whether it is 'equitable' for everyone affected.[21] One justice issue in organisations is **procedural justice** — the degree to which policies and rules are fairly administered. For example, does a sexual harassment charge levied against a senior executive receive the same full hearing as one made against a first-level supervisor? A second issue is **distributive justice** — the degree to which outcomes are allocated without respect to individual characteristics based on ethnicity, race, gender, age or other criteria. For example, does a woman with the same qualifications and experience as a man receive the same consideration for hiring or promotion? A third issue is **interactional justice** — the degree to which others are treated with dignity and respect. For example, does a bank loan officer take the time to fully explain to an applicant why he or she was turned down for a loan?[22]

ETHICS

Sustainability at CSR Limited

CSR Limited places strong emphasis on corporate social responsibility and sustainability initiatives. Employees at the company have pledged funds to various charitable causes in recent years, including to the Queensland Premier's Disaster Relief Appeal for flood-affected areas.

CSR Limited (CSR), founded in 1855 as the Colonial Sugar Refinery, has diversified and grown to become one of Australia's leading publicly listed companies. It is now Australia's largest sugar producer, a leading supplier of building products (including plasterboard, cement, bricks, roof tiles and insulation) to the construction industry, and smelts aluminium. It has operations for its three principal businesses throughout Australia as well as in New Zealand and Asia. It describes its charter as a commitment to act responsibly, ensuring staff deal appropriately with the communities in which they operate, in order to gain their support. This philosophy is consistent with the general business notion of corporate social responsibility, which often also goes by the abbreviation 'CSR', and is the focus of much of this chapter. Sustainability is a related concept, requiring the use of resources to enable society to satisfy current needs without compromising the ability of future generations to meet their needs.

Corporate social responsibility and sustainability initiatives are in evidence in CSR's activities. The company has a Workplace Giving program in which the company matches employee contributions to charity — dollar for dollar. CSR's employees have selected 14 charities that benefit from this initiative and in its first 11 years of operation until 2015, $2.6 million was donated. In addition, CSR donated more than $30 000 of building products and installation services to the Habitat for Humanity organisation, which helped to build 12 homes for needy Australians. CSR also contributed $50 000 to the Queensland Premier's Disaster Relief Appeal for communities affected by floods in the north of the state, and donated laptops and secondary schooling packages to the Youth off the Streets organisation, one of its three main partner charities, for its scholarship program. It has also assisted Youth Off the Streets provide short- and long-term accommodation. CSR Sugar pledged $30 000 over six years for university scholarships to economically and educationally disadvantaged Australian South Sea Islanders in North Queensland. Ancestors of this ethnic group had been brought into Australia as indentured labourers to work on sugar plantations in the late 19th century. CSR supports Assistance Dogs Australia and the Salvation Army, its other two major partner charities. The company also planted 300 trees and removed harmful weeds at its Gyprock site at Coopers Plains in Queensland. It undertakes regular testing upstream from the site in an effort to improve water quality. Since 2011 CSR employees volunteered 970 hours of their time for mentoring in the community. The company reduced its total greenhouse emissions by 13 per cent, its solid waste by 33 per cent and potable water usage by 13 per cent between 2011 and 2014.[23]

QUESTION

What are some other ways that the company could contribute to corporate social responsibility? Do you think the company does enough considering in 2015 it earned A$2 billion in revenue and its statutory net profit was A$125.5 million?[24]

Cultural issues in ethical behaviour

The influence of culture on ethical behaviour is increasingly at issue as businesses and individuals travel the world. Corporate leaders must master difficult challenges when operating across borders that are cultural as well as national. Those who believe that behaviour in foreign settings should be guided by the classic rule of 'when in Rome, do as the Romans do' reflect an ethical position of **cultural relativism**.[25] This is the notion that there is no one right way to behave and that ethical behaviour is always determined by its cultural context. When it comes to international business, for example, a Western executive guided by rules of cultural relativism might argue that the use of child labour is okay if it is consistent with local laws and customs.

Figure 5.2, however, contrasts this position with the alternative of **universalism**. This ethical position suggests that if a behaviour or practice is not okay in your home environment, it shouldn't be acceptable practice anywhere else. In other words, ethical standards are universal and should apply absolutely across cultures and national boundaries. Critics of such a universal approach claim that it is a form of **ethical imperialism**, or the attempt to externally impose your ethical standards on others.

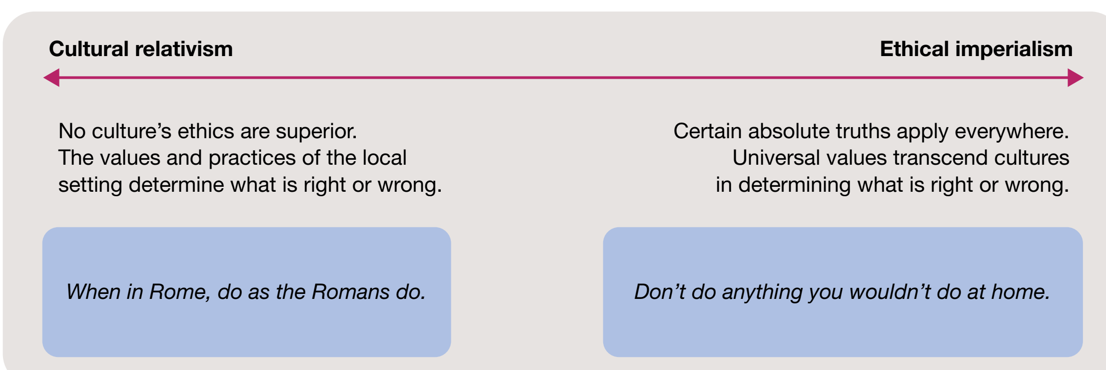

FIGURE 5.2 The extremes of cultural relativism and ethical imperialism

Source: Based on information in Thomas Donaldson, 'Values in Tension: Ethics Away from Home', *Harvard Business Review*, vol. 74 (September–October 1996), pp. 48–62.

Business ethicist Thomas Donaldson discusses the debate between cultural relativism and ethical imperialism. Although there is no simple answer, he finds fault with both extremes. He argues instead that certain fundamental rights and ethical standards can be preserved while values and traditions of a given culture are respected.[26] The core values or 'hyper-norms' that should transcend cultural boundaries focus on human dignity, basic rights and good citizenship.[27] With a commitment to core values creating a transcultural ethical umbrella, Donaldson believes international business behaviours can be tailored to local and regional cultural contexts. In the case of child labour, for example, the Western executive might ensure that any children working in a factory under contract to his or her business would be given schooling as well as employment. See Manager's notepad 5.1 for Donaldson's suggestions on how corporations can respect the core or universal values.[28]

MANAGER'S NOTEPAD 5.1

How multinationals can respect universal values

Respect for human dignity
- Create a culture valuing employees, customers and suppliers.
- Keep a safe workplace.
- Produce safe products and services.

Respect for basic rights
- Protect rights of employees, customers and communities.
- Avoid any threats to safety, health, education and living standards.

Be good citizens
- Support social institutions, and economic and educational systems.
- Work with governments and institutions to protect environment.

CRITICAL ANALYSIS

1. Some corporate social responsibility initiatives of CSR Limited were outlined earlier in the chapter. Interestingly, in its annual Corporate Sustainability Report it also lists direct and indirect donations to political parties to support the democratic process as an initiative.[29] Do you believe this is acceptable in a sustainability program? Why or why not?
2. Can you think of any business actions that are unethical but not illegal?

5.2 Ethics in the workplace

LEARNING OBJECTIVE 5.2 How do ethical dilemmas complicate the workplace?

'Ethical business is good business' is a classic quote. The same can be said for all persons and institutions throughout society. But the real test is when managers or workers encounter a situation that challenges their ethical beliefs and standards. Often ambiguous and unexpected, these 'ethical dilemmas' are part of the challenge of modern society.

What is an ethical dilemma?

An ethical dilemma occurs when our own behaviour, or the behaviour we witness from others, conflicts with our values and beliefs. Such dilemmas cause stress to us until they are resolved. An **ethical dilemma** arises when action must be taken but there is no clear 'ethically right' option. The burden is on the individual to make good choices. An engineering manager, speaking from experience, sums it up this way: 'I define an unethical situation as one in which I have to do something I don't feel good about'.[30]

Ethical problems faced by managers

There are many potential sources of discomfort in managerial decision-making, including those with ethical overtones. Some of the problem areas or situations where managers can get caught in ethical dilemmas include:

- *discrimination* — where a manager denies promotion or appointment to a job candidate because of the candidate's race, religion, gender, age or other criterion not relevant to the job
- *sexual harassment* — where a manager makes a co-worker feel uncomfortable because of inappropriate comments or actions regarding sexuality; or where a manager requests sexual favours in return for favourable job treatment

- *conflicts of interest* — where a manager takes a bribe or kickback or extraordinary gift in return for making a decision favourable to the gift giver
- *customer confidence* — where a manager has privileged information regarding the activities of a customer and shares that information with another party
- *organisational resources* — where a manager uses official stationery or a company email account to communicate personal opinions or requests to community organisations.[31]

In a survey of *Harvard Business Review* subscribers, many of the ethical dilemmas reported by managers involved conflicts with superiors, customers and subordinates.[32] The most frequently occurring issues involved dishonesty in advertising and communications with top management, clients and government agencies. Problems in dealing with special gifts, entertainment and kickbacks were also reported. Significantly, the managers' bosses were singled out as sometimes pressuring their subordinates to engage in such unethical activities as supporting incorrect viewpoints, signing false documents, overlooking the boss's wrongdoings and doing business with the boss' friends.

Rationalisations for unethical behaviour

Why might otherwise reasonable people act unethically? Think back to the earlier examples and to those from your experiences. Consider the possibility of being asked to place a bid for a business contract using insider information, paying bribes to obtain foreign business, falsifying expense account bills, and so on. 'Why', you should be asking, 'do people do things like this?' In fact, there are at least four common rationalisations that are used to justify misconduct in these and other ethical dilemmas.[33]

1. Convince yourself that the behaviour is not really illegal.
2. Convince yourself that the behaviour is really in everyone's best interests.
3. Convince yourself that nobody will ever find out what you've done.
4. Convince yourself that the organisation will 'protect' you.

After doing something that might be considered unethical, a rationaliser says, 'It's not really illegal'. This expresses a mistaken belief that your behaviour is acceptable, especially in ambiguous situations. When dealing with 'shady' or borderline situations in which you are having a hard time defining precisely what is right and what is wrong, the advice is quite simple. When in doubt about a decision to be made or an action to be taken, don't do it.

Another common statement by a rationaliser is: 'It's in everyone's best interests'. This response involves the mistaken belief that because someone can be found to benefit from the behaviour, the behaviour is also in the individual's or the organisation's best interests. Overcoming this rationalisation depends in part on the ability to look beyond short-term results to consider longer term implications, and to look beyond results in general to the ways in which they are obtained. For example, in response to the question 'How far can I push matters to obtain this performance goal?', the recommended answer is often, 'Don't try to find out'.

Sometimes rationalisers tell themselves: 'No one will ever know about it'. They mistakenly believe that a questionable behaviour is really 'safe' and will never be found out or made public. Unless it is discovered, the argument implies, no crime was really committed. Lack of accountability, unrealistic pressures to perform and a boss who prefers 'not to know' can all reinforce such thinking. In this case, the best deterrent is to make sure that everyone knows that wrongdoing will be punished whenever it is discovered.

Rationalisers may proceed with a questionable action because of a mistaken belief that 'the organisation will stand behind me'. This is misperceived loyalty. The individual believes that the organisation's best interests stand above all others. In return, the rationaliser thinks that top managers will condone the behaviour and protect the individual from harm. But loyalty to the organisation is not an acceptable excuse for misconduct; organisational loyalty should not stand above the law and social morality. You should keep in mind that to rationalise the dilemma is only one option. People can change their values and beliefs (which is very hard to do), change the behaviour of themselves or attempt to change the behaviour of others.

Factors influencing ethical behaviour

It is easy to confront ethical dilemmas from the safety of a textbook or a classroom. In practice, people are often challenged to choose ethical courses of action in situations where the pressures may be contradictory and great. Increased awareness of the factors influencing ethical behaviour, shown in figure 5.3, can help you deal with them more appropriately in the future.

FIGURE 5.3 Factors influencing ethical managerial behaviour — the person, organisation and environment

The person

Family influences, religious values, personal standards and personal needs, financial and otherwise, will help determine a person's ethical conduct in any given circumstance. Managers who lack a strong and consistent set of personal ethics will find that their decisions vary from situation to situation as they strive to maximise self-interests. Those who operate within strong ethical frameworks (personal rules or strategies for ethical decision-making) will be more consistent and confident since choices are made against a stable set of ethical standards.

The organisation

The organisation is another important influence on ethics in the workplace. The first port of call is at the staff selection stage. Unethical or unsavoury characters should not be recruited and appointed in the first instance. We noted earlier that a person's immediate supervisor can have an important effect on the employee's behaviour. Just exactly what a supervisor requests, and which actions are rewarded or punished, can certainly affect an individual's decisions and actions. The expectations and reinforcement provided by peers and group norms are likely to have a similar impact. Formal policy statements and written rules are also very important in establishing an ethical climate for the organisation as a whole. They support and reinforce the organisational culture, which can have a strong influence on members' ethical behaviour.

The late Anita Roddick, founder of The Body Shop, created an 11-point charter to guide the company's employees:

> Honesty, integrity and caring form the foundations of the company and should flow through everything we do — we will demonstrate our care for the world in which we live by respecting fellow human beings, by not harming animals, by preserving our forests.

The fact that The Body Shop still has to respond to occasional criticisms about its operations demonstrates the inadequacy of formal policies alone to guarantee consistent ethical behaviour. A visit to The Body Shop website, however, shows the firm's ongoing ethical commitments and provides answers to frequently asked questions regarding such controversial issues as animal testing in the cosmetics industry.[34]

The environment

Organisations operate in external environments composed of competitors, government laws and regulations, and social norms and values, among other influences. Laws interpret social values to define appropriate behaviours for organisations and their members; regulations help governments monitor these behaviours and keep them within acceptable standards.

The climate of competition in an industry sets a standard of behaviour for those who hope to prosper within it. Sometimes the pressures of competition contribute further to the ethical dilemmas of managers. The late Australian billionaire Richard Pratt, founder of the multibillion dollar cardboard and packaging company Visy, provided a prime example of this. Although widely known as a generous philanthropist throughout his life, in his later years Pratt became embroiled in a price fixing scandal. His company was forced to pay a fine of $36 million after Pratt signed a statement admitting guilt in colluding with competitors to fix the price of cardboard, forcing customers to pay artificially high prices. Subsequent criminal charges against Pratt were dropped on health grounds just a day before he passed away from prostate cancer in 2009.[35]

CRITICAL ANALYSIS

1. What types of conflicts between superiors and subordinates and staff and customers might constitute ethical dilemmas?
2. In what ways can an organisation improve ethical behaviour in the workplace?

SUSTAINABILITY

BHP's Ok Tedi mine in Papua New Guinea (PNG)

The Ok Tedi mine is a classic example in the study of ethics, sustainability and social responsibility, as both sides of the argument are presented in this case. BHP, the operator of the mine until 2002, did not build a suggested tailings dam to retain noxious sediment, resulting in massive pollution of the Fly River and the surrounding environment on which many local villagers depended for their livelihood. High concentrations of cyanide and acid rock drainage in the river killed many fish. Many trees along the river course also died. However, the company provided employment for many villagers, built infrastructure — including a hospital — and helped increase life expectancy and reduce the malaria and infant mortality rates.

BHP's Ok Tedi mine is a classic example in the study of ethics, sustainability and social responsibility. As part of the project, BHP provided employment and health facilities for villagers. However, the company was also responsible for massive pollution of the Fly River and the surrounding environment — an ecosystem on which many villagers depend on for their livelihood.

BHP left the mine early in 2002, shifting the company's 52 per cent stake to a trust fund for Papua New Guinea's people. The PNG government took over ownership of about 30 per cent of the stake in the mine. Agreement was reached that the mine should be closed in 2010, although this was later extended to 2025, with the government seizing 100 per cent ownership in 2013. A class action by law firm Slater & Gordon in Melbourne, on behalf of 50 000 PNG villagers whose environment was severely damaged by the mining operations, was abandoned in early 2004.

Nevertheless, the mine proved very profitable, producing about 10 per cent of PNG's gross domestic product (GDP) and contributing 20 per cent of its export income. Also, it is argued that life expectancy increased in the area near the mine from about 30 years to more than 50. Malaria decreased more than fourfold for children and from 35 per cent to less than 6 per cent for adults in the region near the mine. The infant mortality rate improved from 129 per 1000 live births to 15 per 1000 live births.

However, the environmental concerns were not fully addressed, other than continued dredging of the polluted Fly River and the planting of some new trees by local villagers. When the PNG government took full ownership of the mine in 2013 they also passed legislation that removed BHP's immunity in relation to environmental claims.[36]

QUESTION

Does BHP's social responsibility programme of employment, building of a hospital and other infrastructure and health improvements let it off the hook for the damage it did to PNG's environment?

5.3 Maintaining high ethical standards

LEARNING OBJECTIVE 5.3 How can high ethical standards be maintained?

Progressive organisations support a variety of methods for maintaining high ethical standards in workplace affairs. Some of the most important efforts in this area involve ethics training, whistleblower protection, top management support, formal codes of ethics and strong ethical cultures.

Ethics training

Ethics training, in the form of structured programs to help participants understand the ethical aspects of decision-making, is designed to help people incorporate high ethical standards into their daily behaviour. An increasing number of university curricula now include courses on ethics, and seminars on this topic are popular in the corporate world. But it is important to keep the purpose of ethics training in perspective. An executive once put it this way:

> We aren't teaching people right from wrong — we assume they know that. We aren't giving people moral courage to do what is right — they should be able to do that anyhow. We focus on dilemmas.[37]

Many ethical dilemmas arise as a result of the time pressures of decisions. Ethics training is designed to help people deal with ethical issues while under pressure.

Manager's notepad 5.2 presents a seven-step checklist for making ethical decisions when confronting an ethical dilemma. It offers a convenient reminder that the decision-making process includes responsibility for double-checking a decision before taking action. The key issue in the checklist may well be step 6 — the risk of public disclosure of your action and your willingness to bear it. This is a strong way to test whether a decision is consistent with your personal ethical standards.

MANAGER'S NOTEPAD 5.2

Checklist for making ethical decisions

Step 1. Recognise the ethical dilemma.
Step 2. Get the facts.
Step 3. Identify your options.
Step 4. Test each option: Is it legal? Is it right? Is it beneficial?
Step 5. Decide which option to follow.
Step 6. Double-check decision by asking follow-up questions:
'How would I feel if my family found out about my decision?'
'How would I feel about this if my decision were printed in the local newspaper?'
Step 7. Take action.

Whistleblower protection

Erin Brockovich, a legal clerk, was instrumental in constructing a case against the Pacific Gas & Electric Company in California for contaminating drinking water. Her actions were later portrayed in a popular Hollywood film starring Julia Roberts. Jeffrey Wigand exposed his US tobacco company's practice of intentionally manipulating the effect of nicotine in cigarettes (this was also turned into a film starring Russell Crowe).[38] Toni Hoffman, a nurse in charge of the Intensive Care Unit at Bundaberg Base Hospital in Queensland, tried for two years to raise concerns about the lethal activities of a surgeon, Jayant Patel, who was committed to stand trial on 14 charges involving the death of three people, in 2009. Patel was sentenced to seven years' jail but served only 2 years and 3 months before the High Court overturned his medical negligence convictions in 2012.[39] Detective Sergeant Simon Illingworth spent four years working for Police Internal Affairs in Victoria, weeding out crooked police and putting his life at risk.[40] They were **whistleblowers**, people who expose the misdeeds of others in organisations in order to preserve ethical standards and protect against wasteful, harmful or illegal acts.[41] Whistleblowers face the risks of impaired career progress and other forms of organisational retaliation, up to and including dismissal. Many workers become whistleblowers unintentionally when reporting workplace fraud, corruption or maladministration.

Today, federal and state laws in countries such as Australia and New Zealand increasingly offer whistleblowers some defence against 'retaliatory discharge'. But although signs indicate that the courts are growing supportive of whistleblowers, legal protection for them can still be inadequate. Laws vary from state to state, and federal laws mainly protect government workers. Furthermore, even with legal protection, potential whistleblowers may find it hard to expose unethical behaviour in the workplace. Some organisational barriers to whistleblowing include a *strict chain of command* that makes it hard to bypass the boss, *strong work group identities* that encourage loyalty and self-censorship, and *ambiguous priorities* that make it hard to distinguish right from wrong.[42]

In the attempt to remove these and other blocks to the exposure of unethical behaviours, some organisations have formally appointed staff members to serve as 'ethics advisers'. Others have set up formal staff units to process reported infractions. One novel proposal goes so far as to suggest the convening of *moral quality circles* to help create shared commitments for people to work at their moral best.[43]

Ethical role models

The late Anita Roddick, founder and former executive director of The Body Shop International opened the business's first store in Brighton, England, in 1976. By 2016 there were over 2500 stores worldwide. Undoubtedly one of the world's most outspoken business leaders, Roddick was also an activist. She devoted most of her working life to finding new ways of doing business and looking for ways business can take the lead in making the world a better place.

Top managers in large and small businesses have the power to shape their organisation's policies and set its moral tone. They also have a major responsibility to use this power well. They can and should serve as role models of appropriate ethical behaviour for the entire organisation. Not only must their day-to-day behaviour be the epitome of high ethical conduct, but top managers must also communicate similar expectations throughout the organisation, and reinforce positive results. Unfortunately, communication from the top may subtly suggest that top management does not want to know about deceptive or illegal practices by employees, or simply doesn't care.

Even though top managers bear a special responsibility for setting the ethical tone of an organisation, every manager is also in a position to influence the ethical behaviour of the people who work for and with them. This means that all managers must act as ethical role models and set an ethical tone in their areas of responsibility. Care must be taken to do this in a positive and informed manner. The important supervisory act of setting goals and communicating performance expectations is a good case in point. A surprising 64 per cent of 238 executives in one study, for example, reported feeling under pressure to compromise personal standards to achieve company goals. A *Fortune* survey also reported that 34 per cent of its respondents felt that the head of a company can create an ethical climate by setting reasonable goals 'so that subordinates are not pressured into unethical actions'.[44] Clearly, any manager, in his or her relationships with subordinates, may unknowingly encourage unethical practices by exerting too much pressure for them to accomplish goals that are too difficult. Part of the manager's ethical responsibility is to be realistic in setting performance goals for others.

Codes of ethics

Formal **codes of ethics** are official written guidelines on how to behave in situations susceptible to the creation of ethical dilemmas. They are found in organisations and in professions such as engineering, medicine, law and public accounting. In the professions such as accounting and engineering, ethical codes try to ensure that individual behaviour is consistent with the historical and shared norms of the professional group. Most codes of ethical conduct identify expected behaviours in terms of general organisational citizenship, the avoidance of illegal or improper acts in a person's work, and good relationships with customers. In a related survey of companies with written codes, the items most frequently covered included workforce diversity, bribes and kickbacks, political contributions, the honesty of books or records, customer–supplier relationships and the confidentiality of corporate information.[45]

In the increasingly complex world of international business, codes of conduct for manufacturers and contractors are becoming more prevalent. At Gap Inc., global manufacturing is governed by a formal Code of Vendor Conduct.[46] Among the many areas covered, the document specifically deals with:

- *discrimination* — stating 'Factories shall employ workers on the basis of their ability to do the job, not on the basis of their personal characteristics or beliefs'
- *forced labour* — stating 'Factories shall not use any prison, indentured or forced labour'
- *working conditions* — stating 'Factories must treat all workers with respect and dignity and provide them with a safe and healthy environment'
- *freedom of association* — stating 'Factories must not interfere with workers who wish to lawfully and peacefully associate, organize or bargain collectively'.

Although interest in codes of ethical conduct is growing, it must be remembered that the codes have limits. They cannot cover all situations, and they are not automatic insurance for universal ethical conduct. But they do play important roles in setting the ethical tone and expectations in organisations. When fully integrated into the organisational culture, furthermore, the moral fabric created has a strong influence on day-to-day behaviour. Ultimately, of course, the value of any formal code of ethics still rests on the underlying human resource foundations of the organisation — its managers and other employees. There is no replacement for effective hiring practices that ensure organisations employ honest and moral people. And there is no replacement for leadership by committed managers who are willing to set examples and act as positive ethical role models to ensure desired results.

CRITICAL ANALYSIS

1. What topics would you expect to see covered in an organisation's ethics training manual?
2. Why are whistleblowers harassed, blacklisted and shunned, even today?

5.4 Social responsibility

LEARNING OBJECTIVE 5.4 What is organisational social responsibility?

It is now time to shift our interest in ethical behaviour from the level of the individual to that of the organisation. It is important to remember that all organisations exist in complex relationships with elements in their external environment. In the chapter on environment and diversity we described the environment of a business firm as composed of a network of other organisations and institutions with which it must interact. An important frame of reference is the field of **organisational stakeholders**, those people, groups and other organisations directly affected by the behaviour of the organisation and holding a stake in its performance.[47] In this context, **corporate social responsibility** is defined as an obligation of the organisation to act in ways that serve both its own interests and the interests of its many external stakeholders.[48] The organisation's stakeholders comprise government, competitors, shareholders, customers, employees, civil society, suppliers, pressure groups and regulators.[49] In other words, stakeholders include anyone that can be affected by the organisation.

> Through the adoption of comprehensive programs and policies that support fair and equitable treatment of stakeholders, the organization is able to establish a clear corporate social responsibility program that will have direct implications for the way in which the organization does business.[50]

Stakeholder issues and practices

The positive examples are there. You just have to look for them. Hewlett-Packard started the e-Inclusion program to help rural villagers around the world gain access to technology and its advantages. The online auctioneer eBay gave 100 000 of its pre-IPO shares to charity and another 100 000-plus after going public.[51] Singaporean manufacturer DuPont actively supports community causes such as the CareCancer Society via its DuPont Community Fund. Richard Branson's employment-creating initiative described at the beginning of this chapter is an exciting new development.

There is increasing evidence that national governments and private corporations must make progress on environmental issues or feel the negative response of their citizens and consumers, who will not stand for inaction on what they see as key survival issues. The stakeholder pressures are there, too. Consumers, activist groups, not-for-profit organisations and governments are increasingly vocal and influential in directing organisations towards socially responsible practices. In today's information age, business activities are increasingly transparent. Irresponsible practices are difficult to hide, wherever in the world they take place. Not only do news organisations find and disseminate the information, well-known activist organisations lobby, campaign and actively pressure organisations to respect and protect everything from human rights to the natural environment. Prominent among these are Amnesty International, Greenpeace International, World Wildlife Fund and Friends of the Earth. Increasingly important also are investor groups, such as the Interfaith Centre on Corporate Responsibility, that publicise and lobby for social causes through share ownership. The groups pool resources, buy shares in companies and then advance resolutions and lobby corporate leadership to ensure the businesses perform in socially responsible ways.

Ultimately, organisational leadership is a critical influence on behaviour by organisations and their members. The leadership beliefs that guide socially responsible organisational practices have been described as follows:

- *people* — belief that people do their best in healthy work environments with a balance of work and family life
- *communities* — belief that organisations perform best when located in healthy communities
- *natural environment* — belief that organisations gain by treating the natural environment with respect
- *long term* — belief that organisations must be managed and led for long-term success
- *reputation* — belief that the organisation's reputation must be protected to ensure consumer and stakeholder support.[52]

Organisations that subscribe to the triple bottom line of respect for people, communities and the natural environment are arguably more sustainable over the long term. Customers may be more likely to purchase products or services from ethically reputable companies.

COUNTERPOINT

Two views on nuclear energy and uranium mining

> The nuclear industry is based on uranium mining out of the ground . . . Using the nuclear process, electricity is created without any carbon dioxide, sulphurous fumes and heavy metals being spewed into the atmosphere as is done using the coal-burning generators. It is also more efficient than the other renewable energy sources.

Kakadu National Park is under threat from mining activity.

It should be pointed out that these are the views of a letter writer who added that because Australia's potential uranium mining sites are safe, nuclear meltdowns like those that occurred in the United States, Ukraine and Japan will not arise. He added, very controversially, that even those disasters were well managed, and the effects much less harmful than predicted. In addition, there is huge demand for Australian uranium, and the export of these minerals results in increased employment and massive financial gains for mining companies. Some of his opinions may find support from Associate Professor Martin Sevior from the School of Physics at Melbourne University. Professor Sevior is in favour of nuclear energy because of a looming oil crunch, insufficient other options and the cleanliness of nuclear power. He said that 'greenhouse gas emissions resulting from nuclear power will be one per cent that of, say, coal'. Professor Sevior added 'I don't think Chernobyl will ever happen again. It was a terrible design with terrible safety procedures, and the world has learnt the lessons from Chernobyl'.[54]

There is, however, a countervailing view. The first of these is that it is unethical to mine uranium in the first place, never mind use the ore in nuclear reactors to generate so-called 'clean' energy. Uranium mining in iconic Kakadu Park particularly concerns many Greens, Indigenous Australians and other environmentalists. Indigenous Australians have traditionally referred to a mountain containing massive uranium deposits as a 'mountain of sickness'. Recently, the top end has experienced record rainfalls, which caused a threat of the overflowing of contaminated water from Rio Tinto's tailings dam at its Ranger Uranium Mine into the Kakadu Wetlands.

Others question whether the use of nuclear energy is ethical. The Three Mile Island and Chernobyl disasters in the United States and Ukraine are well documented. More recently, Japan's tsunami and consequent nuclear explosion at the Fukushima nuclear plant has really fuelled the debate. An earthquake measuring 8.9 on the Richter scale struck Japan on 12 March 2011. This triggered a ten-metre-high tsunami, which hit the north-eastern coast. Aside from the terrible damage caused by the earthquake and tsunami, a radiation leak was confirmed at the Fukushima plant. A survey conducted in Fukushima in late March found that almost half of 1000 children tested returned positive results for thyroid exposure to radiation. The leak was so serious that, some five months later, a nursery school, some sixty kilometres away from the crippled plant, removed topsoil from its playground and banned the children from playing outside.

As a result of such disasters, public sentiment has moved away from nuclear energy. However, the sight of a coal-fuelled electricity generator's cooling towers belching smoke into the atmosphere is also not pretty.[55]

QUESTION

Based on the arguments presented here, do you think Australia should go nuclear? Why?

Perspectives on social responsibility

In academic and public-policy circles, two contrasting views of corporate social responsibility have stimulated debate, with one side arguing against it and the other arguing for it.[56] The *classical view* holds that management's only responsibility in running a business is to maximise profits. In other words — the business of business is business and the main concern of management should always be to maximise shareholder value. This narrow 'shareholder' and 'profit-driven' model was supported by Milton Friedman, a respected free market economist and Nobel Laureate. He said:

> Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of social responsibility other than to make as much money for their stockholders as possible.

The *arguments against corporate social responsibility* include fears that the pursuit of CSR as a goal will reduce business profits, raise business costs, dilute business purpose, give business too much social power, and do so without business accountability to the public. Friedman's view was, of course, heavily criticised. However, his supporting argument that big business is already powerful and that if it involves itself in social issues then it becomes even more powerful, was given more credibility.

In contrast, the *socioeconomic view* holds that management of any organisation must be concerned for the broader social welfare and not just for corporate profits. This broad-based and stakeholder model is supported by Paul Samuelson, another distinguished economist and Nobel Laureate. He states: 'A large corporation these days not only may engage in social responsibility, it had damn well better try to do so'.[57] Among the arguments in favour of corporate social responsibility are that it will add long-term profits for businesses, improve the public image of businesses, and help them to avoid more government regulation. Businesses have the resources and ethical obligation to act responsibly.[58]

Today, there is little doubt that the public at large wants businesses and other organisations to act with genuine social responsibility. Stakeholder expectations are increasingly well voiced and include demands that organisations integrate social responsibility into their core values and daily activities.

On the research side, there is increasing evidence that high performance in social responsibility can be associated with strong financial performance and, at worst, has no adverse financial impact. The argument that acting with a commitment to social responsibility will negatively affect the 'bottom line' is hard to defend. Indeed, recent evidence suggests the existence of a *virtuous circle* in which corporate social responsibility leads to improved financial performance for the firm, with any negative impact limited to the first few years of implementation, and this in turn leads to more socially responsible actions in the future.[59] There seems little reason to believe that businesses cannot serve the public good while advancing the financial interests of their shareholders. Indeed, Trudel and Cotte conclude that it pays to be good, because customers will pay more for ethically produced products than for unethically produced goods.[60]

Even as the research and debate continues on this important concept, these comments by management theorist Keith Davis may still best sum up the corporate social responsibility debate:

> Society wants business as well as all other major institutions to assume significant social responsibility. Social responsibility has become the hallmark of a mature, global organization . . . The business which vacillates or chooses not to enter the arena of social responsibility may find that it gradually will sink into customer and public disfavor.[61]

The Corporate Responsibility Index offers a self-assessment process for organisations in Australia and New Zealand to voluntarily measure their level of corporate social responsibility. Although the index is primarily for organisational self-assessment and evaluation, companies can subsequently submit their assessment, if they so choose, for it to be validated by an independent third party. Organisations that have done this and been independently awarded a 'gold star' in terms of their corporate social responsibility efforts include ANZ, Caltex, Energy Australia and Minter Ellison Lawyers.[62]

The issue of social responsibility is more challenging for developing countries in the Asia–Pacific region, which are under pressure to exploit their economic resources and which are particularly vulnerable to activities that can lead to environmental and social disasters. Ecologically sustainable development and management of natural resources within the context of social responsibility must begin with engagement of and informed decision-making by local communities. Kleinrichert takes this a step further by arguing that relations between a business and the community should be 'based on reciprocity and exchange of sustainability in a community, rather than a traditional notion of paternal responsibility *to* some particular stakeholder in society'.[63] Social responsibility is strengthened if allies in the community develop because the company has the community's wellbeing at heart, rather than by simply providing economic support. For example, Kleinrichert points out that the CEO of Starbucks 'establishes an *inter*-organizational ally in the communities in which his small independent supplier–farmers reside and work towards coffee bean farming'. He does this by investing in schools, medical clinics and housing, but also by including the farmers in decision-making.[64]

Evaluating social performance

There are many action domains in which social responsibility can be pursued by business firms and other organisations. These include concerns for ecology and environmental quality, in particular, relating to reducing carbon emissions. According to Barker, the association between economic activity and greenhouse gas emissions has long been recognised. He says that for the past couple of decades, the accumulation of greenhouse gases has been noted as a side-effect of economic activity. This has the potential to result in climate change.

> This already threatens development in poor countries that are most vulnerable to climate variability. If unchecked, it will threaten future generations with unknown but potentially catastrophic climate events, given the availability of fossil carbon at current prices relative to carbon-free alternatives, which could raise concentrations to levels not seen for millions of years.[65]

Other action domains include truth in lending and consumer protection and aid to education. They also include service to community needs, employment practices, diversity practices, progressive labour relations and employee assistance, and general corporate philanthropy, among other possibilities. At the organisational level, a **social audit** can be used at regular intervals to report on and systematically assess an organisation's resource commitments and accomplishments in these and other areas. You might think of social audits as attempts to assess the social performance of organisations.

A formal assessment of corporate social performance might include questions posed at these four levels.

1. Is the organisation's *economic responsibility* met? Is it profitable?
2. Is the organisation's *legal responsibility* met? Does it obey the law?
3. Is the organisation's *ethical responsibility* met? Is it doing the 'right' things?
4. Is the organisation's *discretionary responsibility* met? Does it contribute to the broader community?[66]

As you move up these levels, the assessment inquires into ever-greater demonstrations of social performance. An organisation is meeting its economic responsibility when it earns a profit through the provision of goods and services desired by customers. Legal responsibility is fulfilled when an organisation operates within the law and according to the requirements of various external regulations. An organisation meets its ethical responsibility when its actions voluntarily conform not only to legal expectations but also to the broader values and moral expectations of society. The highest level of social performance comes through the satisfaction of an organisation's discretionary responsibility. Here, the organisation voluntarily moves beyond basic economic, legal and ethical expectations to provide leadership in advancing the wellbeing of individuals, communities and society as a whole. For Jenkins, at this level, business is encouraged to go beyond compliance with legislation and to assume roles previously performed by government, such as becoming involved in the education and governance of communities.[67]

SOCIAL RESPONSIBILITY

Singapore Compact tries to cover every angle

Singapore Compact is a national society that was founded in 2005 to promote corporate social responsibility. The formation of this 'watchdog' increased the awareness and development of CSR on the island city–state. Singapore Compact notes that some businesses associate CSR with philanthropy and charity, but asserts that companies should do much more:

> Corporate Social Responsibility is essentially about businesses doing well and doing good at the same time. CSR is about the long term strategy of aligning business strategy and operations with universal values to achieve positive and sustainable outcomes for customers, suppliers, employees, shareholders, communities, other stakeholders and as well as the environment.[68]

Singapore Compact suggests that if a company does this, it can look forward to increased profitability over the long term, increased employee morale and pride in their company, improved performance, and a good reputation. It adds that all of this will, in turn, prove attractive to investors.

However, Singapore Compact observes that in 2008 a Ministry of Trade and Industry survey found that only 40 per cent of 507 companies canvassed were even aware of the term CSR. Two thirds of these had implemented CSR activities. So, a lot more needs to be done in order to get companies to implement Singapore Compact's suggested CSR strategies. By 2009, it had established a website and held an inaugural conference on corporate CSR, and in 2011 it launched an award for young CSR leaders in Singapore.[69] Certainly, the Singapore stock exchange takes CSR seriously, and in August 2010 'issued a policy statement on sustainability reporting and proposed guide for sustainability reporting for its listed companies'.[70]

Greenpeace, however, believes that the proposals put forward by Singapore Compact and the Singapore stock exchange are not nearly enough. At the same time that the stockmarket was issuing its policy statement, Greenpeace held its own press conference to release evidence that the palm oil arm of the Sinar Mas company had been destroying Indonesia's rainforests, despite previous promises by the company to stop. Unusually, this issue was reported in the financial section of the local paper — such confrontations with the corporate world in Singapore are rare.[71] Greenpeace also issued a press release stating that security personnel from Sinar Mas had violently assaulted anti-logging protestors in Indonesia. The company had also planned to acquire additional land in Papua New Guinea for logging purposes.[72]

While Singapore Compact has made grounds towards increasing awareness of CSR and getting companies to implement CSR practices, it clearly still has a long way to go.

QUESTION

What other strategies could Singapore Compact use to raise awareness of CSR in Singapore and get more companies to implement CSR activities?

Social responsibility strategies

Figure 5.4 describes four strategies of corporate social responsibility. The continuum shows a desirable shift in emphasis from obstructionism, at the lowest level, to displaying progressive citizenship, at the highest.[73] An **obstructionist strategy** ('fight the social demands') reflects mainly economic priorities — social demands lying outside the organisation's perceived self-interests are resisted. If the organisation is criticised for wrongdoing, it can be expected to deny the claims. A **defensive strategy** ('do the minimum legally required') seeks to protect the organisation by doing the minimum legally necessary to satisfy expectations. Corporate behaviour at this level conforms only to legal requirements, competitive market pressure and perhaps activist voices. If criticised, intentional wrongdoing is likely to be denied.

FIGURE 5.4 Four strategies of corporate social responsibility, from 'obstructionist' to 'proactive' behaviour

Organisations pursuing an **accommodative strategy** ('do the minimum ethically required') accept their social responsibilities. They try to satisfy economic, legal and ethical criteria. Corporate behaviour at this level is congruent with society's prevailing norms, values and expectations, but at times it may be so only because of outside pressures. An oil firm, for example, may be willing to 'accommodate' with cleanup activities when a spill occurs, but remain quite slow in taking action to prevent them in the first place. Finally, the **proactive strategy** ('take leadership in social initiatives') is designed to meet all the criteria of social performance, including discretionary performance. Corporate behaviour at this level takes preventive action to avoid adverse social impacts from company activities, and it even anticipates or takes the lead in identifying and responding to emerging social issues. One strategy might be charitable contributions, although cynics suggest that such philanthropic giving may be a legitimisation tool.[74]

SUSTAINABILITY

Corporate social responsibility in South-East Asia

Traditionally, promotion of corporate social responsibility (CSR) has been local in nature. This has changed over the past decade; however, in 2009, the CSR Club was launched by the 27 members of the Thai Listed Companies Association, with the key objective to build networking among CSR practitioners in Thailand.[75] Similarly, in 2010, seven Singapore companies were awarded for the first time for their special contributions to CSR at the International Singapore Compact Summit.[76] The growing recognition of the importance of CSR among organisations in the various Association of South East Asian Nations (ASEAN) countries combined with the identification that there were synergies to be gained by cooperation and also that many of the organisations had regional operations led to the formation of a new network.

In 2011, the ASEAN Corporate Social Responsibility (CSR) Network was established to encourage firms and organisations in the region to increase their CSR efforts. The ASEAN CSR Network holds regular workshops to further this goal. One such example was an anti-corruption workshop held in 2016 in Myanmar, hosted in partnership with the Myanmar Centre for Responsible Business. Participants spoke candidly about their experiences of corruption, and how to handle these dilemmas appropriately, both as individuals and businesses.[77]

QUESTION

Asia has quickly become the developed world's factory. Do you think that the establishment of the ASEAN CSR network will help put a stop to sweatshops and other exploitative work practices in Asia?

CRITICAL ANALYSIS

1. In what circumstances today could Milton Friedman's view that the only responsibility of business is to maximise profits for its shareholders, be valid?
2. Choose an organisation and outline some proactive social responsibility strategies it has or could potentially implement. What impact might this have on its performance?
3. Pfizer assists with community housing but also with the policing of a local railway station in Brooklyn, New York. Is this an example of a big business becoming too powerful?

5.5 Organisations and society

LEARNING OBJECTIVE 5.5 How do organisations and government work together in society?

The fact remains, not all managers and not all organisations accept the challenge of committing to a proactive social responsibility strategy. Some may accept it, but have difficulty meeting the challenge. Government, as the voice or instrument of the people, is often called on to act in the public behalf.

How government influences organisations

Governments often pass laws and establish regulating agencies to control and direct the behaviour of organisations. It may not be too far-fetched to say that behind every piece of legislation — national, state or local — is a government agency charged with the responsibility of monitoring and ensuring compliance with its mandates.

Many themes already discussed as being key areas of social responsibility are backed by major laws. Business executives often complain many laws and regulations are overly burdensome.[78] Public outcries to 'dismantle the bureaucracy' or 'deregulate business' reflect concerns that specific agencies and their supportive legislation are not functional. But the reality is that the legal environment is both complex and constantly changing. Managers must stay informed about new and pending laws as well as existing ones.

Like most other developed countries, Australia and New Zealand have many pieces of legislation specifically designed to enforce social responsibility on businesses. These laws and regulations are usually in the form of minimum standards that must be met in terms of work health and safety (WHS), fair labour practices, environmental protection and the like. Regarding WHS, for example, Safe Work Australia leads much of the push to ensure and improve the health and safety record of Australian businesses. This organisation sets national standards, provides WHS statistics, and advises on research, consulting and training matters. WorkSafe New Zealand provides similar services.[79]

Another example of legislation that could profoundly affect businesses concerns discrimination in labour practices. The federal anti-discrimination legislation in Australia includes the *Racial Discrimination Act 1975*, the *Sex Discrimination Act 1984*, the *Disability Discrimination Act 1992*, the *Equal Opportunity for Women in the Workplace Act 1999*, the *Age Discrimination Act 2004* and the *Sex and Age Discrimination Legislation Amendment Act 2011*.[80] In New Zealand, anti-discrimination legislation is covered by the *Human Rights Act 1993* and the *Employment Relations Act 2000*.

Consumer protection is another area in which the government takes an active role in regulating business affairs. In Australia, the *Competition and Consumer Act 2010* aims to promote competition and protect consumer interests. For example, it gives the government the authority to force a business to withdraw from sale any product that it feels is hazardous to the consumer — for example, children's toys with small parts and flammable fabrics. In New Zealand, consumers are protected by laws such as the *Consumer Guarantee Act 1993*, the *Fair Trading Act 1986* and the *Commerce Act 1986*.[81]

How organisations influence government

The line of influence between government and organisations is not one way, with the government simply passing legislation and acting as a regulator. Just as governments take a variety of actions to influence organisations, so the leaders and representatives of organisations take action to influence government. There are a number of ways in which businesses, in particular, try to influence government to adopt and pursue policies favourable to them.

Through *personal contacts and networks*, executives get to know important people in government. These contacts can be used for persuasion. Through *public relations campaigns*, executives can communicate positive images of their organisations to the public at large, with the potential for them to speak positively on the business's behalf. Through **lobbying**, often with the assistance of professional lobbying consultants, executives can have their positions and preferences communicated directly to government officials. It must also be admitted, however, that *illegal acts* sometimes occur. Executives can unfortunately resort to use of bribes or illegal financial campaign contributions in the attempt to gain influence over public officials.

DIVERSITY

Two views on 7-Eleven: a sweatshop on every street corner or income provider to Indian students?

Russell Withers, a long-time member of Australia's Olympic Committee, and his sister Beverley Barlow, two of the wealthiest people in Australia, bought the franchise licence to establish 7-Eleven outlets in Australia in 1977. By 2015 there were more than 600 stores in New South Wales, Victoria, Queensland, Western Australia and the ACT.[82] The stores are open 24 hours, 7 days a week, making salaries a huge expense especially when accounting for late night and weekend penalty rates. Most of the 4000 workers employed in the stores are students, many of them from overseas, in particular from India.[83]

A joint Fairfax media and ABC *Four Corners* investigation in mid-2015 obtained explosive internal documents and its review of 225 stores found that almost 70 per cent of franchisees manipulated their rosters and had payroll compliance issues. When rosters were cross-checked against CCTV footage, it could be seen that several workers were not actually on the roster. Instead they were international students who were paid in cash but at well below the legal minimum Australian wage. Many were being paid between $11 and $15 an hour, when the legal minimum wage at the time was $24.69 during the week and $28.49 on weekends.[84] Tess Hardy notes the investigation reported that approximately two-thirds of 7-Eleven employees have been 'severely underpaid and grossly overworked in deliberate contravention of key employment standards'.[85] Laura Hayes reported that 'a 7-Eleven franchisee with several convenience stores was investigated for several counts of immigration fraud. The immigration investigation regarding allegations against one set of owners caused 7-Eleven franchisees to be investigated nationwide. 7-Eleven was subjected to significant negative publicity, and some of the news articles likened the convenience stores to modern day plantations'.[86]

In the wake of this report, Professor Alan Fels, the first chairperson of Australian Competition and Consumer Commission (ACCC) was appointed head of a two-person panel, supported by independent assistants from Deloitte Australia, to receive and examine claims of underpayment to 7-Eleven employees. On its website, 7-Eleven stated that past and present staff should come forward and give evidence to the Fels enquiry and that the results of their work, but not the names of individual claimants, would be made public.[87] In May 2016 7-Eleven fired Fels and the independent panel, taking the investigation in-house.

There is, however, another side to the story. It could be argued that these students are at least getting some money to help them make ends meet. This is the same argument often used to justify sweatshop labour for a dollar a day in China, namely, that a bowl of rice is better than no rice at all. This argument is unlikely to gain much sympathy in Australia, however, as these workers could be much better paid working for another employer that compensated them with the minimum wage. More convincingly, however, Hardy writes that once the 7-Eleven franchisee 'covers labour costs, meets interest repayments and pays the necessary royalty fees to the head franchisor, the store owner – which is often a small business operator – may make only a modest profit of about $40,000 a year'.[88] For this reason, many of the franchisees have put their stores up for sale. 'Since the Four Corners–Fairfax Media investigation into 7-Eleven began, the number of stores for sale by franchisees ballooned from 50 to 76'.[89]

QUESTION

Discuss the argument that $11 per hour is better than nothing. Given that paying legal wages would drive many franchisees to the wall, what would you consider to be a fair wage? Provide reasons for your answer.

Why managers make the difference

Trends in the evolution of social values point to ever-increasing demands from governments and other organisational stakeholders that managerial decisions reflect ethical as well as high-performance standards. Today's workers and managers, as well as tomorrow's, must accept personal responsibility for doing the 'right' things. Broad social and moral criteria must be used to examine the interests of multiple stakeholders in a dynamic and complex environment. Decisions must always be made and problems solved with ethical considerations standing side by side with high-performance objectives, be they individual, group or organisational. Indeed, the point that profits and social responsibility can go hand in hand is being confirmed in new and creative ways.

As public demands grow for organisations to be accountable for ethical and social performance as well as economic performance, the manager stands once again in the middle. It is the manager whose decisions affect 'quality-of-life' outcomes in the critical boundaries between people and organisations and between organisations and their environments. Everyone must be more willing to increase the weight given to ethical and social responsibility considerations when making these decisions. The full weight of this responsibility holds in every organisational setting — small to large, and private or not-for-profit — and at every managerial level, from bottom to top. There is no escaping the ultimate reality — being a manager is a very socially responsible job!

CRITICAL ANALYSIS

1. Should all lobbying of government by business be outlawed?
2. Why should being a manager necessarily be a socially responsible job?

SUMMARY

5.1 What is ethical behaviour?

- Ethical behaviour is that which is accepted as 'good', 'right' or 'proper' as opposed to 'bad', 'wrong' or 'improper'.
- Simply because an action is not illegal does not necessarily make it ethical in a given situation.
- Because values vary, the question of 'What is ethical behaviour?' may be answered differently by different people.
- Four ways of thinking about ethical behaviour are the utilitarian, individualism, moral-rights and justice views.
- Cultural relativism argues that no culture is ethically superior to any other.

5.2 How do ethical dilemmas complicate the workplace?

- When managers act ethically they have a positive impact on other people in the workplace and on the social good performed by organisations.
- An ethical dilemma occurs when someone must decide whether to pursue a course of action that, although offering the potential for personal or organisational benefit or both, may be considered potentially unethical.
- Managers report that their ethical dilemmas often involve conflicts with superiors, customers and subordinates over such matters as dishonesty in advertising and communications as well as pressure from their bosses to do unethical things.
- Common rationalisations for unethical behaviour include believing the behaviour is not illegal, is in everyone's best interests, will never be noticed, or will be supported by the organisation.

5.3 How can high ethical standards be maintained?

- Ethics training in the form of courses and training programs helps people better deal with ethical dilemmas in the workplace.
- Whistleblowers expose the unethical acts of others in organisations, even while facing career risks for doing so.
- Top management sets an ethical tone for the organisation as a whole, and all managers are responsible for acting as positive models of appropriate ethical behaviour.
- Written codes of ethical conduct formally state what an organisation expects of its employees regarding ethical conduct at work.

5.4 What is organisational social responsibility?

- Corporate social responsibility is an obligation of the organisation to act in ways that serve both its own interests and the interests of its many external publics, often called stakeholders.
- Criteria for evaluating corporate social performance include economic, legal, ethical and discretionary responsibilities.
- Corporate responses to social demands include obstructionist, defensive, accommodative and proactive, with more progressive organisations taking proactive stances.

5.5 How do organisations and government work together in society?

- Government agencies are charged with monitoring and ensuring compliance with the law.
- Managers must be well informed about existing and pending legislation in a variety of social responsibility areas, including environmental protection and other quality-of-life concerns.
- Organisations exert their influence on government in many ways, including interpersonal contacts of executives and use of lobbyists.
- All managerial decisions and actions in every workplace should fulfil performance accountability with commitments to high ethical standards and socially responsible means.

KEY TERMS

An **accommodative strategy** accepts social responsibility and tries to satisfy prevailing economic, legal and ethical performance criteria.

Codes of ethics are written guidelines that state values and ethical standards intended to guide the behaviour of employees.

Corporate social responsibility is the obligation of an organisation to act in ways that serve both its own interests and the interests of its stakeholders.

Cultural relativism suggests there is no one right way to behave; ethical behaviour is determined by its cultural context.

A **defensive strategy** seeks to protect the organisation by doing the minimum legally required to satisfy social expectations.

Distributive justice is concerned that people are treated the same regardless of individual characteristics.

Ethical behaviour is accepted as 'right' or 'good' or 'proper' in the context of a governing moral code.

An **ethical dilemma** arises when action must be taken but there is no clear 'ethically right' option.

Ethical imperialism is an attempt to impose your ethical standards on other cultures.

Ethics sets standards as to what is good or bad, or right or wrong in a person's conduct.

Ethics training seeks to help people understand the ethical aspects of decision-making and to incorporate high ethical standards into their daily behaviour.

The **individualism view** considers ethical behaviour as that which advances long-term self-interests.

Interactional justice is the degree to which others are treated with dignity and respect.

The **justice view** considers ethical behaviour as that which treats people impartially and fairly according to guiding rules and standards.

Lobbying expresses opinions and preferences to government officials.

The **moral-rights view** considers ethical behaviour as that which respects and protects the fundamental rights of people.

An **obstructionist strategy** avoids social responsibility and reflects mainly economic priorities.

Organisational stakeholders are directly affected by the behaviour of the organisation and hold a stake in its performance.

A **proactive strategy** meets all the criteria of social responsibility, including discretionary performance.

Procedural justice is concerned that policies and rules are fairly administered.

A **social audit** is a systematic assessment of an organisation's accomplishments in areas of social responsibility.

Universalism suggests ethical standards apply across all cultures.

The **utilitarian view** considers ethical behaviour as that which delivers the greatest good to the greatest number of people.

Values are broad beliefs about what is or is not appropriate behaviour.

Whistleblowers expose the misdeeds of others in organisations.

APPLIED ACTIVITIES

1. What are the alternative ways of thinking about ethical behaviour discussed in this chapter?
2. What is an ethical dilemma?
3. What are five leadership beliefs guiding socially responsible practices? Describe them.
4. What are the four stances adopted by organisations in response to demands for social responsibility?
5. Identify three ethical role models you respect. What do you most admire about these people? Search on the internet to find out more about these people and provide examples and information to support your choices.

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# ACKNOWLEDGEMENTS

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CHAPTER 6

Sustainability

LEARNING OBJECTIVES

6.1 What is business sustainability?

6.2 What are some of the international guidelines for business sustainability, and how can these guidelines be effectively implemented?

6.3 What is the relationship between sustainability and corporate governance?

6.4 How can organisations change to become more sustainable?

6.5 What are some current trends in business sustainability?

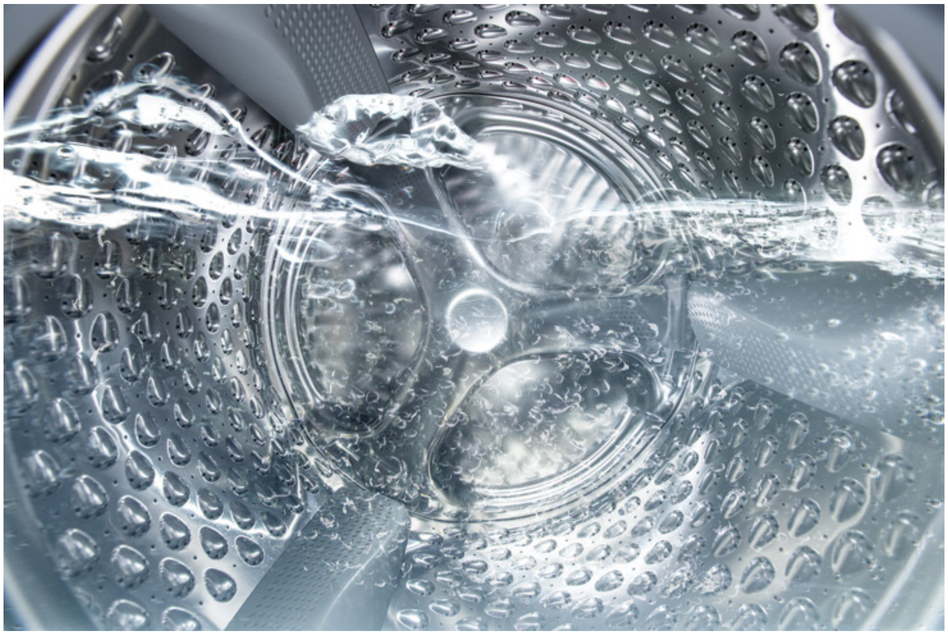
Are you pouring money down the drain?

What would you say to the proposition that your household could save up to US$200 a month? That's the claim an Australian company made in 2015 — if householders introduced a recycling system for household water. Nexus eWater says their NEXheater harnesses the heat from household waste water to heat clean water. Their accompanying invention, called the NEXtreater, treats the greywater from showers and washing machines so that it becomes near-potable and can be used for flushing toilets and irrigating lawns, with the added environmental benefit of reducing water use in homes by about a third.[1]

The water is treated without using the traditional slow system that introduces bacteria to digest organic compounds. The new system employs a three-step process where dirty water is injected with air, passed through a carbon filter and disinfected using ultraviolet light. The product is proving popular in the United States and potentially pays back the initial investment in under five years.[2]

Such technological innovations offer hope for individuals and organisations who wish to reap the potential benefits from a sustainable approach to doing business. The imperatives for incorporating environmentally sustainable initiatives in business are no longer just altruistic, the drivers for sustainable business now include economic benefits that can be derived from using less water, less electricity obtained from fossil fuels, more recycling and the added benefit of some government sponsored incentives and discounts to encourage sustainable practices.

The trend towards greater sustainability in business is also providing opportunities for new start-ups and for the development of new products and services. Nexus eWater has grown from one Canberra office in 2009, expanding to the United States with offices in Lancaster (California), San Diego and Huntsville (Alamaba) in 2015.[3] Existing companies are also benefitting by diversifying into sustainable initiatives. Research on sustainability innovations indicate that between 2010 and 2013 revenues from sustainable products and services grew about six times the rate of overall revenues in premier companies.[4] Sustainability in business has moved from a peripheral issue to a mainstream trend in business management.



QUESTION

Do you think it is possible for companies to be more profitable while taking a sustainable approach to business? In what kind of business might this be possible (e.g. household appliances), and what kind of business might it be close to impossible (e.g. mining)?

Introduction

In recent years, a focus on developing green businesses, sustainable development and reducing the environmental impact of businesses has become a global trend.[5] Many of the world's leading companies are embracing the vision and the reality of sustainable management. Nexus eWater provides one example; however, large companies including Unilever, Toyota, BHP Billiton, ASUS and Westpac are all at the forefront of developing sustainable businesses. Leading business thinkers, such as the late Elinor Ostrom, have encouraged businesses to 'go green'.[6] She was awarded the Nobel Prize in Economics in 2009 for her work on how humans interact with ecosystems to maintain long-term sustainable resource yields. In particular, she constructed an analysis of how societies effectively manage natural resources so that they can avoid ecosystem collapse. This work may prove helpful as businesses around the world adapt to limited resources, environmental pollution and the spectre of climate change. However, not everyone agrees that we are heading towards climate change or environmental catastrophe, so why should businesses pay any attention to sustainability?

Consider the public debates around government responses to environmental pressures such as carbon trading, regulations (new building restrictions) and alternative energy sources (e.g. wind power). One could gain the impression that businesses are generally reactive and resistant to sustainable management practices. However, there are many organisations that have identified themselves as pioneers, leaders and trendsetters in sustainable management.[7] Harish Manwani, the chief operating officer of Unilever, for example, believes that sustainability is at the core of business success over the long term. He asks the question 'How do we really make growth not just competitive growth but responsible growth?'[8] Rather than taking business existence for granted, Manwani and other leaders take each day as a new day to 'earn their right to generate business'. These attitudes reflect a broader concern with how business interacts with society and reflect the broader concerns of sustainability beyond just concern over the natural environment. How, then, can businesses enact this concern for sustainability? First, we must define sustainability.

6.1 What is sustainability?

LEARNING OBJECTIVE 6.1 What is business sustainability?

The buzzword in many organisations since the early 2000s has been 'sustainability', but what does it really mean? **Sustainability** can be described as the use of resources to enable society to satisfy current needs, without compromising the ability of future generations to meet their needs.[9] This definition was coined in 1987 with the release of the United Nations report *Our Common Future*. This report, sometimes known as the Brundtland report, defined environmental and economic development as one single issue. Thus, the report helped to create a political agenda recognising that economic development required a focus on human resource development along with acknowledgement of environmental limits to economic growth in industrialised and industrialising societies.

In Australia, New Zealand, the United States and many European nations, sustainability is the focus for a new value debate about the shape of the future — our common future. In general, **sustainable development** has been conceptualised in terms of three pillars since the Second Earth Summit, held in Rio de Janeiro in June 1992. This definition sees sustainability in terms of environmental, social and economic processes.[10] Figure 6.1 illustrates this point. Thus, these three issues are combined into one sustainability issue. These three issues are also combined into the 'triple bottom line' approach (which will be discussed in further detail later in the chapter). Although there is agreement about the need for sustainability, there is great debate about the best path to take organisations forward.

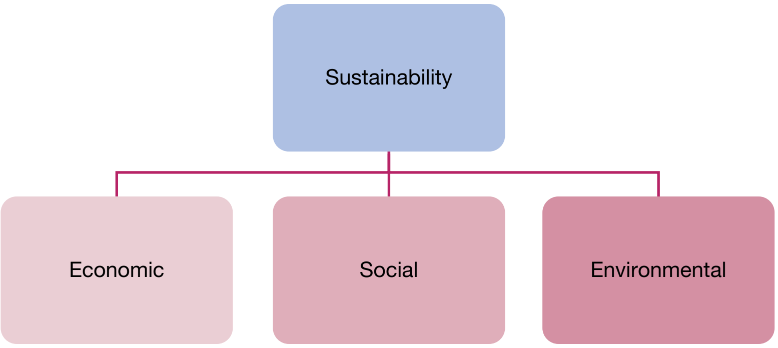


FIGURE 6.1 Three pillars of sustainable development

Defining sustainability

Sustainability results from activities that:

1. extend the productive life of organisations and maintain high levels of corporate performance
2. maintain decent levels of welfare for present and future generations
3. enhance society's ability to maintain itself to solve its major problems
4. enhance the planet's ability to maintain and renew the biosphere and protect all living species.[11]

Although many organisations remain preoccupied with extending their productive life and maintaining high profitability, an increasing number of organisations are actively dealing with the other three activities. Rather than reducing productivity and profits, many organisations are discovering that embracing sustainability can actually enhance these outcomes.[12] This is the idea behind creating shared value — the concept discussed at the beginning of this chapter. Developing a strategy is an important part of achieving such goals.

Some organisations, such as Interface, the world's largest manufacturer of modular carpets, are pursuing a goal of **zero emissions**; that is, eliminating all waste or recycling it.[13] Through eliminating waste, recycling and developing environmentally friendly production processes, products and services, it is possible to 'reduce the footprint' of our activities on the planet. Recycling has been the most frequently used method in Australasia.

However, there are enormous differences in the readiness of organisations to develop and implement sustainable competitive practices. Some organisations are highly advanced in investment in their human capital through educating, training and developing their staff, but have devoted meagre or no resources to ecological sustainability. In other organisations, the reverse applies. So far, very few have vigorously pursued both. Pressure to pursue greater ecological sustainability has come from political parties, such as 'Green' parties around the world, and is increasingly becoming a mainstream political issue. Many governments around the world are now seriously debating the merits and potential introduction of various emissions trading schemes, with the aim of reducing the amount of carbon pollution produced by organisations.

Why sustainability?

The simultaneous processes of industrialisation and urbanisation have created the large cities in which much of the population lives. Even in countries that have substantial open spaces — such as Australia, Canada and the United States — a large proportion of the population lives in cities because of the opportunities that exist in metropolitan areas.[14] In the last 200 years, an extraordinary global process of urbanisation has occurred, driven by the rapid expansion and development of the Western market economy. Business growth and urban growth have gone hand in hand. In 1800, there were only two cities in the world with a population of more than one million people — London and Beijing — and the world's 100 largest cities had a total population of 20 million. By 2030, it is estimated that around 662 of the world's cities will have populations in excess of 1 million people.[15] Population growth has seen the emergence of a new kind of city — the 'megacity' of 10 million or more residents. By 2014 there were 28 of these megacities, the majority of them in the developing world, and it is estimated that by 2030 there will be 41 of them.[16] Today, we do not live in a civilisation, we live in a 'globalisation' — with a globalisation of resources, a globalisation of business activity and a globalisation of humanity.

Cities in the developing world now look like New York or Sydney, and the industries, buildings and transportation systems depend on fossil fuels such as oil, gas and coal. Do businesses need to dig deeper into the earth's crust to provide the resources? Is it acceptable for companies to fill containers with consumable goods and transport them halfway around the world to be used for a couple of weeks and end up as landfill? Sustainability is about calculating human impact on the future, based on current activities. We have to look at the metabolism of our urban areas, viewing the cities as super-organisms in terms of resource use. Currently, our cities and industries have an essentially linear metabolism — goods, water, fuel and food go in and then come out as waste materials at the other end. This is not sustainable in the long term. The key concept for the future is how to convert this linear metabolism into a loop or cyclical metabolism (the circular economy) that minimises resource consumption and reduces waste. The difficulty is that on the one hand governments and businesses are increasingly supporting sustainable development, but on the other they are signed up to economic growth.[17]

In the United States and Europe, major achievements have been made in the field of recycling. For example, pulp mills are no longer built next to forests but next to cities because the raw material for new paper, such as disused clothing and old newspapers, accumulates there. Authorities in the modern Chinese city of Shanghai have a policy of ensuring that the vegetables eaten in the city come from the city. In fact, half of the city area is set aside for the purpose of growing vegetables.

How can cities and industries, which are mainly the product of the availability of fossil fuels, develop energy systems to make them sustainable in the future? There are hybrid sustainable business solutions that use fossil fuels and passive and active solar energy to dramatically reduce energy consumption. However, the future lies with totally renewable energy. There are many prototype building and factory designs which demonstrate that it is possible to operate on solar, wind and recycled energy sources. For example, Denmark will source over half of its entire electricity needs from renewable sources, mainly wind power.[18] The Australian government has developed a **renewable energy target** (RET), aiming for at least 23.5 per cent of Australia's electricity to come from renewable sources by 2020.[19] Companies such as Royal Dutch Shell and BP are also trying to encourage the adoption of renewable energy sources (principally wind and biofuels).[20] The road is not always easy for these organisations, with BP Solar winding down its solar operations in 2011 due to the falling prices of solar panels.

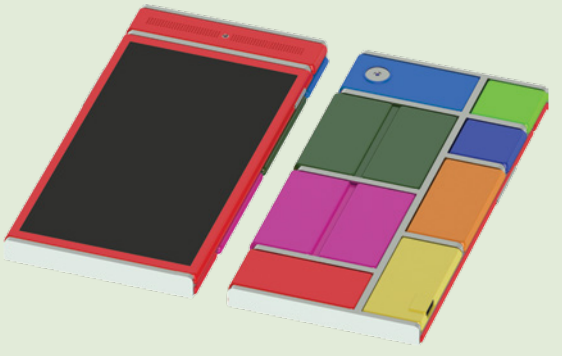
As the benefits of a sustainable approach for cities and industries are increasingly promoted, organisations are finding that renewing natural resources rather than wasting or degrading them, and investing in people rather than divesting them, also makes good business sense. These corporate strategies are the secret to creating the high-performance organisations of the future, and will inevitably contribute to the sustainability of society and our general way of life.

SUSTAINABILITY

Saving gorillas through phone design

For many consumers, the release of new versions of popular mobile phones produces stifled yawns rather than genuine excitement. Slightly better cameras, slightly bigger screens, faster processers and extra security features are not the kind of innovations that drove consumers from established companies such as Nokia and Motorola into the arms of innovators such as Apple and Samsung. Major advances in smartphones seem to be coming from innovators creating modular devices, such as PuzzlePhone and Phonebloks.[21] These designers are attempting to build a more sustainable product by creating products with interchangeable modules that could be upgraded, repaired or customised. This means that instead of upgrading your mobile phone every 18 months (the lifespan of the average smartphone), you could change modules of the phone on a more regular basis.

Designed in Finland, the PuzzlePhone is made up of the easy-to-change modules of the spine (display), brain (CPU, memory, cameras) and heart (battery).[22] As of 2015, versions of the phone are available for pre-order, with products expected to be shipped in late 2016.[23]



Phonebloks is an organisation which tries to inspire and connect companies that are developing aspects of modular devices.[24] Project Ara is one of these groups and this Google-sponsored project has already produced operational prototypes such as the Spiral 3, which is now being developed for the market. Project Ara aims to develop an open hardware platform for modular smartphones, thus lowering the entry barrier for phone manufacturers and, in turn, potentially lowering costs for the consumer.

The need to move towards more sustainable mobile phones is also driven by the need to reduce toxic e-waste. Another driving force for new phone design is to reduce the demand for the rare earth materials used in mobile phones. These materials are sometimes acquired from conflict zones, similar to the processes involved in obtaining 'blood diamonds'. An effect of the demand for these materials can also be seen by visitors to Sydney's Taronga Zoo or Melbourne Zoo, who are being called to save the gorilla habitat in the Democratic Republic of Congo by recycling their phones. The gorilla habitat is being reduced as land is cleared to mine for the metal coltan, which is used in mobile phones and other electronic products.[25]

The push to develop and sell modular phones is likely to increase and eventually expand to other electronic products, such as computers, tablets and digital televisions. Sustainable products are the way of the future and businesses that innovate in this direction will have a better chance of being sustainable themselves.

QUESTION

Do you believe that a technology company such as PuzzlePhone can truly produce products that are sustainable and use production processes that are sustainable, or is the company just using sustainability as a marketing ploy?

Energy and the natural environment

Environmental concerns are crucial to global sustainability. Business, governments and individuals must consider the metabolism of industries and cities, turning this metabolism from a linear process (consuming resources and generating waste) to something cyclical (renewing resources and recycling waste). The abundance of sunshine in Australia and New Zealand provides opportunities to become world leaders in the development of solar-powered industries and cities in the 21st century. Governments can play an important role in encouraging this through subsidies, tax incentives and education.

While environmental issues drove much of the earlier discussions in the 1980s and 1990s about sustainability, the debate around the issue of what is sustainable business development has broadened in the new millennium. Current research is defining sustainability to include the long-term maintenance and reproduction of environmental, economic, social and cultural systems.[26] Sometimes referred to as a **quadruple bottom line** approach, this more holistic view of sustainability argues that organisations should focus on developing strategies and policies that, ideally, tackle these four areas simultaneously. This approach differs from the triple bottom line as it adds the dimension of cultural systems to the usual three areas of economic, social and environmental performance. Other perspectives have labelled the fourth dimension as spiritual, political or company performance. However, the cultural dimension has emerged as being relevant to countries where indigenous or multicultural populations are well represented. In fact, a number of organisations and some local governments in New Zealand, with a significant Māori population, have emphasised the quadruple bottom line approach.[27]

Broader notions of sustainability, such as the quadruple bottom line approach, are gaining mainstream acceptance among international companies. The success of organisations in managing, measuring and reporting their impact on society and the natural environment is of growing importance and prestige. This impact occurs both through their business operations, products and services; and through their interactions with important stakeholders, such as employees, suppliers, customers, government and local communities. The outcomes of this measurement and managing process are increasingly compiled and reported by the media.

Social justice

As we have outlined, sustainability as a business concept has evolved from environmental concerns, to embracing economic and social concerns, and to an emphasis on ethical and cultural concerns.[28] Along with the growing emphasis on corporate social responsibility, the emergence of the social dimension of sustainability became apparent in the 1990s. How business operations impact on local communities, such as timber- or mining-related communities, remained a business focus for many years. As sustainability embraces the need to build a sustainable workforce, the concept includes an emphasis on labour rights. This emphasis can be seen in concern regarding the operation of international sweatshops and human rights relevant to cultural integrity and viability. The principle of **social justice** is foundational to these concerns. In this context, social justice is concerned with:

> a more just and equitable world, whether between rich consumers in the West and poor workers in developing countries, between the urban rich and the rural poor, or between men and woman, remains the central concern in the social perspective on sustainability.[29]

Business concern with social justice extends not just to issues regarding fairness between countries and across geographical and socio-economic boundaries, but also issues in considering future generations. A focus on short-term profit can lead to an exploitative approach to dealing with human and environmental resources. Unfortunately, both human and environmental resources have limits, and a widespread and persistent exploitative approach will leave very little for future generations. This problem has been seen in Australia when a leak of the chemical chromium and other chemical spills from an Orica factory on Koorangang Island affected the residents of the nearby town of Stockton near Newcastle in New South Wales.[30] Persistent breaches of environmental standards have led to ongoing problems, and many residents have lost faith in the way that they are informed of industrial accidents.

Investigations of the Fukishima nuclear accident in Japan in 2011 have uncovered a lax approach to safety standards, and poor communication with residents has created an atmosphere of mistrust.[31] Unfortunately, the towns and countryside surrounding the nuclear plant cannot be used for many years.[32] Indeed, there are many places on earth today that are toxic to humans due to the negligent and destructive approach of businesses, governments and organisations. Examples include the polluted air due to coal mining in Linfen in China, mercury poisoning due to gold mining in Central Kalimantan in Indonesia and chemical weapons manufacture waste in Dzerhinsk, Russia.[33]

The business case

The business case for responsible business is also a reason that companies are working towards improving their social and environmental performance. Research published by the non-profit Carbon Disclosure Project in 2014 found that S&P 500 companies that enshrined sustainability as a core strategy were outperforming those companies with no such strategies.[34] Embedding energy efficiency into business strategy, for example, can lead to cost savings from less energy use. Developing sustainability in the supply chain may lead to cost savings associated with less waste, more recycling and more efficient transportation as a consequence of action to reduce carbon emissions. For example, using video conferencing rather than travelling to meet face to face can reduce carbon emissions and reduce business expenses.

CRITICAL ANALYSIS

1. Why should businesses be concerned with sustainability issues?
2. Why should businesses be concerned with social justice? Is there a danger that businesses may be trying to do too many things other than making a profit?
3. How convincing is the business case for a sustainable approach to managing organisations?

6.2 International sustainability guidelines for business

LEARNING OBJECTIVE 6.2 What are some of the international guidelines for business sustainability, and how can these guidelines be effectively implemented?

In order to remain accountable and focused in the pathway towards business sustainability, a number of organisations are following internationally developed sustainability guidelines.

The **International Organization for Standardization (ISO)** was established in 1947 and is the world's largest developer of voluntary international standards.[35] In recognising the worldwide trend towards sustainability, the organisation has now developed a number of international ISO standards focusing on sustainability. Some of these standards are listed in table 6.1.[36] These standards provide guidance, accountability, certification and stakeholder assurance for organisations that adopt the relevant standards.

TABLE 6.1 Major ISO standards relevant to business sustainability

Standards	Focus	Description
ISO 20121:2012	Event sustainability management systems	A standard to support the organisers of events of all types in integrating sustainability with their activities.
ISO 14000	Environmental management	A set of standards relating to aspects of environmental management. Provides practical tools for organisations to control their impact on the environment and constantly improve their environmental performance.
ISO 26000:2010	Guidance on social responsibility	Guidance on how organisations can operate in a socially responsible way.
ISO 50001:2011	Energy management	Standards to assist organisations to use energy more efficiently, through the development of an energy management system (EnMS).

Source: International Organization for Standardization, www.iso.org.

ISO standards, however, are only one part of the growing list of international sustainability guidelines for business. The following sections will explore some of the more significant guidelines, including the UN Global Compact, the Millennium Development Goals and the Rio+20 Corporate Sustainability Forum. These guidelines should not be considered as competing, but rather as complementary in reporting the many aspects and perspectives of organisational sustainability performance.[37]

The UN Global Compact

One of the challenges of a focus on sustainability in business is that there appear to be very few global standards that provide a practical focus for managers when managing across national and cultural boundaries. This challenge applies to managers of multinational corporations, as well as managers focusing on sustainable practices within the business environment of their domestic economies. Some critics argue that there can be no universal standards considering differences between nations based on culture, economic development and business practices. There are, however, a number of initiatives in this area, including the Global Reporting Initiative (GRI), the World Business Council for Sustainable Development (WBCSD) and the UN-backed Principles for Responsible Investment (PRI).[38] The **UN Global Compact** has provided some 'universal' guidance to businesses in developing sustainable practices, and sets some standards in relation to businesses that aim to operate ethically.

The compact was first ratified at the World Economic Forum in Davos, Switzerland, on 31 January 1999.[39] The UN Secretary-General at that time, Kofi Annan, challenged world business leaders to ascribe to and operationalise the set of universal principles that has become known as the UN Global Compact. The compact does not just focus on environmental sustainability. The focus is, in fact, in the areas of human rights, labour standards and the environment. The principles are derived from The Universal Declaration of Human Rights,[40] the International Labour Organization's Declaration on Fundamental Principles and Rights at Work,[41] the Rio Declaration on Environment and Development,[42] and the United Nations Convention Against Corruption.[43] Following further consultation and feedback, a tenth principle was added in 2004. This principle focuses on anti-corruption. By 2015, over 8300 businesses in 162 countries around the world had signed up to the Global Compact.[44] The UN Global Compact is the world's largest corporate sustainability initiative, and its principles are listed in table 6.2.[45]

TABLE 6.2 Principles of the UN Global Compact

Human rights
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights Principle 2: Businesses should make sure that they are not complicit in human rights abuses
Labour standards
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining Principle 4: Businesses should ensure the elimination of all forms of forced and compulsory labour Principle 5: Businesses should ensure the effective abolition of child labour Principle 6: Businesses should ensure the elimination of discrimination in respect of employment and occupation
Environment
Principle 7: Businesses should support a precautionary approach to environmental challenges Principle 8: Businesses should undertake initiatives to promote greater environmental responsibility Principle 9: Businesses should encourage the development and diffusion of environmentally friendly technologies
Anti-corruption
Principle 10: Businesses should work against corruption in all its forms, including extortion and bribery

Source: UN Global Compact, www.unglobalcompact.org.

Principles seven, eight and nine focus on developing environmentally sustainable business practices. Principle seven suggests a 'precautionary' approach to environmental challenges. Could this mean a sceptical approach? In fact, a precautionary approach stands in contrast to dismissive or combative approaches to environmental challenges, where organisations seek to ignore or avoid environmental regulations imposed by governments. The UN describes precaution in this context of environmental challenges as involving 'the systematic application of risk assessment (hazard identification, hazard characterization, appraisal of exposure and risk characterization), risk management and risk communication'.[46] Steps that the company could take to promote environmental responsibility include:

- re-defining company vision, policies and strategies to include the 'triple bottom line' of sustainable development — economic prosperity, environmental quality and social equity
- developing sustainability targets and indicators (economic, environmental, social)
- establishing a sustainable production and consumption programme with clear performance objectives to take the organisation beyond compliance in the long term
- working with suppliers to improve environmental performance, extending responsibility up the product chain and down the supply chain
- adopting voluntary charters, codes of conduct or practice internally as well as through sectoral and international initiatives to confirm acceptable behaviour and performance
- measuring, tracking and communicating progress in incorporating sustainability principles into business practices, including reporting against global operating standards
- ensuring transparency and unbiased dialogue with stakeholders.[47]

In June 2014, the UN Global Compact launched a new initiative that petitions governments to implement anti-corruption practices and support good governance systems.[48] The campaign, 'Call to Action: Anti-Corruption and the Global Development Agenda', focuses on what companies can do to enhance anti-corruption activities. Corruption continues to be a major challenge for businesses, undermining their efforts to be honest and transparent in building sustainability into their business practices.[49] Furthermore, in 2013 the UN developed the Post-2015 Business Engagement Architecture that provides a practical way forward for companies to build sustainability into their planning and take action in practice.[50] The architecture draws on insights gathered during a series of worldwide consultations on the development agenda beyond 2015 and was developed in collaboration with Global Compact LEAD companies.[51] Both of these initiatives provide guidelines and examples as to how businesses can work towards building a sustainable future.

The Millennium Development Goals

Another major focus of the United Nations has been the development of the **Millennium Development Goals (MDGs)**. The goals were a global partnership to reduce extreme poverty based on a series of time-bound targets. The goals were adopted by 189 United Nations member states, who pledged in September 2000 to meet the following eight goals by 2015:

- eradicate extreme poverty and hunger
- achieve universal primary education
- promote gender equality and empower women
- reduce child mortality
- improve maternal health
- combat HIV/AIDS, malaria and other diseases
- ensure environmental sustainability
- develop a global partnership for development.[52]

These goals, and the projects associated with them, attempted to build economic and social sustainability amongst the poorest people in the world. The first goal was partially achieved with the number of people living on less than $1.25 a day reduced from 1.9 billion in 1990 to 836 million in 2015. Although primary school enrolments rose substantially, 9 per cent of the world's eligible children are still out of school. [53]

Goal seven specifically aimed to ensure environmental sustainability. Some of the subgoals in this category were achieved with a significantly higher proportion of people having access to improved water sources and a lower share of urban residents living in slums in the developing world. Other goals were not achieved, with global emissions of CO_2 increasing by 50 per cent between 1990 and 2012 and forests still disappearing at an alarming rate.[54] The MDGs, however, provided a focus for action for businesses as they worked in partnership with governments and not-for-profit organisations in building global sustainability.

The Sustainable Development Goals

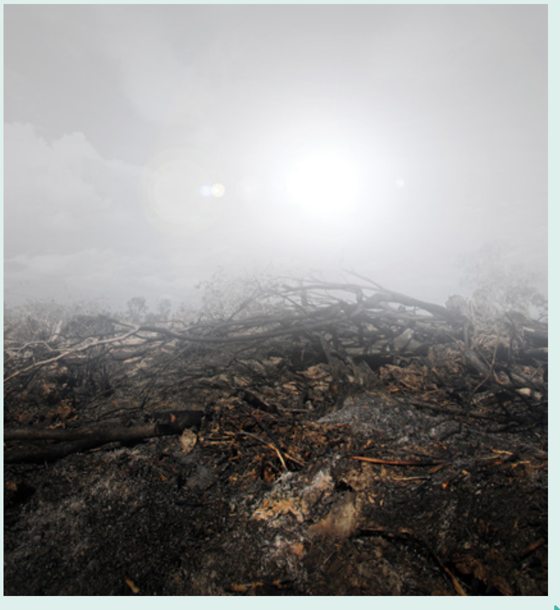
The **Sustainable Development Goals (SDGs)**, which effectively replaced the MDGs, are 17 goals agreed by all 193 member states of the United Nations, with 169 targets to be reached by 2030.[55] The SDGs were developed in consultation with the private business community and include sustainability-related areas such as sustainable cities and communities, responsible consumption and production, climate action, life below water and life on land.[56] The SDGs build on the argument that many MDGs were achieved through the economic growth of middle and developing income countries such as China and India by supporting private sector growth as the engine for poverty reduction.[57] The goals include the phrase 'decouple economic growth from environmental degradation', which could become a rallying cry for sustainable business management.[58] The goals include a number of pro-business themes, such as removing trade barriers and phasing out fossil-fuel and fishery subsidies. Supply chain auditing and sustainability reporting are all emphasised in the non-binding agreement.

CRITICAL ANALYSIS

1. What are the pros and cons of following the ISO standards relevant to sustainable business?
2. What role do you think business can play in reaching the MDGs?

GLOBALISATION

South-East Asia's haze problem: will legislation improve sustainability practices in business?



The governments of many countries have put sustainability on the agenda for managers of corporations. Indonesia is one example where recent legislation has attempted to change the behaviour of managers. For example, articles 1 and 74 in the revised Companies Act states that a company having its business activities in the field of and/or related to natural resources is obliged to undertake activities to reinforce social and environmental responsibility while participating in sustainable economic development.[59] The activities need to be planned to improve the quality of life of local residents and be environmentally beneficial to both the company and the community. In addition, government sanctions apply to those companies that do not comply with the regulation.

In 2012, the Indonesian government issued GR No. 47/2012, requiring all companies whose operations affect environmental sustainability to engage in corporate social responsibility (CSR) activities. Companies were allowed to set their own CSR budget through decisions undertaken at their annual general meeting, but non-complying firms were subject to legal sanction. In fact corporations in Indonesia have funded philanthropic, community development and environmental activities for a long time through charitable foundations (the Indonesian term is *yayasan*).

Despite the best intentions of governments and some companies, some managers deliberately ignore sustainable business practices in order to maximise their short-term business gains. Each year a number of firms in Indonesia orchestrate illegal slash and burn practices to clear land of unwanted vegetation and peat.[60] Clearing land by burning is cheap, it helps avoid the costly requirement of reforestation for owners who 'officially' clear their land and it helps to clear plantations of unproductive palm oil trees.[61] In 2015, however, the consequences of these actions were catastrophic. The fires caused a thick pall of deadly smoke to descend on areas of Indonesia and neighbouring countries. The South-East Asian haze of air pollution during the extra dry conditions of El Niño caused widespread health and visibility problems that led to businesses, schools, transportation and events closing in Indonesia and her neighbours.

Although at least seven Indonesian company executives were arrested in connection with the fires in 2015, the slow and weak enforcement of laws had little effect on management practices that contribute to this annual environmental disaster.[62] The problems had persisted for at least 18 years to 2015 but very few companies have been prosecuted.[63] It appears, therefore, that new laws, sustainability reporting and even international outrage have not stemmed a regular environmental disaster. The profits of the palm oil industry of Indonesia apparently take precedence over a clear environmental disaster.

QUESTION

Why do you think that legislation has not stopped the annual slash and burn practices in Indonesia? What more needs to be done to stop this environmental disaster unfolding every year?

6.3 Sustainability and organisations

LEARNING OBJECTIVE 6.3 What is the relationship between sustainability and corporate governance?

The concept of ecologically sustainable organisations has been discussed for many years. Researchers in 1995 identified that developing ecologically sustainable organisations would require building a consensus within and amongst organisations and their stakeholders.[64] The process of building such a consensus, however, would start with incorporating the values of sustainability into the organisation. With a growing awareness of environmental fragility and the impending challenge of global warming, more business leaders today are willing to incorporate the values of sustainability into the organisation. The costs of operationalising these values, however, are challenging and, to many organisations, the benefits of a sustainable approach do not always seem to outweigh the costs.[65]

Shared value

One approach to the problem of building a consensus in organisations is the concept of **shared value**.[66] This concept recognises that if a business wants to survive over the long term, it needs to look after the needs not just of its employees, its customers and its shareholders but of the broader community as well. Thus, an emphasis on sustainability may have value for businesses, whether one believes in climate change or not.

Creating 'shared value' is a concept that has arisen to challenge the idea that 'social responsibility' is something that is at the periphery of what businesses are about. In fact, Michael Porter and Mark Kramer argue that it is societal needs, and not just economic needs, that define markets.[67] When organisations waste energy, waste raw materials, pollute the environment and have to compensate for poor education systems in preparing workers, they are increasing their own internal costs. When organisations address issues that are harming the environment or society, they are often innovating with technology, operating methods and management approaches. Thus, by working with societies in these ways, organisations create value for themselves and value for the society. This is how shared value is created.

Model of the sustainable business organisation

There are a number of models of the sustainable business organisation.[68] The models are in their infancy, as the concept of the sustainable business organisation is still relatively new in terms of research and practice. Figure 6.2 represents one of these models. This model is part of an industrial ecosystem of companies that have adopted the closed-loop economic production model. In this example, the company's operations are powered by renewable energy inputs.

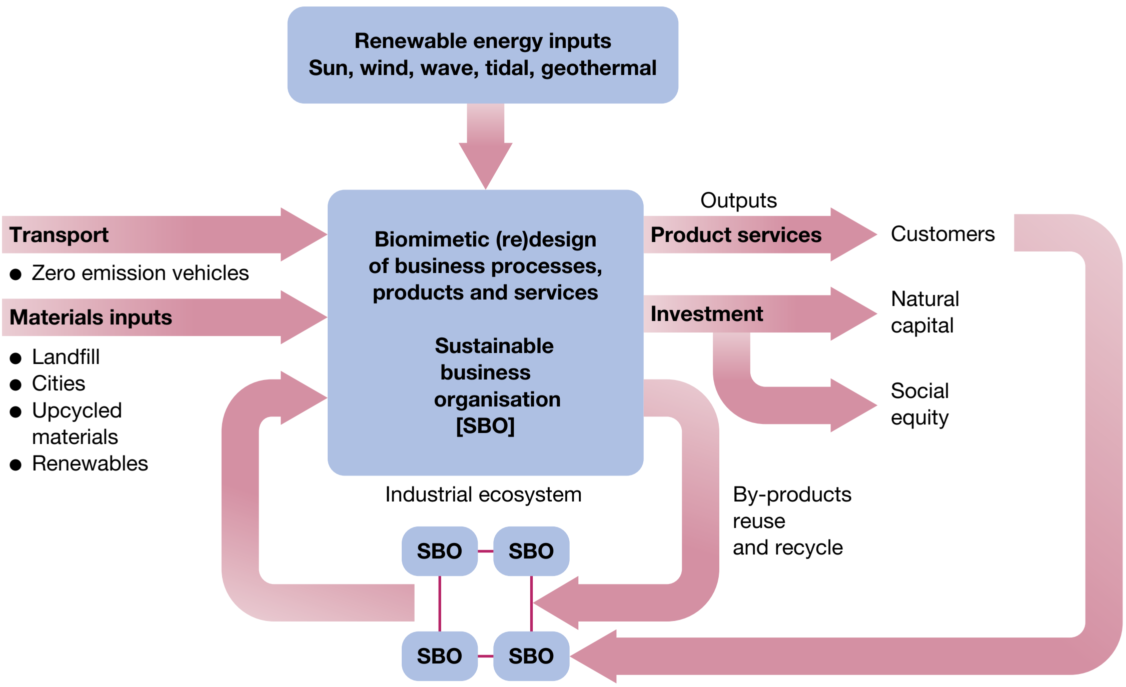


FIGURE 6.2 Closed-loop model of a sustainable business organisation

Source: Gianna Moscardo, Geoff Lamberton and Geoff Wells et. al., *Sustainability in Australian Business* (Brisbane: John Wiley & Sons, 2013), p. 153.

Corporate governance

A major consideration in sustainability is how a company governs itself. The scope of governance includes the methods of corporate decision-making; the ways in which stakeholders are included in the process, and their interests represented; and the transparent, ethical principles that are applied to all decision-making. Stakeholders are considered to be both internal and external. However, responsibilities to the firm's own employees are primary, and under sustainability principles such responsibilities can redefine the nature of the employment relationship.

Research exploring how Australian private and public managers perceived sustainable corporate governance found four different approaches.[69] In the first approach, managers saw sustainable corporate governance as primarily about corporations working towards long-term economic survival and performance.

Managers in the second category considered sustainable corporate governance in terms of corporations working towards positive outcomes for the natural environment. This was represented mainly in ecological outcomes, such as conservation and eco-efficiency behaviour. Managers in the third category saw sustainable corporate governance in terms of supporting people and social outcomes. A fourth category of managers emphasised corporate sustainability in terms of a systems-thinking approach. Managers expressing this view acknowledged the need to balance economic, social and natural environment outcomes.

The research uncovered a relationship between the categories. Managers from private organisations saw sustainable corporate governance in terms of sustainable economic performance with enough compliance to environmental and social legislation and regulations to give them to a 'license to operate'.[70] Managers from public organisations (including government-owned corporations) emphasised category 2 and 3 perspectives, in that they saw sustainable corporate governance as emphasising environmental and social outcomes. However, managers in category 2 and category 3 expressed lesser emphasis on category 1 issues (economic outcomes). Participants expressing a category 4 understanding (a systems-thinking approach) tended to see sustainable corporate governance as a balance of category 1, 2 and 3 outcomes. The research indicates that, in practice, managers tend to emphasise different aspect of governance in relation to sustainability, and their emphasis is influenced by whether they were in private, public or government-owned organisations.

Circular economy

The concept of the **circular economy** is one that has been gaining momentum in recent years;[71] the first large-scale event for the concept being held in 2014 in London with over 11 000 attendees from all over the world. The European Union developed an ambitious circular economy strategy in 2015.[72] The concept encourages businesses and governments to move from a linear 'take–make–consume–dispose' pattern of growth to a circular 're–use–repair–refurbish — recycle' approach where 'waste' can be used as a resource.[73] For example, chances are that your mobile phone is less than two years old. This fast replacement approach to consumerism has lead to an incredible inefficiency in the way that we manage the limited resources of planet Earth, with pollution, loss of natural habitat and loss of value with the disposal of such expensive products. The circular economy, however, emphasises material efficiency, renewable energy and energy efficiency, so that eventually your phone will be upgradable, repairable, made with recycled materials and will be made and maintained with energy-efficient processes. This circular approach may cut carbon emissions by 70 per cent by 2030, and its labour intensive approach may increase jobs throughout the world.[74]

CRITICAL ANALYSIS

1. In what way is the concept of shared value feasible for businesses?
2. What evidence do you see that organisations simply pay 'lip service' to sustainability in business?

6.4 Organisational change: developing the sustainable firm

LEARNING OBJECTIVE 6.4 How can organisations change to become more sustainable?

The process of organisational change towards sustainable business practices requires the organisation to find new ways of doing business. Sometimes this process involves the whole organisation. In marketing, the organisation may be able to respond to the significant growth of **ethical consumerism** in the marketplace.[75] Ethical consumers will buy or avoid buying products based on ethical grounds, or these customers seek more information about the ethical standards associated with goods and services. An example of this is the growth in sales of free-range eggs, despite the higher price tag of this product compared with cage-produced 6+ eggs. It is evident from the description of sustainable business outlined thus far that in adopting sustainability principles, most firms must find new ways of doing business, often across the whole organisation. Change principles thus become central to sustainable business. The principles of change are well established in the business discipline of organisational behaviour. However, these principles take on new dimensions when considered from sustainability perspectives.

Incremental change

Dunphy, Griffiths and Benn[76] distinguish four phases in the transition of a sustainable organisation from the base level, compliance, to the most developed level.

1. *From non-responsiveness to compliance*. Non-responsive organisations are those who disregard the impact of their actions on the environment, or on local communities with which they interact, or on their own people. The impetus for such organisations to change is likely to come from sources external to the organisation, such as media exposure, public protests or court action.
2. *From compliance to sustainable efficiency*. Efficiency gains are likely to come from poorly performing units, pilot projects and capability improvement. Identification of leverage points and sharing of success are central.
3. *From efficiency to strategic proactivity*. Strategic proactivity relates to the extension of sustainability practice to products, and to suppliers and customers; to recruitment and internal development that enhances sustainability capabilities; and to active engagement with community groups in the development of new products and services.
4. *From strategic proactivity to the sustaining corporation*. The 'sustaining' corporation is characterised by a shift in the values and behaviours of the corporation, collectively and individually, towards the role of business in creating a sustainable society. There is an interaction with other organisations within the sector, or in the supply chain, to promote the implementation of sustainability practice.

The authors note that incremental change has important benefits, such as internal capability development, positive culture change and competence in the change process itself.[77]

Sustainability reporting

The **Global Reporting Initiative** is a not-for-profit organisation established to promote environmental, economic and social sustainability.[78] The G3 guidelines (released in 2006), established by the group, provided a comprehensive sustainability reporting framework used by organisations around the world. The guidelines indicated what and how to report on management and performance indicators relevant to sustainability. There were five performance indicators in the environmental category and these include biodiversity-related issues such as the size of land owned in protected areas, the impacts of activities and strategies for managing impacts on biodiversity. The framework is the world's most widely used sustainability reporting framework.

The new G4 guidelines, published by the GRI in 2013 apply to all sustainability reports published after 31 December 2015. Reports must now focus on **materiality**, an accounting principle that describes the importance or significance of something. In the context of GRI reporting, materiality is the threshold at which performance aspects become important enough to be reported. Determining such a threshold for sustainability reporting is no easy task, but if something potentially meets the needs of the present but may compromise the needs of future generations then it should be reported.[79] For example, after an analysis in 2013, the Nestlé food company determined that some of the material issues that it should report on include business ethics, maternal infant and young child nutrition, resource efficiency and waste.[80] They then analysed and reported these issues on a matrix that assessed the strength of stakeholder concern against the strength of the issue's impact on Nestlé. In 2014 the issue with the strongest stakeholder concern and strongest impact on Nestlé was determined to be 'over and under nutrition'.[81] In very simple terms, this could be translated as obesity and malnutrition.

Sustainability reporting is maturing in many countries around the world. The Singapore broadcaster Channel NewsAsia launched the Asian region's first sustainability index in 2014. The index ranks the 100 leading firms in corporate sustainability in economies including India, China, Indonesia, Japan, the Philippines, Thailand, South Korea, Malaysia, Taiwan, Hong Kong and Singapore. The index analyses and compares performance on ESG indicators (environment, social, governance). The index helps to motivate companies to improve their sustainability practices through an independent ranking system of company performance.[82]

In Australia, an increasing number of companies are participating in sustainability reporting. From 2007 to 2012, GRI reporting grew in Australia by more than 30 per cent each year and 95 per cent of the world's 250 biggest companies now report their sustainability performance.[83]

The bottom of the pyramid

One of the challenges to managing sustainably is that much of the economic growth in the future is likely to be in developing countries. According to Unilever research, developing markets will lead growth, accounting for 94 per cent of the growth in population (representing 750 million people or nearly 1 billion new customers) and 72 per cent of incremental consumer expenditure (representing US$23 trillion).[84] The emerging world population will be 7.5 billion by 2020. Such large-scale consumption will lead to opportunities for people's livelihoods as well as challenges for the environment and biodiversity. There are lessons to be learned from organisations like Unilever, which has a vision to double in size while reducing its environmental impact by working across the value chain and measuring its total footprint right across the value chain.

The late C.K. Prahlad of the University of Michigan identified that there is a 'fortune at the bottom of the bottom of the pyramid'.[85] By this, he meant that the poor of the world are not victims but, rather, they are resilient and creative entrepreneurs. In addition, the poor are value-demanding consumers. Thus, he encouraged multinational corporations and other organisations to recognise that designing products and services for this group of consumers and potential entrepreneurs can not only be helpful for communities, but also potentially profitable. Thus, firms need to orient themselves towards this growing market.

CRITICAL ANALYSIS

1. In what way would reporting on sustainability help an organisation to improve its sustainability performance?
2. Considering the low availability of finance in the bottom of the pyramid, is there really a fortune there?

6.5 Current trends in business sustainability

LEARNING OBJECTIVE 6.5 What are some current trends in business sustainability?

In order for sustainability to remain a priority for businesses, ultimately the need for a value proposition allows sustainability to be sustainable! That is, sustainability must help organisations to create value for customers and ultimately to help companies earn profit. The shared value approach, explained in the introductory section of this chapter, is one useful approach. The price of a non-sustainable future is high; however, the price will be paid by future generations, and so companies do not include such costs in their current accounting practices.

In fact, many organisation have recognised that the 'bubble' of wasteful and environmentally harmful business practices cannot be sustainable over the long term as businesses cannot 'defy gravity' if gravity is the reality of the limited resources of our fragile planet. In recognising the link between corporate social responsibility and sustainability, businesses are not only embedding CSR throughout their business processes but are also making sustainable decisions recognising that the global economy is experiencing an ongoing crisis. However, the current trend towards business sustainability could be seen as one of many waves that have made an impact on the global economy. The following section explores these apparent waves.

Waves of change in the business environment

Alvin Toffler was the first management writer to introduce the concept of waves of change. This concept was explained in his book *The Third Wave*, which was published in 1980.[86] Toffler argued that the First Wave of change was the agricultural revolution in the 18th and 19th centuries, which began in the United Kingdom and was necessary for the subsequent Industrial Revolution. The revolution required substantial increases in agricultural output to feed the rapidly growing industrial cities of the 19th and early 20th centuries. The Second Wave was the Industrial Revolution, which began in the northern English towns of Manchester and Leeds, spread across many countries and continues to spread in rapidly expanding developing countries such as India and China. This Second Wave is rooted in materialism and the supremacy of humankind and is epitomised by a world-view emphasising individuality, competition and profit maximisation. Decision-making is supposed to be based on rational criteria and unaffected by emotions, intuition or politics. From this orientation flows an emphasis on competition, self-preservation and consumption, which many believe has created such current problems as pollution, solid-waste disposal, crime, family violence and international terrorism.

The Third Wave marks growing concern for balance and sustainability and is epitomised by a world-view stressing the connectedness of individuals, cooperation and value creation. The business environment is rapidly changing as companies move towards a distributed workforce that uses advanced communications technology to link workers and functions at scattered sites. This change is altering the nature of work and redefining the organisation. North American and European companies are leading these changes.

This Third Wave assigns validity to intuition and non-rational processes. As this wave unfolds, we become more sensitive to the issues of conservation, sanctity of life and cooperation. Material gain is but one force driving activity in the wider environment. Reducing environmental risk, providing service to others, and creating opportunities for personal growth and self-fulfilment become important considerations. Material wealth assumes less importance in a world where dignity, integrity and inner harmony play an important role in gaining a sense of personal validation.

In the Fourth Wave, individuals will focus on integrating all dimensions of their life, achieving responsibility for the whole and acting as global stewards. Material gain will not be a sufficient end in itself. True wealth will be concentrated in each individual and expressed as an inner trust. People in the Fourth Wave will be integrated into the full range of human cognitive and perceptual abilities.[87]

Moving through the different waves has and will involve many dislocations, often very disruptive and painful (such as the destruction of rural communities and rural–urban migration as the First and Second Waves created an urbanised, industrial economy in Europe, North America and beyond). The Third and Fourth Waves are creating dislocations, but of a different nature. These include the emergence of industry clusters involving cooperation between businesses, and the introduction of environmentally friendly products and manufacturing processes involving the elimination of existing polluting plants.

Rio+20 Corporate Sustainability Forum

In 2012, just prior to the UN Conference on Sustainable Development, nearly 3000 representatives comprising private businesses, governments, academics and community activists met to develop business initiatives to support sustainable development.[88] The **Rio+20 Corporate Sustainability Forum** developed over 200 commitments regarding business and sustainability in areas including energy, finance, climate change, water, food, anti-corruption and women's empowerment. The outcomes from this forum are important for managers, as they provide broad guidelines and policies that are likely to impact businesses in the coming years.

Some of the commitments include frameworks for public–private policy collaboration on biodiversity, food and agriculture and access to water for people and industries. A new initiative at the forum brought together stock exchanges from the North and South to explore how to include sustainability factors in the listings of member businesses. Governments at the forum agreed to define a new set of Sustainable Development Goals that would extend and broaden progress already made in the context of the Millennium Development Goals (as discussed in an earlier section).

Despite this promising forum and strong commitment to the SDGs, corporate sustainability has not penetrated the majority of companies around the world. We still haven't seen the depth of action needed to address the most pressing challenges confronting our planet. Ultimately, a continuing partnership between businesses, communities and government will be needed so that sustainable business initiatives can reach scale, and so that economic incentive structures must be realigned so that sustainability is valued and profitable.

CRITICAL ANALYSIS

1. What evidence (if any) in our society do you see of a Third Wave as Toffler has described?
2. What are the pitfalls of a government–business–community consensus represented by the Rio+20 Corporate Sustainability Forum?

SUMMARY

6.1 What is business sustainability?

- Sustainability is defined as the use of resources to enable society to satisfy current needs, without compromising the ability of future generations to meet their needs.
- Sustainable businesses are based on the three pillars of sustainable development, which are the development of social, environmental and economic aspects of businesses and their communities.

6.2 What are some of the international guidelines for business sustainability, and how can these guidelines be effectively implemented?

- The guidelines include the ISO 14000 family, the UN global compact and the Millennium Development Goals.
- These guidelines and goals can only be effectively implemented and achieved as organisations take responsibility for specific aspects of the guidelines/goals.

6.3 What is the relationship between sustainability and corporate governance?

- Corporate governance in relation to sustainability is only effective when organisations are accountable through reporting progress to an external agency such as the Global Reporting Initiative.

6.4 How can organisations change to become more sustainable?

- The four stages of change for organisations to become more sustainable could be described as from non-responsiveness to compliance, from compliance to sustainable efficiency, from efficiency to strategic proactivity and from strategic proactivity to the sustaining corporation.
- Organisations can change to become more sustainable by adopting business models such as the closed-loop model of a sustainable business organisation.

6.5 What are some current trends in business sustainability?

- The Third (and current) Wave of socio-economic development marks growing concern for balance and sustainability and is epitomised by a world-view stressing the connectedness of individuals, cooperation and value creation.
- In the Fourth Wave, individuals will focus on integrating all dimensions of their life, achieving responsibility for the whole and acting as global stewards.
- The Rio+20 Corporate Sustainability Forum established a stronger partnership between businesses, governments and not-for-profit organisations in addressing sustainability issues. However, further work is needed for sustainable initiatives to be sufficiently incentivised in order to be profitable.

KEY TERMS

A **circular economy** is an economy based on a circular re-use-repair-refurbish-recycle approach to consumption rather than a linear 'take-make-consume-dispose' approach to production.

Ethical consumerism is the practice of purchasing products and services produced in a way that minimises social and/or environmental damage, while avoiding products and services deemed to have a negative impact on society or the environment.

The **Global Reporting Initiative** promotes environmental, economic and social responsibility.

The **International Organization for Standardization (ISO)** is the world's largest developer of voluntary international standards.

Materiality is an accounting principle which recognises that some information is important or 'material' to performance or to an issue.

The **Millennium Development Goals (MDGs)** are a UN-sponsored set of eight time-bound goals that aim to reduce global extreme poverty.

The **quadruple bottom line** is a measure of company performance covering results in terms of economic, social, environmental and cultural factors.

A **renewable energy target** is a percentage of total energy production that is generated by renewable sources.

The **Rio+20 Corporate Sustainability Forum** was a UN-sponsored forum comprising private business, governments, academics and community activists that met in Rio de Janeiro in 2012 to develop sustainability initiatives.

Shared value is the policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates.

Social justice is concerned with creating a more just and equitable world.

The **Sustainable Development Goals (SDGs)** are 17 goals with 169 targets to be reached by 2030 that include sustainability-related areas such as sustainable cities and communities, responsible consumption and production, climate action, life below water and life on land.

Sustainability is the use of resources to enable society to satisfy current needs, without compromising the ability of future generations to meet their needs.

Sustainable development meets the needs of the present without hurting future generations.

The **UN Global Compact** provides 'universal' guidance to businesses in developing sustainable practices, and sets some standards in relation to businesses that aim to operate ethically.

Zero emissions occur when carbon or polluting emissions are reduced and/or offset so that there is no net addition of emissions that are harmful to the environment or climate, usually by the emitting source.

APPLIED ACTIVITIES

1. What is the three-pillar definition of sustainable development?
2. Explain the notion of shared value in relation to business sustainability?
3. What are the Sustainable Development Goals and what role have they played in building global sustainability?
4. Outline the four stages of the incremental model of change towards the sustainable business.
5. What changes could you make in the way that you shop and use energy to contribute to a more sustainable future?

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ACKNOWLEDGEMENTS

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CHAPTER 7

Information and decision making

LEARNING OBJECTIVES

7.1 How is information technology changing the workplace?
7.2 What are the current directions in information systems?
7.3 How is information used for decision making?
7.4 How do managers make decisions?
7.5 Why are knowledge management and organisational learning important?

Where we are on the road to driverless cars[1]

Who doesn't like the idea of getting in your car, sitting back, finishing off your coffee and reading the paper while the vehicle whisks you to your destination? We're not quite there yet, but what is available are technologies and systems that can make the driving experience a little easier and much safer.

Currently, most vehicle manufacturers offer some kind of autonomous driving features, including automatic parking, forward collision avoidance, adaptive cruise control and lane departure warning. Those features are either available in their high-end models or as an option in base models. This kind of feature availability follows a model that vehicle manufacturers have been using for a very long time.

Take the example of anti-lock braking systems (ABS) or airbags. These were once only available in high-end brands and models but nowadays there aren't many cars around that don't come with standard ABS and airbags. In fact, if you want to score a reasonable Australasian New Car Assessment Program (ANCAP) safety rating for your vehicle, ABS and airbags are a must.

Destination: autonomy

So when are we likely to see vehicles driving around fully autonomously? There are already some experimental autonomous vehicles driving around. Google has been advertising the fact that its autonomous vehicles have done more than one million miles, with no accidents being the fault of autonomous systems.

In fact, even before Google, we had the US Defence Advanced Research Projects Agency (DARPA) issue three Grand Challenges. The first two, in 2004 and 2005, were to race autonomous vehicles across a desert, and the third, in 2007, was in a simulated urban environment.

We've had autonomous vehicle demonstrations and challenges happening for a while, so it's not the technology stopping autonomous vehicles from being on our roads. Rather, it's concerns around integration and acceptance, both of which require a fair amount of coordination. We need to be able to integrate these fully autonomous driverless vehicles into traffic that has conventional vehicles. Then there is the issue of road and weather conditions. We need to implement systems that let vehicles talk to each other and the road infrastructure to ensure the safe passage of autonomous and non-autonomous vehicles.

It's not likely that we will have fully autonomous or driverless vehicles until these sorts of communication technologies are rolled out over the road network. These Cooperative Intelligent Transport Systems (C-ITS) technologies are also being trialled in Australia and internationally, so we should see this available sooner rather than later.

Getting behind the wheel

There are also issues around legislation. It is currently illegal to drive a car that a human is not controlling. So the legislation needs to be changed before fully autonomous cars can hit the roads. In South Australia the state government was one of the first to introduce the changes required for autonomous/driverless vehicles to be able to be driven on our roads legally.

Another issue is around public acceptance. While driverless cars might sound exciting, would you feel safe in one? And whose fault is it if something goes wrong? If there is an accident, who will the car try to protect, the occupant or the pedestrians about to be hit?

Autonomous vehicle trials are a good way of getting these vehicles accepted by the public. Flinders University is looking at trialling an autonomous bus to link its Tonsley and Bedford Park campuses, which could also provide links to Flinders Medical Centre, Clovelly Park and Tonsley train stations and Marion shopping centre. The aim of this and other trials should be to gain acceptance of these sorts of technologies. Given all these integration and acceptance issues, there needs to be a degree of coordination to ensure that all vehicles are complying and performing in ways we expect.

To this end ARRB Group has taken the lead in starting the Australian Driverless Vehicle Initiative (ADVI), which has a vision to accelerate the safe and successful introduction of driverless vehicles onto Australian roads.

Currently there are about 30 stakeholders that have joined the initiative, including Flinders, in order to achieve the common vision. ARRB together with the South Australian Government hosted the International Conference on Driverless Vehicles in Novemeber 2015, which also saw the first trial of autonomous vehicles on the southern expressway in Adelaide.

So within the next 10 to 20 years — which is only a few vehicle model cycles — we should see changes in laws, implementation of C-ITS in cars and roads, and many more trials of autonomous vehicle features and vehicles before we see their widespread uptake on Australian roads.

The last thing we would want is for overseas autonomous/driverless vehicles to come to Australia and have these features turned off because we don't have the appropriate integration technologies available or public acceptance.

Source: Rocco Zito (Flinders University), originally published on *The Conversation*.

QUESTION

What additional steps can vehicle manufacturers take to convince stakeholders and decision-makers that driverless cars are the way of the future?

Introduction

Technology is changing the way we do business. We can source so much information from thousands of websites: Google helps us find information in a matter of seconds, storing and using information has never been easier, and we seek new information by attending conferences and training sessions. We send staff out to bring new information into the organisation. We recruit externally hoping the employee will bring in the 'edge' we are constantly seeking. We expect performance and delivery of information from our employees — and, yet, a question mark hangs over us all. How are we using this information? How can we trust this information? How do we value and protect the value of what we know and what we learn? The key to performance in this world is information, and the way it flows and is used by people in organisations.

Over half a century ago, Peter Drucker coined the phrase **knowledge worker**. His definition was limiting: professionals who are relatively well educated and who create, modify, and/or synthesise knowledge as a fundamental part of their jobs. Today, the definition encompasses any worker whose effort is centred around creating, using, sharing and applying knowledge;[2] or a worker who transforms information into a product or service. With globalisation and the competitive edge that knowledge provides, the knowledge worker is valued within the organisation. The use of information is focused on achieving organisational goals, and, as such, adds value to the outcomes.

In this era of information, there is no doubt that **intellectual capital** is a major source of competitive advantage. Intellectual capital is knowledge held within the firm that is not known to competitors. It can be processes, research or innovation that needs to be protected. Patents are one method of protecting the valuable intellectual capital of a company. Knowledge is an irreplaceable organisational resource, and the goal should always be to grow and create it. The information from which knowledge is created increasingly moves at high speed through electronic computer and telecommunication networks that link each of us to the world at large, with an access and intensity never before possible. Intellectual capital can include the skills and knowledge that a company has developed about how to make its goods or services; individual employees or groups of employees whose knowledge is deemed critical to a company's continued success; and the aggregation of documents about processes, customers, research results and other information that might have value for a competitor that is not common knowledge.

An example of how intellectual capital can be undervalued to the detriment of the organisation lies in the story of how Edwin Drake started the oil rush with his invention and yet died penniless. In 1858, Seneca Oil Company asked Edwin Drake to go to Pennsylvania and find ways to extract oil from the ground. The concept of drilling for oil seemed far-fetched; until then, the only collection of oil was from the sources that bubbled to the surface. After many attempts, Drake figured out a way to get a cast-iron pipe deep into the earth to successfully bring oil to the surface from 69 feet below. Despite the oil rush, neither Drake nor Seneca had the business sense to patent the drill. Others copied what Drake had done, and the boom led to lower prices for all. However, Drake the inventor was left penniless.[3]

7.1 Information technology and the new workplace

LEARNING OBJECTIVE 7.1 How is information technology changing the workplace?

Progressive organisations are doing all they can to design work settings for high performance in an environment where 'speed to market', 'quick response', 'fast cycle time' and 'time-based competition' are top priorities. They drive investments in IT that have changed dramatically what most of us still call the office.

Work and the virtual office

People work at 'smart' stations supported by computers that allow sophisticated voice, image, text and other data-handling operations. Many of these stations are temporary spaces that telecommuters 'visit' during those times when they are in the main office; otherwise they work from virtual offices — on the road, anywhere. Voice messaging uses the voice recognition capabilities of computers to take dictation, answer the telephone and relay messages. Databases are easily accessed and shared to solve problems, and to prepare and analyse reports.

Documents drafted via word processing are stored for later retrieval and/or sent via electronic mail or facsimile transmission to other people. Filing cabinets are few, and little paper is found. Meeting notes are written on electronic pads or jotted in palm-held electronic diaries. All are easily uploaded into computer files. Mail arrives and is routed to its destination via computer, where it is electronically prioritised according to its importance and linked to relevant databases to speed problem-solving. Computer conferencing and videoconferencing are commonplace. E-meetings allow people separated by great distances — distributed even around the world — to work together on projects every day without meeting personally face to face.

There are more developments coming to the networked office every day. **Instant messaging** — instantaneous communication between people online at the same time — isn't just for friends; it is also a work facilitator. **Peer-to-peer file sharing** (P2P) — PCs connected directly to one another over the internet — gained fame as a way for friends to swap music and video files. It is now becoming indispensable as a way for workers to share information and otherwise collaborate 'peer-to-peer'. Network and drive sharing also assists this process. Progressive organisations are doing all they can to use computers and information technology to streamline work, improve operating efficiencies and make overall performance improvements. Such work settings are designed for high performance in a workplace dominated by concerns for speed — of decision-making and action.

Although the internet has made a significant contribution to enhancing the way organisations communicate, there are a few drawbacks. Organisations worldwide are losing productivity because employees are visiting websites not related to their work during work hours. A global internet provider found that 70 per cent of pornography sites are visited between 9 am and 5 pm on working days. Organisations have to take steps to manage potentially inappropriate email (spam) and internet access, freeing online resources for use by more appropriate online 'traffic'.

Internet abuse carries a lot of consequences. Loss of productivity and litigation issues such as sexual harassment, a hostile work environment and discrimination are a few of the possible outcomes. Many organisations have chosen to monitor internet access and then deal with the employee directly, which can limit the liability for the organisation. This is a double-edged sword, as generation Y employees coming into the workforce have never been without technology access. In fact, members of this generation have a reputation for their ability to multi-task. They can listen to music while on Facebook, simultaneously instant messaging, while researching and writing an assignment. Controlling their internet access in the workplace could potentially have a negative affect if productivity is being otherwise achieved.

Fear of missing out (FOMO) is a phenomenon that has started permeating social relationships. Increasingly, people feel the need to constantly be 'connected' through social media platforms such as Facebook, Twitter and Instagram, making it more difficult to 'switch off' or concentrate on more important tasks (such as work).[4] One solution might be for employers to set their staff a time limit for 'outside work' online activities (such as checking personal emails and engaging in social networking). The key to effectively regulating internet access is negotiation and communication with employees.

How information technology is changing organisations

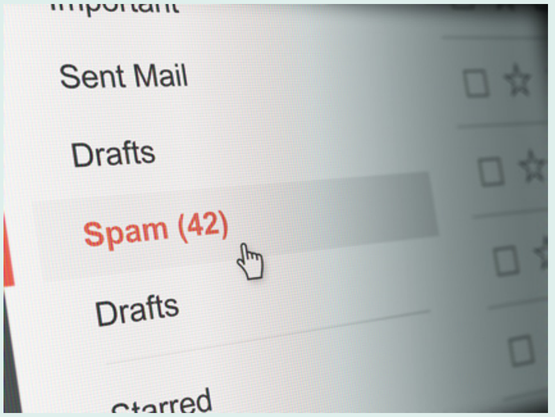
Without doubt, the most significant way in which IT is changing organisations today can be summed up in one sentence: Information technology is breaking down barriers.[5] It breaks down barriers by making communication easy, immediate, inexpensive and important. IT use is breaking down barriers *within* organisations and *between* the organisation and its environment. The benefits are important and the impact far-reaching. It is making the organisations more efficient and effective, and much more competitive in the process.[6]

Within organisations the increasing use of IT means that individuals and teams, working in different departments, levels and physical locations, can more easily communicate and electronically share information with one another. It also means that the organisation can operate with fewer middle managers, whose jobs otherwise would be to facilitate these information flows. Instead of people moving information among and across levels, computers do the job for them. This means that IT-intensive organisations are 'flatter' and operate with fewer levels than their more traditional organisational counterparts. It brings them opportunities for competitive advantage in increased speed of decision-making, use of better and more timely information for decision-making, and more coordination of decision-making and action among relevant components. It also offers the advantage of increasing flexibility in reconfiguring operations and organising special projects in response to competitive needs and opportunities.

This is essential when we consider most organisations have some aspect of their business overseas and communication must be immediate. New communication systems are being created every day. Twitter, largely regarded as one of the most influential technologies of the modern era, was responsible for facilitating the Arab Spring in the Middle East (the revolutionary wave of demonstrations that occurred across the Arab world in late 2010 and early 2011). Twitter was created over lunch by two ex-Google employees, Evan Williams and Biz Stone. Facebook offered US$500 million for Twitter in 2008, but Williams and Stone declined the offer.[7]

GLOBALISATION

The downside of technology and global access



Not all email scams to businesses and homes are from Nigeria. Such emails usually include a request for bank details so that they can deposit money. A so-called 'Nigerian' scam is a form of upfront payment or money transfer. They are called Nigerian scams because the first letters came from Nigeria, but they can come from anywhere in the world. Increasingly, as more developing nations around the world gain access to technology, such emails are originating in regions closer to home, such as Asia.

The scammers usually contact you by email or letter and offer you a share in a large sum of money that they want to transfer out of their country. Usually, the money is restricted by central banks due to civil wars or coups, often in countries you've heard of in the news. The email or letter is usually very polite, but in broken English. The following email, which originated in Malaysia, is about massive inheritances that are supposedly unclaimed.

> I am Mr. Davies Abraham the director of Accounts & auditing dept (CIMB Bank Group Malaysia) With due respect, I have decided to contact you on a business transaction that will be beneficial to both of us and our family. At the bank's last accounts/auditing evaluations, my staffs came across an old account which was being maintained by a foreign client who we learn was among the deceased passengers of motor accident on (November 2003) the deceased was unable to run this account since his death.
>
> The account has remained dormant without the knowledge of his family since it was put in a safe deposit account in the bank for future investment by the client and we have tried to contact the details of the next of the kin but our effort is in vain so CIMB Bank gathered that every body in the family died in the Accident.

The recipient is asked to pay money or give the sender bank account details to help them transfer the money. They are then asked to pay fees, charges or taxes to help release or transfer the money out of the country through their bank. These 'fees' may even start out as quite small amounts. If paid, the scammer will make up new fees that require payment before they can send the 'reward'. They will keep making up these excuses until they think they have got all the money they can.[8]

QUESTION

What decisions can businesses make to ensure that their communication with overseas suppliers is legitimate?

The best organisations also take advantage of IT in managing their relationships with key elements in the external environment. IT plays an important role in customer relationship management by quickly and accurately providing information for decision-makers regarding customer needs, preferences and satisfaction. IT helps manage and control costs in all aspects of the supply chain from initiation of purchase to logistics and transportation to point of delivery and ultimate use. IT also helps build and manage relationships with strategic partners. It enables business contracts to be continuously maintained and efficiently fulfilled regardless of physical location. Figure 7.1 shows how IT is breaking down barriers.

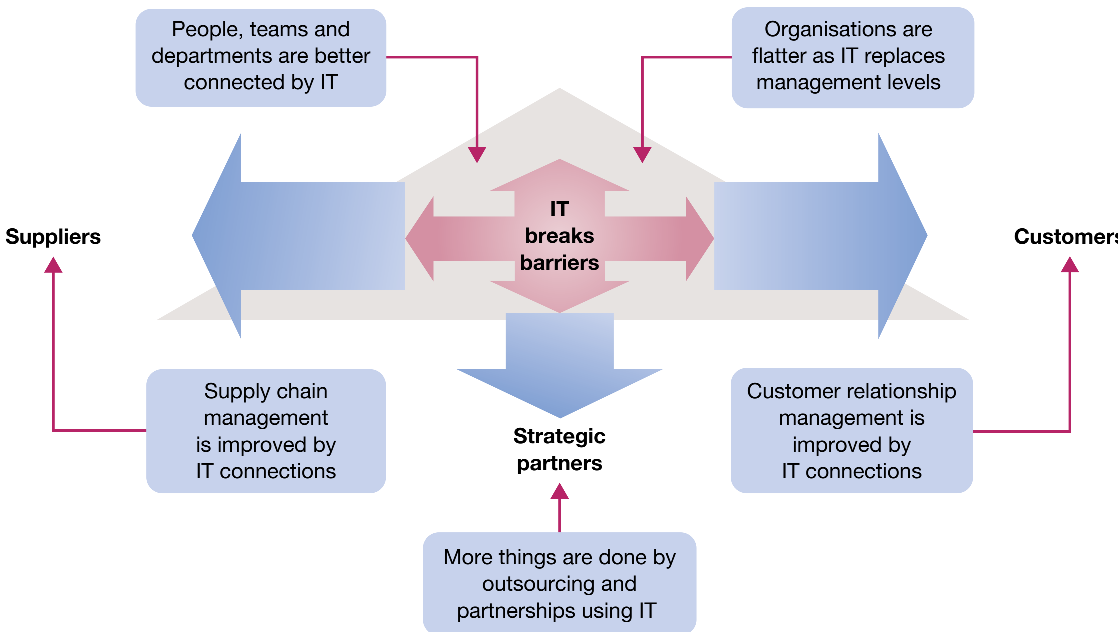


FIGURE 7.1 Information technology is breaking down barriers and changing organisations

SAI Global's business excellence framework is an integrated information and knowledge model focusing on leadership and management. Each element in this model is essential to sustainable organisational excellence.[9] Information and knowledge are boundaryless in order to assist with decision-making, facilitate process improvement and promote innovation, and, conversely, if communication channels are closed or information and knowledge is restricted in an organisation, then long-term organisational performance is likely to be hindered.[10]

How information technology is changing business

One of the most significant business developments of all time is **electronic commerce**, or 'e-commerce'. This is the process of buying and selling goods and services electronically through use of the internet and related information technologies.[11] Business transactions between buyers and sellers are completed online rather than face to face. In *business-to-consumer e-commerce*, or B2C, businesses like Amazon.com and Dell.com sell directly to customers over the internet. In *business-to-business e-commerce*, or B2B, businesses use the internet to collaborate and make transactions with one another. E-collaboration can build positive e-futures.

The stages of development in e-commerce are as follows.

1. *Secure an online identity*. Organisations at this stage have a web address and most likely a posted home page.
2. *Establish a web presence*. Organisations at this stage use their home page for advertising or promotional purposes; it offers company and/or product information, but does not allow visitors online queries or ordering.
3. *Enable e-commerce*. Organisations at this stage are viable e-commerce businesses whose websites allow visitors to order products online.
4. *Provide e-commerce and customer relationship management*. Organisations at this stage use their websites to develop and maintain relationships with customers by serving key processes, such as checking status of orders or inventory levels online.
5. *Use a service application model*. Organisations at this stage use advanced website capabilities to fully serve business functions and processes such as financial management and human resources.[12]

The domain of electronic commerce is developing rapidly, and it is one of the forces of globalisation that opens the world at large to competition and business opportunity. An emerging force in Australasia and Europe that is making a major worldwide impact is known as *m-commerce* — the use of mobile phones to act as electronic wallets that allow users to perform banking transactions, purchase goods and services, and pay bills. For example, CommBank Kaching is a revolutionary iPhone app that allows users to do their banking on the go, and even transfer funds directly to their Facebook friends.[13]

CRITICAL ANALYSIS

1. It seems today that all retailers have an online presence that encourages point of sale purchasing. Many stores have reduced expensive floor space. How do you see this affecting future development of the IT online environment?
2. Is technology forecasting important or a futile exercise given the rapid pace of development? Justify your answer.

7.2 Information and information systems

LEARNING OBJECTIVE 7.2 What are the current directions in information systems?

Data are any quantifiable measured values, observations or statistical counts that have little value on their own but, when collated into information through any form of information system (electronic or otherwise), become useful for decision-making. People in any work setting, large or small, must have available to them the right information at the right time and in the right place if they are to perform effectively. This is made possible by **information systems** that use the latest in information technology to collect, organise and distribute data in such a way that they become meaningful as information. The integration of information systems is an essential element of high productivity.

What is useful information?

IT and the information systems that support work and decision-making in organisations must provide information that is truly useful. The five essential characteristics of useful information are as follows.

1. *Timeliness*. The information is available when needed; it meets deadlines for decision-making and action.
2. *Quality*. The information is accurate and reliable; it can be used with confidence.
3. *Completeness*. The information is complete and sufficient for the task at hand; it is as current and as up to date as possible.
4. *Relevance*. The information is appropriate for the task at hand; it is free from extraneous or irrelevant material.
5. *Understandability*. The information is presented in proper form, easily understood by the user; it is free from unnecessary detail; and the scope of the collected information is neither too narrow nor too broad.

Information needs of organisations

The availability of advanced IT has made information more readily available and useful than ever before. This information serves the variety of needs described in figure 7.2. At the organisation's boundaries, information in the external environment must be accessed and used to successfully manage relationships with key stakeholders. Managers need this intelligence information to deal effectively with such outside parties as competitors, government agencies, creditors, suppliers and shareholders. As Peter Drucker says about the information age, 'a winning strategy will require information about events and conditions outside the institution'. He goes on to add that organisations must have 'rigorous methods for gathering and analysing outside information'.[14]

Many organisations use 'mystery shoppers' to gain feedback on service; survey clients to ensure services are relevant; send employees to networking events; and encourage study at university to bring new knowledge into the organisation. Networking is invariably listed as a necessary skill and quality for performance management and recruitment and selection. In addition to the gathering of intelligence information, organisations also provide to the external environment many types of *public information*. This serves a variety of purposes ranging from image building to product advertising to financial reporting for taxes.

Within organisations, people need vast amounts of information to make decisions and solve problems in their daily work. These vertical and horizontal information flows are also shown in figure 7.2. Higher level managers tend to emphasise information use in strategic planning, whereas middle and lower managers focus more on operational considerations involving the implementation of these plans. The information needs of workers centre on accomplishing tasks. This involves gathering, storing, sharing and using information to solve operating problems in order to best meet the needs of internal and external customers. Organisations that are best able to facilitate the fast and easy sharing of information internally are well positioned for competitive advantage.

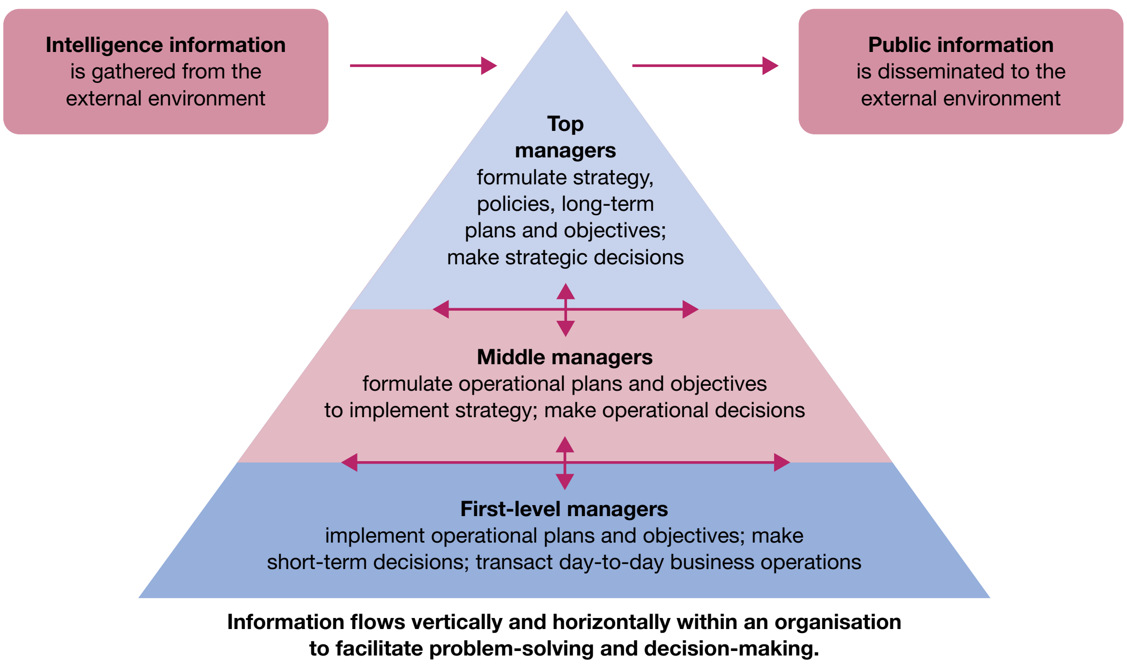


FIGURE 7.2 External and internal information needs of organisations

One of the greatest advantages of IT use within organisations is its contribution to empowerment. The ability to gather and move information quickly, and from top to bottom, allows top levels to stay in control while freeing lower levels to make speedy decisions and take the actions they need to best perform their jobs. This helps build competitive and customer — responsive organisations. Voice, video and data traffic, the internet and internet commerce, and telecommuting are some of the factors driving today's growth of networking. These things are priorities for Cisco Systems. Silicon Valley pioneer and Cisco Systems CEO John Chambers, for example, points out that he always has the information he needs to be in control from the top — be it earnings, expenses, profitability, gross margins or anything else. He also says:

> Because I have my data in that format, every one of my employees can make decisions that might have had to come all the way to the president . . . Quicker decision-making at lower levels will translate into higher profit margins . . . Companies that don't do that will be non-competitive.[15]

However, some aspects of IT are overtaking work–life balance. Emails carry an expectation of immediate response and workers find themselves expected to check emails even when they are not working or when they are on holidays. Volkswagen AG has stopped its BlackBerry servers from routing emails when employees are not at work. This applies to all union members in Germany, but senior management is exempt. Some companies are declaring 'no email' periods during holidays. Paris-based IT services company Atos SA is considering banning the internal use of email altogether.[16]

Developments in information systems

You will encounter many types of information systems in your career. At times you may be the designer of a new system and you may serve on an information steering committee, but you will always be an end user. In this sense, your task will be to use information systems well to make good decisions, to master the performance requirements of complex projects, and more generally to contribute regularly to enhanced organisational productivity. As you look ahead, keep in mind the advice in Manager's notepad 7.1.

MANAGER'S NOTEPAD 7.1

Avoiding common information systems mistakes

- Don't assume more information is always better.
- Don't assume that computers eliminate human judgement.
- Don't assume the newest technology is always best.
- Don't assume nothing will ever go wrong with your computer.
- Don't assume that everyone understands how the system works.
- Don't accept all internet sources as valid information.
- Do ensure you follow internet policies.
- Do ensure you follow email etiquette policies.

Decision support systems

A **decision support system** (DSS) allows users to interact directly with a computer to organise and analyse data for solving complex and sometimes unstructured problems. Decision support systems are now available to help with such business decisions as mergers and acquisitions, plant expansions, new product developments and share portfolio management, among many others.

A fast-growing technology involves group decision support systems (GDSSs), which are interactive computer-based information systems that facilitate group efforts to solve complex and unstructured problems. GDSS software, called groupware, allows several people to simultaneously work on a file or database and work together on computer networks. It facilitates information exchange, group decision-making, work scheduling and other forms of group activity without the requirement of face-to-face meetings. Groupware is especially useful in facilitating work by team members who work different shifts or are spread over large geographic distances, even globally. The willingness and skills needed to participate effectively in these *virtual teams* are increasingly essential in the workplace.

Expert systems

Another developing area of information technology is artificial intelligence (AI), a field of study that is concerned with building computer systems with the capacity to reason the way people do, even to the point of dealing with ambiguities and difficult issues of judgement. These **expert systems** mimic the thinking of human experts and, in so doing, offer consistent and 'expert' decision-making advice to the user. Some expert systems are rule-based and use a complicated set of 'if ... then' rules to analyse problems. These rules are determined by specialists who work with actual human experts in a certain problem area and then build their problem-solving rules into a computer program. One complaint about the technology is that the use of expert systems 'de-skills' work by requiring the employee to know less because the computer does more.[17] Advocates, however, point out that expert systems make it easier to concentrate your attention and problem-solving skills on the more complex matters.

Intranets and extranets

Central to the electronic office is the integration of computers and software into networks that allow users to easily transfer and share information through computer-to-computer linkages. It is now very common for organisations to have **intranets** and **corporate portals** that allow employees, by password access, to share databases and communicate electronically, from anywhere in the world. These networks of computers use special software to allow people working in various locations for the same organisation to share databases and communicate electronically. The goal is to promote more integration across the organisation and improve operational efficiency and quality.

A related trend is the emergence of fully integrated **extranets** and **enterprise portals** that allow communication and data sharing between the organisation and special elements in its external environment. They typically link organisations with strategic partners, vendors, outsourcers, suppliers and consultants. An important and rapidly expanding development in this area is called **electronic data interchange**, or EDI. It uses controlled access to enterprise portals and supporting software to enable firms to transact business electronically with one another; for example, by sharing purchase orders, bills, receipt confirmations and payments. The goals of EDI include improved transaction speed and cost savings.[18]

Purchase orders, purchase order responses, purchase order changes, advance shipping notices and electronic invoices are all part of Woolworths' EDI. The organisation believes that the potential benefits of having EDI include reduced manual intervention, reduced duplication and general process automation. Other companies have seen decreased costs by introducing EDI to establish 'just-in-time' inventory systems.

TECHNOLOGY

How earning the right to an opinion on the internet makes it that much more valuable[19]

Of all of the things that people do online, the act of offering an opinion is not only one of the most popular activities, it also underpins almost everything else that happens. Sharing opinions is also the foundation for creating communities, whether that is around blogs, news, social networks or e-commerce sites.

Very early on, some sites recognised that opinions would carry much more weight if there was some way of increasing the level of trust between those offering the opinion and those seeking it. In the 'real' world, this is normally done through a person having earned a reputation. Review sites like Yelp, for example, signal the reputation of reviewers by listing the number of connections they have on the site, how many reviews they have done and, most importantly, whether they have earned an 'elite' status.

Technological question and answer site Stack Overflow explicitly awards reputation points to those asking or answering questions that get 'upvoted'. Only people with a certain reputation are allowed to upvote and so the system allows people to very quickly filter relevant questions and the answer that the most trustworthy people thought was best. What Stack Overflow has done is establish an extremely effective 'reputation system' that allows everyone to be able to quickly assess the quality of an opinion or review expressed by users of that site.

Sites like eBay used the mutual rating of buyers and sellers to establish enough trust to enable transactions to happen between unknown people online. This in turn allowed companies like Airbnb and Uber to also be able to establish trust in the physical world through reputations managed online. Without trust between a host and guest, Airbnb would not be able to function. Reputation on Airbnb comes from the company allowing host and guest to review each other and for this information to be publicly available.

For a host wanting to succeed in renting out a property, having positive reviews is important, but perhaps less obviously it is also important for a guest who is interested in using the service on an ongoing basis to maintain their own high rating. Having the guests being reviewed not only improves their chances of being trusted by hosts, but it enhances the reputation of their reviews, making them of more value to other hosts and guests alike. Airbnb could have implemented a simple one-way review system, and even allowed anonymous reviews. What Airbnb would have lost, however, is the mutual interest that is created by the public review of both hosts and guests and as a result of that, also lost the social network, or community it has built around its company.

The principle works in the same way for ride sharing company Uber, where drivers and passengers give each other mutual ratings. As with Airbnb, the mutual ratings have forged a community and also helped to maintain high levels of good behaviour on the part of the riders and 'drivers'.

It turns out that the ability to create a community of users in this way is an essential characteristic of companies that have been dubbed 'network orchestrators'. When researchers compared this type of company to traditional technology and other service or manufacturing companies, they found that they made much larger revenues and were valued significantly more highly. Uber, for example, is valued at a massive US$50 billion.

A common problem encountered in establishing reputation is how to avoid manipulation and gaming of the system. Concerns have been expressed, for example, that the pressure to rate an Uber driver with a 5 star rating has led to the rating being meaningless. This doesn't seem to have been borne out in practice, however, and Uber will (and does) intercede with drivers whose ratings drop below a certain level, suggesting that riders are prepared to give less than perfect ratings.

If mutual rating enables an effective system of establishing reputation and increases the value of opinion, the reverse is also true. Not establishing the reputation of those people giving opinions render those views far less valuable.

Asking people to rate medical services, universities and academics without qualifying those giving opinions makes the overall ratings provided much less meaningful. For students rating a university, for example, there is a big difference between the opinion of a student who scraped through and didn't attend regularly and that of a high-performing student who had perfect attendance.

The ratings in these types of surveys also suffer even more when they are done anonymously, which can encourage the transition from constructive opinion to trolling.

In the physical world, there are a range of cues that help establish trust in both people and organisations. This trust, in turn, forms social capital, which has an implicit value. As the basis of online reputation systems, mutual rating takes the idea of social capital one step further by surfacing its explicit value through the communities it enables. For those companies that manage to create these online communities, it really has proved to be the digital 'philosopher's stone', turning social capital into huge financial gains.

Source: David Glance (University of Western Australia), originally published on *The Conversation*.

QUESTION

How can opinion and review sites leverage the information they receive from consumers by sharing with companies, while maintaining ethical responsibility?

Information systems and the manager's job

Specific to the management context, a **management information system** (MIS) is designed to use information technology to meet the information needs of managers as they make a variety of decisions on a day-to-day basis. For example, a long-haul refrigerated trucking company might use a computerised MIS to monitor organisational performance. The system could track everything from billing accuracy to arrival times to driver satisfaction with company maintenance on their vehicles. Pay bonuses and extra annual leave days could be awarded based on driver performance on such goals as safety and fuel consumption.[20]

All of the vital managerial roles identified by Henry Mintzberg and discussed in chapter 1 involve communication and information processing.[21] To be effective, any manager must act as a nerve centre of information flows — gathering, giving and receiving information from many sources (see figure 7.3).

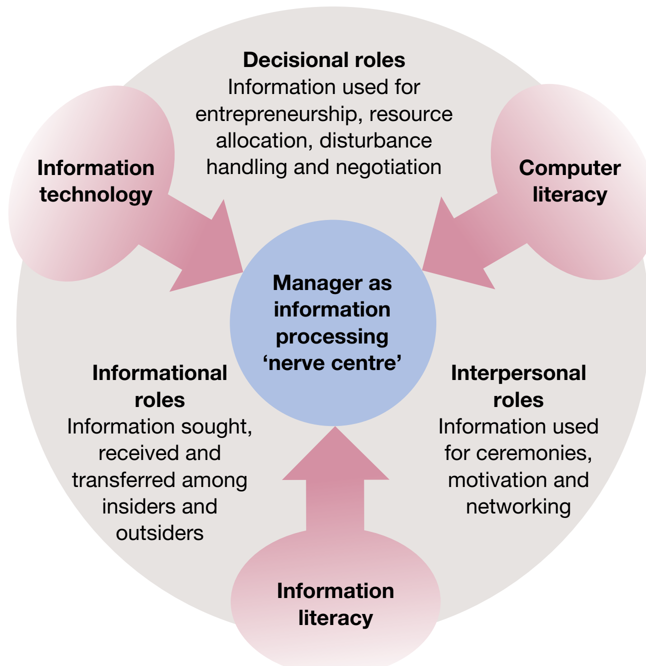


FIGURE 7.3 Information systems and the nature of managerial work

Today's developments in IT support all aspects of the management process, making possible performance levels that are truly extraordinary. Among the advantages of appropriate MIS use in the manager's job are as follows.

- *Planning advantages*. MIS use allows for better and more timely access to useful information, as well as for the involvement of many people in the planning process.
- *Organising advantages*. MIS use allows for more ongoing and informed communication among all parts of the organisation, helping ensure better coordination and integration.
- *Leading advantages*. MIS use allows for better and more frequent communication with all organisation members and key environmental stakeholders.
- *Controlling advantages*. MIS use allows for more immediate and complete measurement of performance results and real-time solutions to performance problems.

CRITICAL ANALYSIS

1. Do IT systems potentially demand too much from non-IT staff? Are we being deskilled in other areas such as creative thinking and group work, by sitting alone at terminals all day — and seemingly all night?
2. Are our human 'soft skills' keeping pace with our technological developments? For example, have we adapted social discourse to our Skype use, and our marketing and other workplace behaviour to social networking and blogging? What difference do 'soft skills' make in an organisation?
3. A website is often the only 'front door' of a business, and the MIS provides a constant stream of information. Should IT planning be a fundamental management task?
4. Are the benefits of MIS generally exploited to the full extent in contemporary organisations? Why or why not?

7.3 Information and decision making

LEARNING OBJECTIVE 7.3 How is information used for decision making?

Information sets the foundations for management and organisational success. The work of managers can be described as engaging in planning, organising, leading and controlling in the process of solving a continuous stream of daily problems. The most obvious problem situation is a *performance deficiency* — that is, when actual performance is less than desired. For example, a manager faces a possible problem when turnover or absenteeism suddenly increases in the work unit, when a subordinate's daily output decreases, or when a higher executive complains about something that has been said or done. However, another important problem emerges as a *performance opportunity* when an actual situation either turns out better than expected or offers the potential to do so. The challenge in dealing with a performance deficiency or performance opportunity is to proceed with effective **problem-solving** — the process of identifying a discrepancy between an actual and desired state of affairs and then taking action to resolve the deficiency or take advantage of the opportunity.

The entire problem-solving process depends on the right information being available to the right people at the right times so that they can make good problem-solving decisions. A **decision**, to be precise, is a choice between alternative courses of action. The process of decision-making is driven in part by the quality of information available. Information systems help managers to gather data, turn them into useful information, and use that information to make effective problem-solving decisions.

Types of managerial decisions

Managers resolve problems by making different types of decisions in their day-to-day work. Some are **programmed decisions** — that is, solutions already available from past experience to solve problems that are familiar, straightforward and clear with respect to information needs. These decisions apply best to problems that are matters of routine; although perhaps not predictable, they can at least be anticipated. This means that decisions can be planned or programmed in advance, to be implemented as needed. In human resource management, for example, problems are common whenever decisions are made on pay rises and promotions, leave requests, committee assignments and the like. Knowing this, forward-looking managers plan ahead on how to make decisions on such issues when and if they should arise.

Managers must also deal with new or unexpected situations that present unstructured problems full of ambiguities and information deficiencies. These problems are typically unanticipated and must be dealt with as they occur. Unstructured problems require **non-programmed decisions** that craft novel solutions to meet the demands of the unique situation at hand. Most problems faced by higher level managers are of this type, with the problems often involving choice of strategies and objectives in situations of some uncertainty.

An extreme type of non-programmed decision must be made in times of **crisis** — the occurrence of an unexpected problem that can lead to disaster if not resolved quickly and appropriately. The growing dependence of organisations on technology raises many such opportunities. Any organisation maintaining a website, for example, may face occasional crisis shutdowns because of server failures. Hacker attacks on websites are also increasingly common, as firms such as Microsoft, eBay and Amazon know only too well.[22]

The ability to handle crises may be the ultimate test of a manager's problem-solving capabilities. Unfortunately, research indicates that managers may react to crises by isolating themselves and trying to solve the problem alone or in a small 'closed' group.[23] This tendency actually denies them access to crucial information and assistance at the very time they are most needed. The crisis may even be accentuated if more problems are created because critical decisions are made with poor or inadequate information and from a limited perspective. Managers in progressive organisations expect that crises will occur and plan ahead on how to deal with them. Consider growing concerns about workplace bullying in Australia and New Zealand. Safe Work Australia and the Occupational Safety and Health Service of the

Department of Labour, New Zealand, offer guidelines for employers in each respective country on how to recognise situations that are prone to violence and how to prepare for such crises.

Some managers fail to notice what is happening in their organisation. They are in touch only through their keyboard, and this makes them out of touch with the real world. They risk seeking information that satisfies breadth and not depth. Mintzberg says that research shows that we may have more connections today, but fewer relationships.[24] Facebook and LinkedIn can never replace community or replace the personal interactions at the heart of managing effectively. Managers may miss the meaning completely by relying on email rather than talking to staff in person, as email does not convey impressions and body language.

Decision conditions

People in organisations make decisions under each of the three conditions described in figure 7.4 — environments of certainty, risk and uncertainty. Although managers make decisions in each environment, the conditions of risk and uncertainty are common at higher management levels where problems are more complex and unstructured.

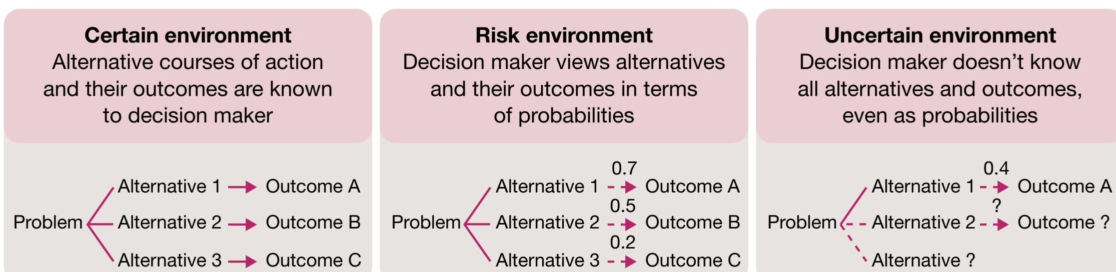


FIGURE 7.4 Three environments for managerial decision-making and problem-solving

In a certain environment, one where sufficient information is available about possible alternative courses of action and their outcomes, decision-making is generally less risky and more predictable. This is an ideal decision-making environment condition where the task is simply to study the alternatives and choose the best solution.

Very few managerial problems occur in **certain environments**, but steps can sometimes be taken to reduce uncertainty. Even in a **risk environment**, one where information on action alternatives and their consequences is incomplete, some reliable estimates of 'probabilities' may be able to be made. A *probability*, in turn, is the degree of likelihood (e.g. four chances out of ten) that an event will occur. Risk is a common decision condition for managers. It is especially typical for entrepreneurs and organisations that depend on ideas and continued innovation for their success.

When information is so poor that managers are unable even to assign probabilities to the likely outcomes of alternatives that are known, an **uncertain environment** exists. This is the most difficult decision condition.[25] The high level of uncertainty forces managers to rely heavily on creativity in solving problems; it requires unique, novel and often totally innovative alternatives to existing patterns of behaviour. Groups are often used for problem-solving in such situations. In all cases, the responses to uncertainty depend greatly on intuition, judgement, informed guessing and hunches — all of which leave considerable room for error.

How managers approach decisions

In practice, people display three quite different approaches or 'styles' in the way they deal with problem situations. Some are *problem avoiders* who ignore information that would otherwise signal the presence of an opportunity or performance deficiency. Such people are inactive and do not want to make decisions and deal with problems. *Problem solvers*, in contrast, are willing to make decisions and try to solve problems, but only when forced to by the situation. They are *reactive* in gathering information and responding to problems after they occur. As a result they may deal reasonably well with performance deficiencies, but they miss many performance opportunities. *Problem seekers* actively process information and constantly look for problems to solve or opportunities to explore. True problem seekers are *proactive* and forward thinking; they anticipate problems and opportunities and take appropriate action to gain the advantage. Success at problem seeking is one of the ways exceptional managers distinguish themselves.

Another distinction in the way managers approach decisions contrasts tendencies towards 'systematic' and 'intuitive' thinking. In **systematic thinking** a person approaches problems in a rational, step-by-step and analytical fashion. This type of thinking involves breaking a complex problem into smaller components and then tackling them in a logical and integrated fashion. Managers who are systematic can be expected to make a plan before taking action and then to search for information to facilitate problem-solving in a step-by-step fashion.

Someone using **intuitive thinking**, on the other hand, is more flexible and spontaneous and may also be quite creative.[26] This type of thinking allows us to respond imaginatively to a problem based on a quick and broad evaluation of the situation and the possible alternative courses of action. Managers who are intuitive can be expected to deal with many aspects of a problem at once, jump quickly from one issue to another and consider 'hunches' based on experience or spontaneous ideas. This approach tends to work best in situations of high uncertainty where facts are limited and few decision precedents exist.[27]

Managers should feel confident in approaching decisions from the perspectives of both systematic and intuitive thinking. Senior managers, in particular, must deal with portfolios of problems and opportunities that consist of multiple and interrelated issues. This requires multidimensional thinking, or the ability to view many problems at once, in relationship to one another and across long and short time horizons.[28] The best managers also 'map' multiple problems into a network that can be actively managed over time as priorities, events and demands continuously change. And importantly, they are able to make decisions and take actions in the short term that benefit longer term objectives. It is important not to be sidetracked from long-term goals while making decisions and sorting through a shifting mix of daily problems. Somehow a consistent long-term direction must be retained, even as each short-term problem is being resolved. This requires skill in **strategic opportunism** — the ability to remain focused on long-term objectives while being flexible enough to resolve short-term problems and opportunities in a timely manner.[29]

CRITICAL ANALYSIS

1. What are the psychological impediments to good decision-making? Given the availability of copious information, why do good people sometimes still make bad decisions?
2. Can intuition really be a legitimate basis for decision-making? Why or why not? Use examples to justify your answer.

7.4 The decision-making process

LEARNING OBJECTIVE 7.4 How do managers make decisions?

The specific act of **decision making** involves making a choice between alternative courses of action. However, the decision-making process involves a cycle of activities and events that begins with identification of a problem and ends with the evaluation of implemented solutions.[30]

Steps in decision making

The common steps in a rational approach to decision making are described in figure 7.5. They are: (1) identify and define the problem; (2) generate and evaluate possible solutions; (3) choose a preferred solution and conduct the 'ethics double-check'; (4) implement the solution; and (5) evaluate results. Importantly, step 3 in this model includes a built-in 'checkpoint' as a way to verify the ethical aspects of a decision before any action is taken.

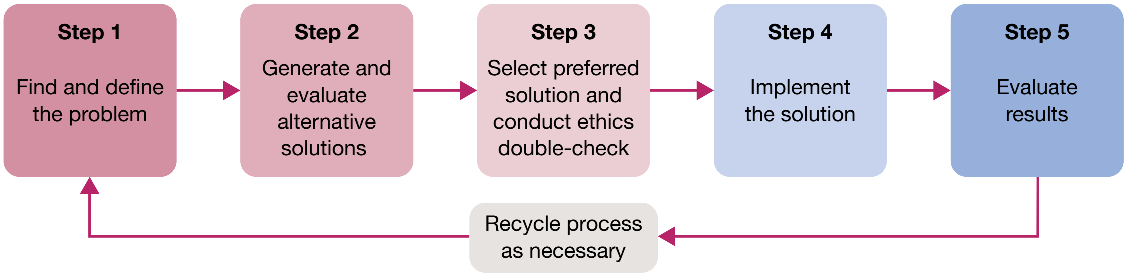


FIGURE 7.5 Steps in decision making and problem solving

Decision making step 1: Identify and define the problem

The first step in decision making is to find and define the problem. This is a stage of information gathering, information processing and deliberation.[31]

The way a problem is originally defined can have a major impact on how it is eventually resolved. Three common mistakes may occur at this vital first step in decision-making. *Mistake number 1* is defining the problem too broadly or too narrowly. To take a classic example, the problem stated as 'build a better mousetrap' might be better defined as 'get rid of the mice'. That is, managers should define problems so as to give themselves the best possible range of problem-solving options. *Mistake number 2* is focusing on symptoms instead of causes. Symptoms are indicators that problems may exist, but they shouldn't be mistaken for the problems themselves. Managers should be able to spot problem symptoms (e.g. a drop in performance). But instead of treating the symptoms (such as simply encouraging higher performance), managers should deal with their root causes (such as discovering the workers' need for training in the use of a complex new computer system). *Mistake number 3* is choosing the wrong problem to deal with. Managers should set priorities and deal with the most important problems first. They should also give priority to problems that are truly solvable.

Decision making step 2: Generate and evaluate possible solutions

Once the problem is defined, it is possible to formulate one or several potential solutions. At this stage, more information is gathered, data are analysed, and the pros and cons of possible alternative courses of action are identified. This effort to locate, clarify and evaluate alternative solutions is important to successful problem-solving. The involvement of other people is vital here in order to maximise information and build commitment. The end result can only be as good as the quality of the alternative solutions generated in this step. The better the pool of alternatives, the more likely a good solution will be achieved.

Common errors in this stage include selecting a particular solution too quickly and choosing an alternative that, although convenient, has damaging side effects or is not as good as others that might be discovered with extra effort. The analysis of alternatives should determine how well each possible course of action deals with the problem while taking into account the environment within which the problem exists. A very basic evaluation involves **cost–benefit analysis**, the comparison of the cost of an alternative and the expected benefits. At a minimum, the benefits of a chosen alternative should be greater than its costs. Typical criteria for evaluating alternatives include the following.

- *Benefits*. What are the 'benefits' of using the alternative to solve a performance deficiency or take advantage of an opportunity?
- *Costs*. What are the 'costs' of implementing the alternative, including resource investments as well as potential negative side effects?
- *Timeliness*. How fast will the benefits occur and a positive impact be achieved?
- *Acceptability*. To what extent will the alternative be accepted and supported by those who must work with it?
- *Ethical soundness*. How well does the alternative meet acceptable ethical criteria in the eyes of the various stakeholders?

Decision making step 3: Choose a solution

At this point in the decision-making process an actual decision is made to select a particular course of action. Just how this is done and by whom must be successfully resolved in each problem situation. Management theory recognises differences between the classical model and the behavioural model of decision-making, as shown in figure 7.6. The **classical decision model** views the manager as acting in a certain world. Here, the manager faces a clearly defined problem and knows all possible action alternatives as well as their consequences. As a result, he or she makes an **optimising decision** that gives the absolute best solution to the problem. The classical approach is a very rational model that assumes perfect information is available for decision-making.

Classical model Views manager as acting with complete information in a certain environment	**Behavioural model** Views manager as having cognitive limitations and acting with incomplete information in risk and uncertain environments	**Judgemental heuristics approach** Heuristics are adopted to simplify managerial decision-making
• Clearly defined problem • Knowledge of all possible alternatives and their consequences • Optimising decision — choice of the 'optimum' alternative	• Problem not clearly defined • Knowledge is limited on possible alternatives and their consequences • Satisficing decision — choices of 'satisfactory' alternative	Decisions are influenced by: • Information readily available in memory — the availability heuristic • Comparisons with similar circumstances — the representativeness heuristic • Current situation — the anchoring and adjustment heuristic

FIGURE 7.6 Classical, behavioural and judgemental heuristics approaches in decision-making

Behavioural scientists question these assumptions. Perhaps best represented by the work of Herbert Simon, they recognise the existence of *cognitive limitations*, or limits to our human information-processing capabilities.[32] These limitations make it hard for managers to be fully informed and make perfectly rational decisions. They create a bounded rationality such that managerial decisions are rational only within the boundaries defined by the available information. The administrative or **behavioural decision model**, accordingly, assumes that people act only in terms of what they perceive about a given situation. Because such perceptions are often imperfect, the decision maker has only partial knowledge about the available action alternatives and their consequences. So the first alternative that appears to give a satisfactory resolution of the problem is likely to be chosen. Simon, who won a Nobel Prize for his work, calls this the tendency towards **satisficing decisions** — choosing the first satisfactory alternative that comes to your attention. This model seems especially accurate in describing how people make decisions about ambiguous problems in risky and uncertain conditions.

Decision making step 4: Implement the solution

Given the choice of preferred solution, appropriate actions must be taken to fully implement it. This is the stage at which directions are finally set and problem-solving actions are initiated. Nothing new can or will happen according to plan unless action is taken. Managers not only need the determination and creativity to arrive at a decision, they also need the ability and willingness to implement it.

The 'ways' in which previous steps have been accomplished can have an additional and powerful impact at this stage of implementation. Difficulties at this stage often trace to the lack-of-participation error, or the failure to adequately involve those people whose support is necessary to ensure a decision's complete implementation. Managers who use participation wisely get the right people involved in decisions and problem-solving from the beginning. When they do, implementation typically follows quickly, smoothly and to everyone's satisfaction. Involvement not only makes everyone better informed, it also builds the commitments needed for implementation.

Decision making step 5: Evaluate results

The decision-making process is not complete until results are evaluated. If the desired results are not achieved, the process must be renewed to allow for corrective actions. In this sense, evaluation is a form of managerial control. It involves a continuing commitment to gather information on performance results. Both the positive and negative consequences of the chosen course of action should be examined. If the original solution appears inadequate, a return to earlier steps in problem-solving may be required to generate a modified or new solution. In this way, problem-solving becomes a dynamic and ongoing activity within the management process. Evaluation is also made easier if the solution involves clear objectives that include measurable targets and timetables.

Behavioural influences on decision making

The manager's decision-making world is most often imperfect, subject to the influences of cognitive limitations, risk and uncertainty. As a result, the behavioural model is more common in decision-making practice than the rational model. Faced with complex environments, limited information and cognitive limitations, people also tend to use simplifying strategies for decision-making. These strategies, shown in figure 7.6, are called **heuristics**, and their use can cause decision errors. An awareness of judgemental heuristics and their potential biases can help improve your decision-making capabilities.[33]

The *availability heuristic* occurs when people use information 'readily available' from memory as a basis for assessing a current event or situation. An example is deciding not to invest in a new product based on your recollection of how well a similar new product performed in the recent past. The potential bias is that the readily available information may be fallible and represent irrelevant factors. The new product that recently failed may have been a good idea that was released to market at the wrong time of year.

The *representativeness heuristic* occurs when people assess the likelihood of something occurring based on its similarity to a stereotyped set of occurrences. An example is deciding to employ someone simply because he or she graduated from the same school attended by your last and most successful new employee. The potential bias is that the representative stereotype may fail to identify important and unique factors relevant to the decision. For instance, the abilities and career expectations of the newly hired person may not fit the job requirements.

The *anchoring and adjustment heuristic* involves making decisions based on adjustments to a previously existing value or starting point. An example is setting a new salary level for an employee by simply raising the previous year's salary by a reasonable percentage. The potential problem is that this may inappropriately bias a decision towards only incremental movement from the starting point. For instance, the individual's market value may be substantially higher than the existing salary. A simple adjustment won't keep this person from looking for another job.

Good managers are also aware of another behavioural tendency and source of potential decision-making error called **escalating commitment**. This is a decision to increase effort and perhaps apply more resources to pursue a course of action that is not working.[34] In such cases, managers let the momentum of the situation overwhelm them, and end up 'throwing good money after bad'. They are unable to decide to 'call it quits', even when experience indicates that this is the most appropriate thing to do. Manager's notepad 7.2 offers advice on avoiding this tendency.

MANAGER'S NOTEPAD 7.2

How to avoid the escalation trap

- Set advance limits on your involvement and commitment to a particular course of action; stick with these limits.
- Make your own decisions; don't follow the lead of others since they are also prone to escalation.
- Carefully determine just why you are continuing a course of action; if there are insufficient reasons to continue, don't.
- Remind yourself of what a course of action is costing; consider the saving of such costs as a reason to discontinue.
- Watch for escalation tendencies; be on guard against their influence on both you and others involved in the course of action.
- Put in place multiple evaluation steps to ensure the goal is met.

Individual and group decision making

One of the important issues in decision-making is the choice of whether to make the decision individually or with the participation of a group. The best managers and team leaders don't limit themselves to just one way. Instead, they switch back and forth among individual and group decision-making to best fit the problems at hand. A managerial skill is the ability to choose the 'right' decision method — one that provides for a timely and quality decision, and one to which people involved in the implementation will be highly committed. To do this well, however, managers must understand both the potential assets and potential liabilities of moving from individual to more group-oriented decision-making.[35]

The *potential advantages of group decision-making* are highly significant, and they should be actively sought whenever time and other circumstances permit. Team decisions make greater amounts of information, knowledge and expertise available to solve problems. They expand the number of action alternatives that are examined; they help to avoid tunnel vision and consideration of only limited options. Team decisions increase the understanding and acceptance of outcomes by members. And, importantly, team decisions increase the commitments of members to work hard to implement final plans.

The *potential disadvantages of group decision-making* trace largely to the difficulties that can be experienced in a group process. In a team decision there may be social pressure to conform. That is, individual members may feel intimidated or compelled to go along with the apparent wishes of others. There may also be minority domination, where some members feel forced or 'railroaded' to accept a decision advocated by one vocal individual or small coalition. Also, there is no doubt that the time required to make team decisions can sometimes be a disadvantage. As more people are involved in the dialogue and discussion, decision-making takes longer. This added time may be costly, even prohibitively so, in certain circumstances.[36]

A special case of group behaviour in decision-making, especially in a highly cohesive group, is that of 'groupthink' — when the group pressure for consensus and demand for unanimity overwhelm the rational evaluation of options.[37] It can manifest as a blind, irrational loyalty to the group, or at least to what the members think the group leader wants. Some characteristics of groupthink are as follows.

- *Illusions of invulnerability*. Members believe the group is beyond criticism.
- *Illusions of group unanimity*. Members believe, usually prematurely and incorrectly, that they are all in agreement (so beware of people saying 'We're all on the same page here' when you have suspicions that there are individuals whose opinions are unheard).
- *Illusions of group morality*. Members believe that the group is acting with moral justification for its distasteful actions, and is above reproach by others.
- *Rationalisation of unpleasant information*. Members refuse to accept or thoroughly consider contradictory or unpalatable information.
- *Negative stereotyping of others*. Members view competitors as weak, stupid or evil, which they see as justifying their extraordinary group behaviour.
- *Self-censorship*. Members become unwilling to communicate personal concerns or alternative points of view to the group as a whole.
- *Pressure on deviant members to conform*. Members refuse to tolerate anyone in the group who questions decisions or suggests that the group may be wrong.
- *Mind guarding*. Members keep outsiders away and try to protect the group from hearing disturbing ideas or viewpoints, even to the point that some members assume the role of 'mind guards' to defend the group's views and to ensure compliance by any 'wavering' members.
- *Bullying*. Stronger personalities may bully others to ensure group compliance.

Some remedies for groupthink can be found in keeping the group open to new and different ideas, opting for diversification of membership and opinion, and appointing a devil's advocate who can safely challenge the decision-making process within the group. Encourage everyone to challenge and ask 'Why?'

Ethical decision making

Ethics and social responsibility has already been discussed in a dedicated chapter. It is important to recognise that any business decision should be ethical. It should meet the test described in step 3 of decision-making as the 'ethics double-check'. This involves asking and answering two straightforward but powerful questions: 'How would I feel if my family found out about this decision?' and 'How would I feel if this decision were published in the local newspaper?'

Although it adds time to decision-making, the ethics double-check is increasingly necessary to ensure that the ethical aspects of a problem are properly considered in the complex, fast-paced and often-uncertain decision conditions so common in today's organisations. It is also consistent with the demanding moral standards of modern society. A willingness to pause to examine the ethics of a proposed decision may well result in both better decisions and the prevention of costly litigation. Again, the chapter devoted to ethics and social responsibility explores these and related issues in depth.

CRITICAL ANALYSIS

1. It is said that groupthink occurs often imperceptibly in every group, at least to some extent, and most dangerously in cohesive groups. What can be done to guard against it?
2. What practical steps would you take to limit escalation of commitment in a situation of strong groupthink?

7.5 Knowledge management and organisational learning

LEARNING OBJECTIVE 7.5 Why are knowledge management and organisational learning important?

Management theorist Peter Drucker considers knowledge the principal resource of a competitive society and warns that 'knowledge constantly makes itself obsolete'.[38] This is an age in which intellectual capital counts highly, and knowledge workers — the people who have the knowledge — are vital assets.[39] It is an age of transformation that places increasing value on learning and knowledge management.[40]

What is knowledge management?

A new term is earning a significant place in management theory and practice. The concept of **knowledge management** is used to describe the processes through which organisations develop, organise and share knowledge to achieve competitive advantage.[41] It is a mobilisation of intellectual capital. The significance of knowledge management as a strategic and integrating force in organisations is represented by the emergence of a new executive job title — chief knowledge officer (CKO). The CKO is responsible for energising learning processes and making sure that an organisation's portfolio of intellectual assets and pool of knowledge are well managed and continually enhanced. The intellectual assets, furthermore, include such things as patents, intellectual property rights, trade secrets and special processes and methods, as well as the accumulated knowledge and understanding of the entire workforce.

Knowledge management involves the understanding of and commitment to the information technology described in this chapter. It requires the creation of an organisational culture in which information sharing, learning and knowledge creation are part of the norm. It requires a special form of organisational leadership that recognises that intellectual capital is an invaluable asset in this age of transformation. And at the bottom of it all, knowledge management requires managerial and leadership respect for people and their wonderful creative potential in organisations.

Effective knowledge management can help alleviate the problem of knowledge created disappearing from the organisation, such as when staff members retire and take their tacit knowledge with them.[42] An example showing organisational awareness of knowledge loss is from the National Aeronautics and Space Administration (NASA), an organisation that more obviously than most relies on brain power in a complex project environment. It reports its concern about retiring engineers' taking 'deep smarts' out the door, causing a serious intellectual and cultural loss to the organisation of the most valuable form of expertise:

> Deep smarts provide insights drawn from tacit knowledge …as close as we get to wisdom, based on know-how more than know-what — the ability to comprehend complex, interactive relationships and make swift, expert decisions based on …hard-won experience.[43]

Organisations like NASA now have sophisticated procedures for retaining this critical knowledge, which can be transferred within and beyond the organisation by the knowledge management process and translating tacit knowledge into **explicit knowledge** that remains with individuals and the organisation, rather than being lost. Tacit knowledge relates to individual experience, including aptitudes, perceptions, insights and know-how that are not held by others within an organisation.

Organisational learning

A **learning organisation** is an organisation that 'by virtue of people, values and systems is able to continuously change and improve its performance based upon the lessons of experience'.[44] Consultant Peter Senge, author of the popular book *The Fifth Discipline*, identifies the core ingredients of learning organisations.[45]

1. *Mental models*. Everyone sets aside old ways of thinking.
2. *Personal mastery*. Everyone becomes self-aware and open to others.
3. *Systems thinking*. Everyone learns how the organisation works.
4. *Share vision*. Everyone understands and agrees to a plan of action.
5. *Team learning*. Everyone works together to accomplish the plan.[46]

Senge's concept of the learning organisation places high value on developing the ability to learn and then make that learning continuously available to all organisational members. Organisations can learn from many sources. They can learn from their own experience. They can learn from the experiences of their contractors, suppliers, partners and customers. And they can learn from firms in unrelated businesses.[47] All of this, of course, depends on a willingness to seek out learning opportunities from these sources and to make information sharing an expected and valued work behaviour.

The problem with the concept of a learning organisation is that it relies on the ability of workers to make mistakes, to have permission to take risks, and then to learn from mistakes. Unfortunately, the focus on bottom-line results does not support cultures that allow this freedom to learn and grow. Continuous improvement programs are often driven by promise of reward if employees find better processes to improve productivity.

CRITICAL ANALYSIS

1. What can we do to ensure that we as a business, grow and build our knowledge? Justify your answer.
2. How do we overcome the 'brain drain' that occurs with downsizing?

SUMMARY

7.1 How is information technology changing the workplace?

- Anyone entering the modern workplace, with its premium on intellectual capital and knowledge workers, must possess both computer competency and information competency.
- Today's 'electronic' offices are changing the way work is accomplished in and by organisations.
- A major and rapidly growing force in the economy is e-business, which uses the internet and computer networking to engage in business-to-consumer and business-to-business electronic commerce.

7.2 What are the current directions in information systems?

- A management information system (MIS) collects, organises, stores and distributes data in a way that meets the information needs of managers.
- Decision support systems (DSSs) provide information and help managers make decisions to solve complex problems.
- Group decision support systems (GDSSs) use groupware to allow the computer-mediated exchange of information and decision-making by group members.
- Intranets and computer networks allow people within an organisation to share databases and communicate electronically; extranets and enterprise portals allow communication and data sharing between the organisation and special elements in its external environment.

7.3 How is information used for decision making?

- Information is data that are made useful for decision making and problem solving.
- A problem is a discrepancy between an actual and a desired state of affairs.
- Managers face structured and unstructured problems in environments of certainty, risk and uncertainty.
- The most threatening type of problem is the crisis, which occurs unexpectedly and can lead to disaster if it is not handled quickly and properly.

7.4 How do managers make decisions?

- The steps in the decision-making process are find and define the problem, generate and evaluate alternatives, choose the preferred solution, implement the solution and evaluate the results.
- An optimising decision, following the classical model, chooses the absolute best solution from a known set of alternatives.
- A satisficing decision, following the administrative model, chooses the first satisfactory alternative to come to attention.
- Judgemental heuristics — such as the availability heuristic, the anchoring and adjustment heuristic and the representativeness heuristic — can bias decision-making.
- Group decisions offer the potential advantages of greater information and expanded commitment, but they are often slower and add more cost than individual decisions.

7.5 Why are knowledge management and organisational learning important?

- The old ways of management aren't good enough anymore; an age of transformation demands that the best of the past be combined with new thinking so organisations can be competitive in the 21st century.
- Knowledge management is the process of capturing, developing and using the knowledge of an organisation to achieve competitive advantage.
- A learning organisation is one in which people, values and systems support continuous change and improvement based on the lessons of experience.

KEY TERMS

The **behavioural decision model** describes decision-making with limited information and bounded rationality.
Certain environments offer complete information on possible action alternatives and their consequences.
The **classical decision model** describes decision-making with complete information.
Cost–benefit analysis involves comparing the costs and benefits of each potential course of action.
A **crisis** is an unexpected problem that can lead to disaster if not resolved quickly and appropriately.
A **decision** is a choice between alternative courses of action.
Decision making is the process of choosing between alternative courses of action.
A **decision support system** allows a computer to help organise and analyse data for problem-solving.
Electronic commerce is buying and selling goods and services through use of the internet.
Electronic data interchange uses controlled access to enterprise portals and supporting software to enable firms to transact business electronically with one another.
Escalating commitment is the continuation of a course of action even though it is not working.
Expert systems allow computers to mimic the thinking of human experts for applied problem-solving.
Explicit knowledge is codified and shared with others through dialogue, demonstration or media.
Extranets and **enterprise portals** use the web for communication and data sharing between the organisation and its environment.
Fear of missing out (FOMO) occurs when individuals feel the need to be constantly socially connected, often to the detriment of more important tasks.
Heuristics are mental shortcuts that allow people to solve problems and make judgements quickly and efficiently.
Information systems use IT to collect, organise and distribute data for use in decision-making.
Instant messaging is instantaneous communication between people online at the same time.
Intellectual capital is the collective brain power or shared knowledge of a workforce.
Intranets and **corporate portals** use the web for communication and data sharing within an organisation.
Intuitive thinking approaches problems in a flexible and spontaneous fashion.
Knowledge management is the processes using intellectual capital for competitive advantage.
A **knowledge worker** is someone whose knowledge is a critical resource for employers.
A **learning organisation** continuously changes and improves using the lessons of experience.
A **management information system** is a computer system that stores and distributes information on how to successfully manage an organisation. It is usually regarded as a subset of the internal controls of a business.
Non-programmed decisions apply specific solutions crafted for a unique problem.
An **optimising decision** chooses the alternative giving the absolute best solution to a problem.
Peer-to-peer file sharing connects PCs directly to one another over the internet.
Problem-solving involves identifying and taking action to resolve problems.
Programmed decisions apply solutions from past experience to a routine problem.
A **risk environment** lacks complete information, but offers 'probabilities' of the likely outcomes for possible action alternatives.
Satisficing decisions choose the first satisfactory alternative that comes to your attention.
Strategic opportunism focuses on long-term objectives while being flexible in dealing with short-term problems.
Systematic thinking approaches problems in a rational and analytical fashion.
An **uncertain environment** lacks so much information that it is difficult to assign probabilities to the likely outcomes of alternatives.

APPLIED ACTIVITIES

1 What is the difference between an optimising decision and a satisficing decision?
2 How can a manager double-check the ethics of a decision?
3 How would a manager use systematic thinking and intuitive thinking in problem-solving?
4 How can the members of an organisation be trained in crisis management?
5 You are the newly appointed operations manager at a small firm. One of your tasks is to decide whether the firm should invest in expensive new information technology to increase the effective workflow of staff. However, doing this will mean that one junior staff member who is the sole income earner of her family may lose her job because her tasks would mainly be taken over by automating the existing processes. What process of decision-making will you follow in deciding what to do?

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CHAPTER 8

Planning

LEARNING OBJECTIVES

8.1 How do managers plan?
8.2 What types of plans do managers use?
8.3 What are the useful planning tools, techniques and processes?

Planning for Port Shorts

Like many start-ups, Port Shorts began as an idea among friends. It's a short-film festival held in Port Douglas, Far North Queensland that offers $15 000 in prizes (including a $4000 course on filmmaking from the New York Film Academy), and in 2015 ran a two-night extravaganza showcasing local filmmakers alongside visitors from around the world. It is now recognised as a leading festival of its kind and the Douglas Shire Council has acknowledged the festival's contribution to Port Douglas as an international destination.

Like most things in this sleepy tropical resort town, Port Shorts is a relaxed affair that mirrors its local environment. The grassroots not-for-profit unincorporated association runs like a local tennis club, on the back of a dedicated team of volunteers who had a vision for their own film festival. And like in much of regional Australia, a handshake goes a long way. Goodwill is crucial.

Perhaps it's the photogenic light in the tropics or the unique world heritage rainforest scenery alongside the Great Barrier Reef that attracts increasing global attention; the area is now a magnet not only for tourists but also international filmmaking. A favourable exchange rate for the Australian dollar helps, along with a local community with many artistic and experienced people for hire in the industry. Television series, such as *The Code*, and major international productions, such as *The Thin Red Line* and *The Pacific*, have been shot in the area, contributing valuable economic benefits as well as providing local school children the opportunity to learn skills in filmmaking and television.

The festival committee organises Port Shorts, gets sponsors to donate prizes, manages the media and coordinates the judging of entries in the various categories—from four-minute films by beginners to seven-minute shorts by experienced filmmakers. The committee sets up the two evenings of outdoor projection of the 40 or so finalist short films for the public to enjoy. Overall, the festival attracts several hundred visitors, offers a genuine community artistic activity and helps locals and others to learn skills and gain industry insight. Mossman High School film and television teacher Elliot Davidson is a key organiser of Port Shorts and runs full-day workshops for his students with visiting nationally acclaimed writers, directors actors and producers. Asked about how the planning function is managed, Davidson acknowledges that after the initial meeting to allocate work area responsibilities, the committee meets only as needed in the five months leading up to the October event, with most communication and decisions made by group email. As might be expected, the better the planning goes in the lead-up, the better the festival runs at the time.

Outdoor movie theatres are gaining popularity across Australia, with effective planning crucial to their success.

What's special about it? It's a project-based model for management, producing a one-off event with many different stakeholders (sponsors, judges, producers, industry participants, contributors, suppliers and attendees). Each relationship with each stakeholder group has to be managed and integrated with all the others.

The key to success is continual communication between organisers, so everyone knows what everyone else is doing. Planning starts at the top in overview and spirals out to the detail with plans becoming more short-term as the event gets closer. However, being a community group with a flat organisational structure, it is not so much top-down as inside-out. The driving force comes from within the group, and as planning proceeds it takes in information from the environment. Contingencies planned for include power failures and inclement weather.

QUESTIONS

1. It is said that management involves using strategy and planning to align the organisation's mission and purpose with its resources and its operating environment. How are these elements — the mission, the resources and the market — being brought together to influence the planning function in Port Shorts?
2. How critical is planning for the successful operation of the organisation? What might the organisers do to improve the outcomes? What planning are they not doing that they should be doing? What might the organisers have to do to take the festival 'global'?

Introduction

> 'I arise each morning torn between the desire to improve the world and the desire to enjoy the world. It makes it difficult to plan the day.' (E. B. White)
>
> 'One of the nice things about not planning is that failure comes as a complete surprise, and is not preceded by a long period of anxiety and worry.' (Anon)
>
> 'Failing to plan is planning to fail.' (Anon)

The dry humour in these quotes points to the significance of planning. It is a major part of the work of many managers, and an essential function in the responsibilities of every manager. For various reasons, we humans engage in planning. We may do it to feel more certain of future outcomes in uncertain situations, to be ready to cope with undesirable events. We also plan so that we can organise and coordinate our activities, acquisition of raw materials and deployment of our resources to produce goods and deliver services to meet market needs and stakeholder expectations.

Sometimes we get it right and our planning pays off because we are better prepared for something that happens. Other times, our planning is inadequate or inaccurate and we miss valuable opportunities because we did not prepare for them, or we suffer failure or accident because we 'did not expect it would happen to us'. Tragically, all too often we learn too late that time spent planning is rarely time wasted and, after the event, we naïvely wish that we had been less reckless and more thoughtful.

Strategic management researcher Gary Hamel believes many of today's companies aren't going to make it in the long term. Why? 'Organisations that succeed in this new century will be as different from industrial-era organisations as those companies themselves were different from craft-based industries,' he says. 'Companies are going to have to re-invent themselves much more frequently than before.'[1] His book, *Leading the Revolution*,[2] became something of a classic when it was published in 2000, and it is still a standard reference book in many Western business schools.

The global financial crisis gave way to an economic downturn, which, in turn, gave way to widespread caution and organisational restructuring. The Arab Spring saw governments fall amid violence and terror. Financial upheavals in Greece, Spain and other countries brought massive unemployment and a heightened sense of vulnerability that such enormous change could happen so quickly. Tunisia, then Egypt, Turkey and Syria all experienced revolution of varying severity. Millions of Syrians and other nationalities fled violence and became refugees, risking their lives to escape and seek asylum in Germany and other Western countries, in the largest mass movement of people since 1945. Now, companies and governments are trying to figure out what might lie ahead, and how they can prepare for it. As economies and domestic demand slowly recover, and share markets return to pre-downturn values, optimism is oscillating with pessimism. The pessimistic viewpoint is that unemployment might continue to rise, that manufacturing capacity may remain under-utilised, and that endemic problems have been cushioned by governmental fiscal stimulus — propping up a financial system with deep, difficult-to-solve problems.

For example, the United States is still the world's largest national economy and is recovering in the wake of the global financial crisis, allowing the Federal Reserve to lift the interest rate from zero in late 2015. However, it is still also the world's largest debtor nation. In recent times, already-indebted US consumers have cut their spending and have imported less. The US$13 trillion debt is about 74 per cent of its GDP, and it is expected to go even higher.[3] Policymakers have to balance keeping demand up and growth in unemployment (still a gloomy 8 per cent) down, while encouraging innovation and trade — the engines of economic growth.

All this they must do in an international environment where reforms are likely to bring a stronger currency in China (and thus increased prices for goods produced there), hopefully accompanied by a stronger domestic market with increased exports to the growth nations of Indonesia and Malaysia, and to the 'sleeping giant' economy of India, which may yet become the world's greatest consumer market. As the world's private sector recovers and tax takes improve, governments can afford to repair their balance sheets with spending cuts, and possibly with taxes on carbon and consumption. This will be of great interest to managers everywhere. Added to this is the imperative that governments need to encourage the development of new and sustainable industries and work together to offer global policy reform.

To ensure that regional and national interests are adequately served by companies in newly privatised industries, all governments must legislate planning and strategy obligations. All organisations need to be able to look ahead, make good plans, and then help others work effectively to best meet the challenges ahead. Organisations need to do this knowing that things will probably never get back to 'normal'; rather, there may be a shift to a world of lower consumer spending and increased cost of capital. However, with the future uncertain, the likelihood is that even the best of plans made today may have to be changed tomorrow, in spite of improvements in economic forecasting software. Thus, managers also need the courage to be flexible in response to new circumstances, and the discipline to maintain control even as situations become hectic and the performance pressures are unrelenting.

8.1 How and why managers plan

LEARNING OBJECTIVE 8.1 How do managers plan?

In Australia, approximately 65 000 businesses cease to operate each year and one in five of these is the result of 'catastrophic failure', typically involving bankruptcy or liquidation. By contrast, businesses with sound business plans generally perform much better than those without, in terms of both revenue growth and profit growth.

In chapter 1 the management process was described as planning, organising, leading and controlling the use of resources to achieve performance objectives. The first of these functions, **planning**, sets the stage for the others. Planning involves deciding exactly what you want to accomplish and the best way to go about it.

As interesting as it is to examine why organisations plan, it is equally fascinating, if embarrassing, to examine why they do not. Indeed, with the benefit of hindsight, what is amazing is the resistance to planning in organisations. As recently as 1977, the president of leading IT company Digital Equipment Corporation, Ken Olsen, opined 'there is no reason for any individual to have a computer in their home'.[4] It might be observed that these experts were not keen on planning — or, at least, did not have an open mind about planning for possible developments in technology.

Perhaps the first requirement for being a good planner is an open mind, to be able to free oneself from prejudice to contemplate new ways of solving problems old and new. This is why planning the right answer demands that we first ask the right question. Setting the right objective is critical to good planning.

Importance of planning

Although many management experts and senior managers consider **objectives** setting and planning to be an old-fashioned practice, there is still considerable support for long-term planning in many large and small organisations. It is extremely important when planning how to structure an organisation to compete with retail services in turbulent and fast-moving markets. What has changed in many companies is that planning is not so rigidly tied to a complex series of five-or ten-year plans produced by senior corporate managers. It is a process that generates a series of 'what if' scenarios. This **scenario planning** process is used to get general managers at all levels of the organisation to think about the environment in which they operate, so that they can be better prepared for 'shocks' to their industry. These may be caused by the introduction of revolutionary new technologies; major terrorist events such as the 911 attack on the World Trade Center in 2001; or the outbreak of wars such as those in Afghanistan, Iraq and Syria, in addition to ongoing tensions in Pakistan and Iran. As dramatic as these conflicts have been, and as significant as they are for the regions concerned, it is the global financial and Eurozone crises, and the continuing financial and structural reforms involved in their wake that are likely to have the greatest impact on organisations worldwide.

When scenario planning is used properly it produces a solid base from which further managerial actions can emanate. These include: *organising* — allocating and arranging organisational resources to achieve key tasks; *leading* — guiding the efforts of the organisation's staff to ensure high levels of task accomplishment; and *controlling* — monitoring and assessing task accomplishment and taking necessary corrective action.

The importance of planning in the management process is illustrated in figure 8.1 — it provides the guiding direction for the other important management functions of organising, controlling and leading. Planning may involve strategies for obtaining and maintaining an organisation's competitive edge over other organisations in its industry, but it may equally involve joint ventures and cooperative arrangements with competitors. Daimler-Chrysler is an example of a partnership that has led to the capture of a sustainable market share in a highly competitive and volatile market. The German-based car manufacturer purchased a majority shareholding in Japanese competitor Mitsubishi in order to increase its presence in the Asian market. It was particularly interested in exploiting the rapidly expanding Chinese domestic market for cars in which its German rival Volkswagen has succeeded, through establishing two new assembly plants in the communist state.

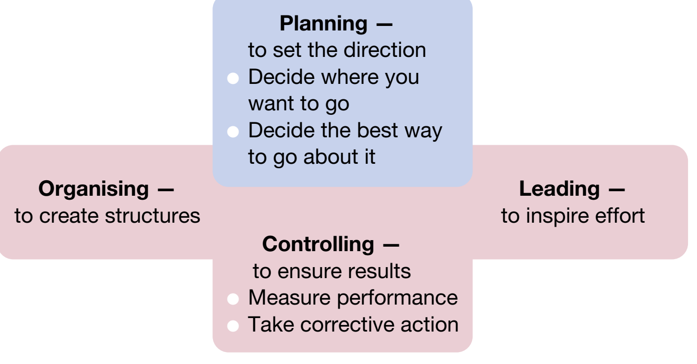

FIGURE 8.1 The role of the planning function in the management process

Where market conditions prove too turbulent, or capital costs are too high, firms move to secure a foothold using alliance relationships to share associated costs and risks. For example, huge gas deposits off Australia's north-west coast are being developed by a consortium of companies, including 'competitors' Exxon Mobil, Chevron and Royal Dutch Shell.

Defending or improving an organisation's market position is likely to involve a combination of competitive strategies that mean that the organisation must become more effective at its core tasks and must cooperate with other organisations to share costs. Planning should identify these possibilities, based on likely future environmental conditions, and guide the necessary decisions to allow the organisation to fully exploit any opportunities.

There are several ways managers in organisations try to gain a competitive advantage over other organisations. First, they can survey customers about their product or service requirements. This can be in terms of both prospecting for new customers, and surveying existing customers about how the company's products and services can be improved.

Second, they can scan the environment searching for technologies, techniques or methods from their own industry or from other sectors that they can modify or apply. For example, a boat-building firm in Melbourne, ARF Marine, adopted computer-aided design and testing software developed for the aerospace industry to design faster and more stable yachts.

Third, managers can search for joint-venture partners to strengthen their current market position or to diversify into other markets. For example, the merger between Australia's BHP and the United Kingdom's Billiton to form BHP Billiton, the world's largest resource company, was designed to create a stronger company with a greater resource and knowledge base. Through the planning process, both companies had identified merging as the most effective way to secure their long-term future. Even with the apparent demise of the 'resources boom' and dramatic drop in the price of iron ore (within three years from over A$150 per tonne to less than A$40 per tonne in 2015) the result has been impressive. BHP Billiton remains one of the world's strongest companies. It has massive assets and skilful top management, with a resilient and powerful future almost assured.

Thus, planning is a core management task that is integrated with environmental analysis, control and leadership. The Apple iPad is an example of an innovative product introduced after extensive market analysis, product development and corporate strategy for distribution and sale worldwide. It was a game move — and proved to be a game changer by putting mobile computing literally into the hands of millions — all on the back of detailed planning.

SOCIAL RESPONSIBILITY

Planning for better health

Healthcare professionals responsible for planning for influenza pandemics, with complex issues of scale and consequences, face special ethical challenges. Any plan needs to be assessed in terms of its alignment with competing values and priorities. Planners are required to deal with the necessary limitations on personal liberty imposed by quarantine, and the unavoidable demand to prioritise healthcare resources, such as antiviral drugs, in what would be a time of crisis. Questions of fairness should be discussed beforehand — to determine obligations for providing preventive measures for healthcare workers, other emergency workers, able-bodied adults, the elderly and more vulnerable members of the population.

Planning is important for healthcare professionals, who face special ethical challenges, such as allocating resources in a time of crisis, and balancing the importance of treating for 'the common good' with the need to safeguard their own health.

The ethical standard of treating for 'the common good' needs to be debated as to moral value and application in particular situations (such as when an individual healthcare worker refuses to work in a pandemic because of a perceived risk to themselves or their dependants). Guidelines are that any intervention should be both necessary and effective, that decision-making should be transparent, and that public health officials should be flexible and responsive. This is no easy task, as planners do their work in the midst of ethical examination of scenarios that call into question a broad range of moral issues. It is likely that planning needs to be done with a diversity of inputs.[5]

QUESTION

The ethical dialectic of utilitarianism ('the greatest good for the greatest number') and duty to the individual makes planning difficult in the individual healthcare case. Should we plan for the many while treating the individual? Justify your answer.

The planning process

The planning process begins with an organisation identifying specific outcomes that it wishes to achieve. It may set different targets depending on the environment it encounters, especially where the environment is uncertain or changing rapidly. This 'what-if' or scenario planning is practised by an increasing number of organisations. Organisations may also include in their plans action to help shape or stabilise the environment. Such action could include lobbying governments locally and overseas, creating industry networks, or philanthropy. The organisation's **plan** is a statement of the actual steps required to achieve its objectives. There are five sequential action steps in the systematic planning process.

1. *Define your objectives*. Identify desired outcomes or results in very specific ways. Know where you want to go; be specific enough that you will know you have arrived when you get there or know how far off the mark you are at various points along the way.
2. *Determine where you currently stand in relation to objectives*. Evaluate current accomplishments relative to the desired results. Know where you stand in reaching the objectives; know what strengths work in your favour and what weaknesses may hold you back.
3. *Develop perspectives regarding future conditions*. Try to forecast potential future events. Generate alternative 'scenarios' for what may happen; identify for each scenario things that may help or hinder progress towards your objectives. Systematically vary the drivers for each scenario to determine possible outcomes.
4. *Analyse and choose among action alternatives*. List and carefully evaluate the possible actions that may be taken. Choose the alternative(s) most likely to accomplish your objectives; describe step by step what must be done to follow the chosen course of action.
5. *Implement the plan and evaluate results*. Take action and carefully measure your progress towards objectives. Do what the plan requires; evaluate results; take corrective action, and revise plans as needed.

The planning process described is an application of the decision-making process introduced in the chapter on information and decision-making. It is a systematic way to approach two important tasks: setting performance objectives, and deciding how to best achieve them. Importantly, in the complex setting of the modern workplace this is not a process that managers do while working alone in quiet rooms, free from distractions, and at scheduled times. Rather, planning should be part of a manager's everyday work routine. It should be an ongoing activity that is done continuously even while dealing with an otherwise hectic and demanding work setting.[6] Importantly, the best planning in management always involves those people whose work efforts will eventually determine whether the objectives are accomplished.

It is important that the objectives for any organisational plan be clearly articulated. Table 8.1 outlines the **SMART model** for establishing objectives, in which an effective objective needs to possess five characteristics — being specific, measurable, actionable, reasonable and timetabled. For example, an objective to 'increase revenue' would not be classified as an effective objective under the SMART model. For this objective to be 'SMART', it would need to be made more specific and measurable, and be timetabled (assuming too that it is actionable and reasonable). An objective to 'Increase 2016 calendar year revenue by 5 per cent over 2015 calendar year revenue, with progress towards this measured and reported to management quarterly' would be an example of a SMART objective.

TABLE 8.1 **The SMART model of establishing effective organisational objectives**

Characteristic	Explanation
Specific	Objectives need to be clearly defined so that it easy to understand what is to be achieved and what will be considered successful.
Measurable	The exact measure must be stated and the objective must be able to be measured through some means.
Actionable	An organisation needs to ensure that its business-unit managers have the authority and resources to take the actions necessary to attempt to achieve the objectives that are set.
Reasonable	There is no point setting unrealistic objectives. Unrealistic objectives are a disincentive for both managers and their employees.
Timetabled	Objectives should have milestone dates or deadlines at which progress towards achieving them will be measured.

It is one thing to set effective objectives as the basis of a plan. It is quite another, particularly in larger organisations, to make sure that objectives and plans are well integrated among people at an individual level, in work units and across levels of an organisation as a whole. Objectives set anywhere in the organisation should ideally help advance its overall mission or purpose. Yet, we sometimes work very hard to accomplish things that simply don't make much of a difference in organisational performance. This is why the *alignment* of organisational objectives is an important part of managerial planning.

SUSTAINABILITY

BP plans for a greener future

While occasionally beset by flooding rains, much of Australia is, for most of the time, a wide brown land afflicted by drought — with water shortages increasing in city and rural areas alike. Water restrictions have become all too familiar, and the cost of water is increasing. Management at BP's Kwinana refinery in Western Australia realised more than a decade ago that they could not use more fresh water than their region could replenish. The plant needed water as fresh ('potable' or drinking-quality), steam (purchased from a third party supplier) and reclaimed ('grey') water for its various processes. BP set itself SMART goals to bring into effect a water minimisation program, using reverse osmosis to produce industrial-grade grey water. It thereby greatly reduced its use of potable water for cooling. The cost of building the plant to recycle the water was initially expensive, but the benefits have been both financial — equating to savings of over $1 million annually — and environmental. Recently, the refinery reported it had met all its programs, objectives and targets for its water use. Having specific and measurable objectives to achieve was an essential part of the success of this plan.

Having specific and measurable objectives to achieve was an essential part of the success of BP's water minimisation program at its Kwinana refinery.

QUESTION

Local governments have been successful in encouraging households to use less water and less electricity, providing consumption comparisons with 'same period last year' and with average use by other consumers. How could this approach be applied to industrial organisations? What kind of feedback would be most helpful?

CRITICAL ANALYSIS

1. Given the rate of change in organisational environments, how far should planning go? Can the planning process actually impede our ability to respond to changes? Why or why not?
2. Leaving out our inability to think of all possible likely and unlikely scenarios, what are the limits to scenario analysis? How would you run a scenario planning workshop?

8.2 Types of plans used by managers

LEARNING OBJECTIVE 8.2 What types of plans do managers use?

Managers face different planning challenges in the flow of activity in organisations. In some cases the planning environment is stable and quite predictable; in others it is more dynamic and uncertain. In all cases managers must understand the different types of plans and be able to use them effectively.

Short-range and long-range plans

Organisations require plans that cover different time horizons. A rule of thumb is that *short-range plans* cover one year or less, *intermediate-range plans* cover one to two years and *long-range plans* look three or more years into the future. Top management is most likely to be involved in setting long-range plans and directions for the organisation as a whole, and lower management levels focus more on intermediate and short-range plans that serve the long-term objectives. Importantly, all levels should understand the organisation's long-range plans. In the absence of an integrated hierarchy of objectives and a long-range plan, there is always risk that the pressures of daily events may create confusion and divert attention from important tasks. In other words, we may be working hard but without achieving sustainable and clear long-term results.

Organisational psychologist and management researcher Elliott Jaques suggested that people vary in their capability to think out, organise and work through events of different time horizons.[7] In fact, he believed that most people work comfortably with only three-month time spans; a smaller group works well with a one-year span; and only about one person in several million can handle a 20-year time frame. Although his unscientific research may lead us to dispute these exact figures, they are nonetheless provocative ideas. It is true that individuals have different capacities for long-range planning, but all people can improve their range through education and training. Surprisingly, this important intervention was not considered by Jacques. Although a team leader's planning challenges may rest mainly in the weekly, monthly or quarterly range, a chief executive is expected to have a vision extending five or more years into the future. Career progress to higher management levels requires the conceptual skills to work well with longer range time frames.[8] Today, many organisations assist their staff in developing enhanced time horizon planning as part of a more strategic approach to organisational sustainability.[9]

Complexities and uncertainties in today's environments are putting pressure on these planning horizons. In an increasingly global economy, planning opportunities and challenges are often worldwide in scope, not just local. And, of course, the information age is ever present in its planning implications. We now talk about planning in internet time or in real time, where businesses are continually changing and updating plans. Even top managers must now face the reality that internet time keeps making the 'long' range of planning shorter and shorter. The virtual organisation is an important response to the pressures of continual change in a globalised economy. It allows businesses to more quickly establish new enterprises and to change them in response to rapid shifts in the external environment. The virtual organisation can be fine-tuned, restructured or re-born in response to such changes at a global or local level. In many respects, they are the 'Special Forces' of business organisations, allowing quick and agile responses to threatening and unfamiliar situations in order to maximise future opportunities.[10] Not all businesses are well suited to the virtual environment. Retailers such as David Jones and Myer are finding that, while some customers will shop online, most Australians and New Zealanders prefer to inspect items before purchase. The most successful e-retailers sell services, where there is less need to inspect before buying. The success of online service retailing and airline ticket sales, such as at Flight Centre, illustrates this important point.

Strategic and tactical plans

Plans differ not only in time horizons but also in scope. **Strategic plans** define long-term needs and set comprehensive directions for an organisation or subunit. Top management planning of this scope involves determining objectives for the entire organisation and then deciding on the actions and resource allocations to achieve them. There was a time, for example, when many large businesses sought to diversify into unrelated areas. A successful oil firm might have acquired an office products company, or a successful cereal manufacturer might have acquired a clothing company. These decisions represent strategic choices regarding future directions for these companies and their use of scarce resources. Instead of reinvesting in areas of core competency, they were spending available monies on unrelated and probably unfamiliar areas of business activity. In the chapter on strategic management we examine the process through which such strategic choices are made and how they can be analysed. For now, it is enough to say that diversification strategies haven't always proved successful. Many companies following them have since reversed course, divesting themselves of unrelated businesses and following the alternative strategy of focusing on their core areas of expertise.

INNOVATION

Creating an innovation culture

Shutterstock, 25th on the most innovative companies list in 2014, is certainly not one of those companies that can be accused of becoming slower innovators after going public.[11] The company achieved a 40 per cent growth in revenue and has been consistently releasing new programs. Through Spectrum, users can search images by colour; through Skillfeed, various online video classes and imaging software are made accessible; and through Offset, higher quality visuals are available. In addition to integrating with Dropbox, Shutterstock's images are freely available to Facebook advertisers who formerly littered the site's ad space with cheap but poor-quality photos.

Shutterstock's founder and CEO, John Oringer, explained to *Fast Company* that the Facebook advertising deal is a win–win: advertisers are happy as their ads have high-quality photos for no cost; Facebook gets more advertisers and better looking ads and Shutterstock sells more images. Oringer said that Facebook pays Shutterstock a fee per image, with the photograph contributor receiving approximately 30 per cent of that fee. That all of Shutterstock's images are ready to be used commercially also helps advertisers avoid the threat of litigation that they would be exposed to had they simply copied and pasted an image from the internet.[12]

The company has brought in the concept of collaborative experimentation, which can help companies to not only boost their products but instil a progressive innovative mentality into the company culture. Shutterstock's Vice President of Product, Wyatt Jenkins, argues that through the continuous testing of ideas, a culture of experimentation can begin to manifest in the organisation. Jenkins says that the benefits of an experimental culture include the death of 'HiPPOs', which he describes as the 'highest paid person's opinion'. 'A/B testing is a sure way to get to the bottom of a decision without relying on anyone's gut instinct. At Shutterstock, if a senior executive has an idea in a meeting, the response is simply, "Let's test it".'[13]

This process spills over into teams, which results in better engagement since their ideas are valued and will be tested. Even if the result is failure, many positive spin-offs are achieved such as improved self-esteem and employee growth, especially the growth of critical ideas. Jenkins is an advocate of keeping the testing teams small, for example, a business analyst, an engineer and a designer/ front-end developer (in the case of Shutterstock). The idea is to get a mix of different business functions, but related to what is being tested. The concept of the '20 per cent time' phenomena of the tech world is relevant here. In essence, it allows employees to use some of their work time to work on any company-related product they want. They experiment with ideas that would not normally see the light of day. This kind of experimentation has led to Gmail, Adsense and many other Google initiatives.[14]

QUESTION

Shutterstock is empowering its employees by investing in a culture of experimentation. What are the benefits and limitations of allowing lower level employees to have a say in the strategic direction of the business? What steps might Shutterstock executives be taking to minimise the risks involved with this approach?

Operational plans

Operational plans describe what needs to be done in the short term to progress strategic objectives. Typical operational plans in an organisation include:

- *production plans* — dealing with the methods and technology needed by people in their work
- *financial plans* — dealing with the money required to support various operations
- *facilities plans* — dealing with the facilities and work layouts required to support task activities
- *marketing plans* — dealing with the requirements of selling and distributing goods or services
- *human resource plans* — dealing with the recruitment, selection and placement of people into various jobs.

Policies and procedures

Among the many plans in organisations, *standing plans* in the form of organisational policies and procedures are designed for use over and over again. They set guidelines that direct behaviour in uniform directions for certain types of situations, regardless of where or when they occur in an organisation. A **policy** communicates broad guidelines for making decisions and taking action in specific circumstances. In matters relating to the workforce, for example, typical human resource policies deal with such matters as employee hiring, termination, performance appraisals, pay increases and discipline.

Policies should focus attention on matters of particular importance to the organisation and then direct people in how they are supposed to deal with them. Consider the issue of 'blowing the whistle' on unethical or unlawful activities within an organisation. In recent years, many public sector organisations have established procedures to protect staff who disclose information about wrongdoing within the workplace. State laws in Australia have also assisted. For example, each state has legislation that clearly outlines procedures on how information should be disclosed and the protection afforded to those disclosing it. This legislation, together with initiatives taken by individual organisations, has helped to expose corruption and unethical practices in the public and private sectors.

Procedures and **rules** are plans that describe exactly what actions are to be taken or not taken in specific situations. Procedures are often found stated in employee handbooks or manuals as 'SOPs' — standard operating procedures. They define the recommended sequence of events needed to accomplish a task or a set of tasks. Rules clearly indicate what is and what is not acceptable behaviour, and often specify the outcome of breaking them. They are often to do with occupational health and safety and anti-discrimination legislation.

Budgets and project schedules

In contrast to standing plans, which remain in place for extended periods of time, *single-use* plans are each used once to meet the needs of well-defined situations in a timely manner. **Budgets** are single-use plans that commit resources to activities, projects or programs. They are powerful tools that allocate scarce resources among multiple and often competing uses. Good managers are able to bargain for and obtain adequate budgets to support the needs of their work units or teams. They are also able to achieve performance objectives while keeping resource expenditures within the allocated budget. A *fixed budget* allocates resources on the basis of a single estimate of costs. The estimate establishes a fixed pool of resources that can be used, but not exceeded, in support of the specified purpose. For example, a manager may have a $25 000 budget for equipment purchases in a given year. A *flexible budget*, on the other hand, allows the allocation of resources to vary in proportion with various levels of activity. Managers operating under flexible budgets can expect additional resource allocations when activity increases from one estimated level to the next. For example, a manager may have a budget allowance for hiring temporary workers if production orders exceed a certain volume.

In a **zero-based budget**, a project or activity is budgeted as if it were brand new. There is no assumption that resources previously allocated to a project or activity will simply be continued in the future. Instead, all projects compete anew for available funds. The intent is to totally reconsider priorities, objectives and activities at the start of each new budget cycle. For example, ARMS Reliability offers assistance to large client organisations in Australia, New Zealand and other countries in setting up zero-based budgets to track project management and asset management, especially where the true costs of breakdowns and maintenance need to be incorporated. Businesses, government agencies and other types of organisations use zero-based budgeting to make sure that only the most desirable and timely programs receive funding.

Project schedules are single-use plans that identify the activities required to accomplish a specific major project — for example, the completion of a new student activities building on a campus, the development of a new computer software program, or the implementation of a new advertising campaign for a sports team. In each case, the project schedule would define specific task objectives, activities to be accomplished, due dates and timetables for the activities, and resource requirements. Importantly, a good project schedule sets priorities so that everyone involved knows not only what needs to be done but also in what order so that the entire project gets finished on time.

CRITICAL ANALYSIS

1. Budgets are plans expressed in financial terms. Accurate, realistic budgets can function as effective instruments of control. In what situations would budgets be likely to cause problems?
2. How much emphasis should be given to managing changes in budgets in response to changing environments and changing demands? Should managers have to stick to budgets to allow tough decisions to be carried through, no matter what?

8.3 Planning tools, techniques and processes

LEARNING OBJECTIVE 8.3 What are the useful planning tools, techniques and processes?

Planning is essential for successful management in any organisation. Planning works best when it is comprehensive, systematic and based on well-established foundations. Today's planners use a broad array of planning tools, techniques and processes. These include forecasting, specific contingency planning, benchmarking, participatory or team-based planning, and staff planners.

Forecasting

A **forecast** is a vision of the future. Forecasting is the process of making assumptions about what will happen in the future.[15] All good plans involve forecasts, either implicit or explicit. Business journals such as *BRW* or *The Economist* regularly report a variety of business and economic forecasts for their readers. These include forecasts of consumer spending, business investment, interest rates, unemployment, balance of payments and inflation. For companies operating on a global scale it is essential to access forecasts for economies outside their immediate region. Journals and financial newspapers such as the *Financial Times*, *The Guardian*, *The Wall Street Journal*, *Fortune* and *Business Week* cover much of North America and Europe, whereas the *The Singapore Business Times*, *China Daily*, *The Straits Times* and *The Asian Wall Street Journal* provide forecasts for the Asia–Pacific region.

Some forecasts are based on *qualitative forecasting*, which uses expert opinions to predict the future. In this case, a single person of special expertise or reputation or a panel of experts may be consulted. Others involve *quantitative forecasting* that uses mathematical and statistical analysis of data banks to predict future events. Time-series analysis makes predictions by using statistical routines such as regression analysis to project past trends into the future. General economic trends are often forecast by econometric models that simulate events and make predictions based on relationships discovered among variables in the models. Statistical analysis of opinion polls and attitude surveys, such as those reported in newspapers and on television, is typically used to predict future consumer tastes, employee preferences and political choices, among other issues.

In the final analysis, forecasting always relies on human judgement. Even the results of highly sophisticated quantitative approaches still require interpretation. Forecasts should always be viewed as subject to error and therefore treated cautiously. Managers should remember that forecasting is not planning; planning is a more comprehensive activity that involves deciding what to do about the implications of forecasts once they are made. Large multinational corporations such as Sony, Pfizer, AEG, Ford, BHP Billiton and News Corporation analyse economic and business forecasts for each region and country. They must ascertain the correct mix of products and services and the correct marketing strategies before committing to an investment plan. Although some requirements may be generic in an increasingly standardised global economy, there are still substantial regional or country-specific differences that need to be considered. Many US-based multinational corporations have assumed that what works in the United States will be successful elsewhere. They have not taken into account important social, cultural, historical and religious differences between nations.

Contingency planning

Planning, by definition, involves thinking ahead. But, the more uncertain the planning environment, the more likely the original assumptions, predictions and intentions may prove to be incorrect. Even the most carefully prepared projections may prove inadequate as experience develops. Unexpected problems and events frequently occur. When they do, plans may have to be changed. It is best to realise during the planning process that things might not go as expected. Alternatives to the existing plan can then be developed and readied for use when and if circumstances make them appropriate. The attacks on New York City and Washington on 11 September 2001 and the explosion on the Macondo Deepwater Horizon oil well in 2010 are extreme examples of the type of events to be considered when planning for the unexpected. By 2015 a pattern of terrorist attacks in major Western cities, North Africa and elsewhere had become established. Counter terrorism management is now a major focus of government and organisational planning in most Western countries. It consumes increasing resources and seems to have almost limitless scope of demand and range. Traditional planning procedures appear to be inadequate to cope with previously unthinkable atrocities. Planners are forced to commit resources to deal with ever more complicated scenarios. For example, government managers must plan for the predictable services that need to be provided in the community, while simultaneously planning for the 'what if' event that comes completely unexpectedly with devastating effects and requiring urgent response.

This is the process of **contingency planning**, identifying alternative courses of action that can be implemented if and when an original plan proves inadequate because of changing circumstances. Of course, changes in the planning environment must be detected as early as possible. 'Trigger points' that indicate that an existing plan is no longer desirable must be preselected and then monitored. Sometimes this is accomplished simply by good forward thinking on the part of managers and staff planners. At other times, it can be assisted by a 'devil's advocate' method, in which planners are formally assigned to develop worst-case forecasts of future events.

Scenario planning and contingency planning

Scenario planning is the long-term version of contingency planning. As we have seen earlier in this chapter, recognition of the need to identify and plan for a variety of possible future scenarios or situations should be at the heart of all planning. Identifying a range of different possible future scenarios helps organisations operate more flexibly and respond more rapidly in uncertain and changing environments. In Asia, the Taiwanese information technology manufacturer Acer has adopted a flexible and dynamic approach to corporate planning because of the uncertainty of the markets for personal computers and other IT-based products, such as mobile phones, and concerns about Taiwan's long-term relationship with mainland China. Whereas the mainland China market is critical so that Acer can operate as a global company, it also injects 'uncertainty' into the equation because of the political tensions between the two nations.

Although recognising that planning scenarios can never be inclusive of all future possibilities, a planning coordinator once said that scenarios help 'condition the organisation to think' and remain better prepared than its competitors for 'future shocks'. Among the issues and concerns for scenario planning today are geopolitical change, terrorism, climate change, sustainable development, human rights and biodiversity.

Benefits of scenario planning

Scenario planning is not forecasting what planners think will happen. Rather, it consists of developing possible plausible scenarios of the future, with reference to a particular firm, that make different assumptions about forces driving the market and including different uncertainties.[16] This allows the manager or planner to consider how these environmental uncertainties might affect the firm's strategy, and thus to plan for such eventualities should they occur.

In today's uncertain and dynamic global economy, organisations are facing pressures from many sources. External pressures include regulations imposed by governments (such as the introduction of the goods and services tax in New Zealand and Australia, and the introduction of carbon emissions trading schemes and taxes); increasingly complex or changing technologies (such as genetic modification and animal cloning); economic uncertainties (such as those exacerbated by the conflicts in the Middle East); and the costs of investment in capital, labour and other supporting resources (such as increasingly scarce natural resources, the escalating costs of office locations in metropolitan areas and highly priced scientific and business consultancy expertise). Internal pressures include the need for operating efficiencies through work practice reforms, new management structures and technologies (such as individual workplace agreements, virtual organisations and project management structures), increased workplace diversity, heightened job expectations from an increasingly tertiary-educated workforce, and related managerial challenges.

Given the growing uncertainty and complexity of the environment, scenario planning offers a number of benefits. Typically undertaken by experienced managers in a workshop setting, it allows organisations to plan for the most likely course of events, but also allows for other scenarios that may occur. Many organisations now include multiple scenarios (all of which are plausible) in their planning, with different high-impact, high-uncertainty environmental variables (avoiding highly improbable values) that are weighted for degree of criticality to the organisation. Interaction between variables can be considered as potentially relevant in preparing for the impact of various scenarios.

The aim in scenario planning is not to predict the most probable future and adapt to it, but to enable strategic decisions to be made around all plausible futures. Therefore, scenarios are not the end products of a predictive or forecasting exercise, but the foundation for rethinking afresh the strategy formulation needs of the organisation.

Briefly, scenario planning involves some variation on the following steps.

1. Identify the driving forces that represent game changers in any plot or scenario. This may require thinking the unthinkable to shake free of past 'certainties'.
2. Build a scenario where these drivers change significantly. Systematically vary the drivers to create new scenarios.
3. Consider options available within the scenarios, however unlikely. Check for interaction effects between the drivers.
4. Generate new options, products, processes or services to address the requirements inherent in the scenario.
5. Examine implications of these scenarios for outcomes in relation to existing strategies.
6. Develop an action plan to manage differently as a result of these considerations. Such a plan ought to include an early warning system to monitor whether the drivers are changing in the manner contemplated.

Scenario planning improves focus and flexibility

Thorough scenario planning improves organisational focus and flexibility, both of which are essential for successful individual and group performance in highly competitive and dynamic environments. An *organisation with focus* knows what it does best, knows the needs of its customers and knows how to serve them well. An *individual with focus* knows where he or she wants to go in a career or situation and is able to retain that objective even when difficulties or setbacks arise. An *organisation with flexibility* is willing and able to change and adapt to shifting circumstances, and operates with an orientation towards the future rather than the past or present. An *individual with flexibility* factors into career plans the problems and opportunities posed by new and developing situations — personal and organisational. The challenges and opportunities presented by the emergence of virtual organisations is a good example of the impact of external changes on the individual.

Scenario planning improves action orientation

Scenario planning helps individuals and organisations weather difficult circumstances and stay ahead of the competition. It places organisations in a state of readiness for a variety of situations and counters tendencies towards complacency, both in individuals and in the organisation. It also keeps the future visible as a performance target and reminds us that the best decisions are often made before events force them upon us. Management consultant Stephen R. Covey, points out that the most successful executives 'zero in on what they do that "adds value" to an organisation'. Instead of working on too many things, Covey advises us to step back and identify the most important things to do.[17] Indeed, planning helps us to take the initiative rather than be reactive in our approach to things. It does so because it makes us more:

- *results oriented* — creating a performance-oriented sense of direction
- *priority oriented* — making sure the most important things get first attention
- *advantage oriented* — ensuring that all resources are used to best advantage
- *change oriented* — anticipating problems and opportunities so they can be dealt with in the best way.[18]

Scenario planning improves coordination

The many different individuals, groups and subsystems in organisations are each doing many different things at the same time. But even as they pursue their specific tasks and objectives, their accomplishments must add up to meaningful contributions towards the needs of the organisation as a whole. Good planning throughout an organisation creates a *hierarchy of aims* in which objectives at each level of work are linked together in means–ends fashion. Higher level objectives as ends are directly tied to lower level objectives as the *means* for their accomplishment.

Figure 8.2 uses the example of quality management to show how a hierarchy of objectives can guide and integrate efforts within a large manufacturing firm. The corporate-level quality objective is 'Deliver error-free products that meet customer requirements 100 per cent of the time'. This translates down the hierarchy in means–ends fashion as a series of supporting objectives at each level. For one of the team leaders, it finally becomes a formal commitment to 'assess capabilities of machine operators and provide/arrange appropriate training'. Good planning helps ensure that the team leader's hard work in this example will make a positive contribution to the corporate-level quality objective.

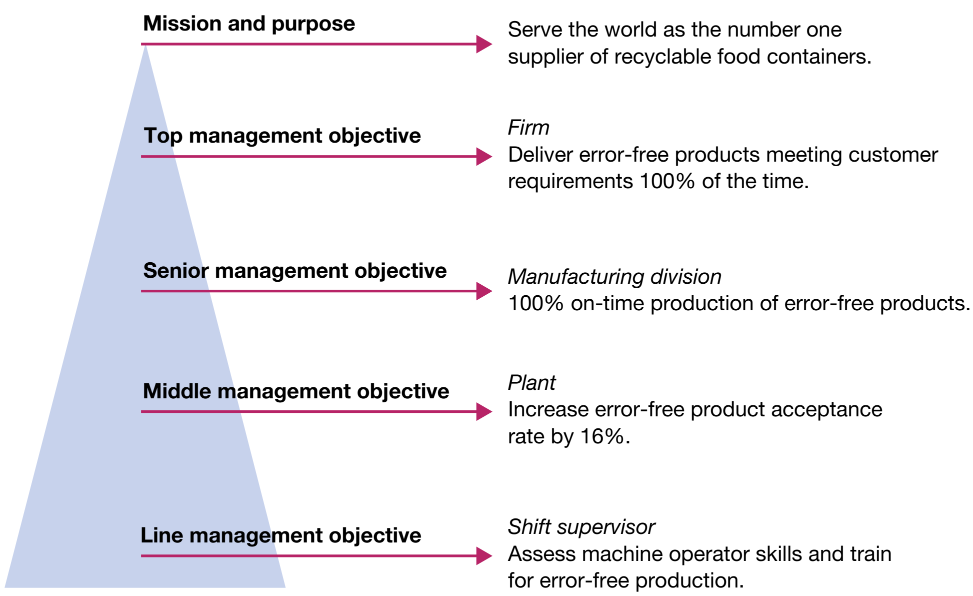

FIGURE 8.2 A sample hierarchy of objectives for total quality management

Scenario planning improves time management

One of the side benefits that planning offers is better time management. Lewis Platt, former chairman of Hewlett-Packard, says: 'Basically, the whole day is a series of choices.'[19] These choices have to be made in ways that allocate your time to the most important priorities. Platt says that he is 'ruthless about priorities' and that you 'have to continually work to optimise your time'. Most of us have experienced the difficulties of balancing available time with the many commitments and opportunities we would like to fulfil. Each day, we are bombarded by a multitude of tasks and demands in a setting of frequent interruptions, crises and unexpected events — the manager's job is especially subject to such complications. It is easy to lose track of time and fall prey to what consultants identify as 'time wasters'. In the process, too many of us allow our time to be dominated by other people and/or by what can be considered non-essential activities.[20] 'To do' lists can help, but it is important to determine which 'to dos' are the priorities, and then deal with them.[21] Some additional tips on how to manage your time are included in Manager's notepad 8.1.

MANAGER'S NOTEPAD 8.1

Tips on how to manage your time

- *Do* say 'No' to requests that divert you from work you should be doing.
- *Don't* get bogged down in details that should be left to others.
- *Do* establish a system for screening telephone calls and email.
- *Don't* let 'drop-in' visitors use too much of your time.
- *Do* prioritise work tasks in order of importance and urgency.
- *Don't* become 'calendar bound' by losing control of your schedule.
- *Do* work tasks in priority order.

Scenario planning improves control

When planning is done well, it is easier to exercise control by measuring performance results and taking action to improve things as necessary. Planning helps make this possible by defining the objectives along with the specific actions through which they are to be pursued. If results are less than expected, either the objectives or the action being taken, or both, can be evaluated and then adjusted in the control process. In this way, planning and controlling work closely together in the management process. Without planning, control lacks a framework for measuring how well things are going and what could be done to make them go better. Without control, planning lacks the follow-through needed to ensure that things work out as intended.

COUNTERPOINT

The absurdity of planning in a rapidly changing global economy

In the new globalised economy in which uncertainty and change is continuous, planning is no longer a guarantee of long-term survival. In fact, traditional planning is likely to turn an organisation into a dinosaur because by its very nature it lays down sets of actions based on what has been or is currently happening rather than future circumstances. To survive, organisations must develop agility and core strengths to allow rapid responses to continuous and sudden changes in the globalised business landscape. Rather than developing 5-, 10- and 20-year business plans, organisations should establish flexible management structures, use the latest technologies, and develop in all their staff key skills and the ability to deal with continuous change. Virtual organisations are one such response to this new business environment. They exist only for the sustainable length of a project, after which they can be modified, restructured or reinvented to suit changing market imperatives. They are an agile and responsive solution to the inertia that exists in 'planned organisations'. These are the politically correct control methods of the modern, profit-maximising company.

QUESTION

Given the rate of change in organisational environments, how far should planning go? Can the planning process actually impede our ability to respond to changes? Why or why not?

Benchmarking

Another important influence on the success or failure of planning involves the frame of reference used as a starting point. All too often planners have only a limited awareness of what is happening outside the immediate work setting. Successful planning must challenge the status quo; it cannot simply accept things the way they are. One way to do this is through **benchmarking**, a technique that makes use of external comparisons to better evaluate an organisation's current performance and identify possible actions for the future.[22] The purpose of benchmarking is to find out what other people and organisations are doing very well and then to plan how to incorporate these ideas into your organisation's operations.

This powerful planning technique is increasingly popular in today's competitive business world. It is a way for progressive companies to learn from other 'excellent' companies, not just competitors. It allows them to analyse and thoroughly compare all systems and processes for efficiencies and opportunities for innovation.

Staff planners

As the planning needs of organisations grow, there is a corresponding need to increase the sophistication of the overall planning system itself. In some cases, staff planners are employed to help coordinate planning for the organisation as a whole or for one of its major components. These planners should be skilled in all steps of the formal planning process, including the benchmarking and scenario-planning approaches just discussed. They should also understand the advisory nature of their roles. Given clear responsibilities and their special planning expertise, staff planners can bring focus to efforts to accomplish important planning tasks. But one risk is a tendency for a communication 'gap' to develop between staff planners and line managers. This can cause a great deal of difficulty. Resulting plans may lack relevance, and line personnel may lack commitment to implement them even if they are relevant. One trend in organisations today is to de-emphasise the role of large staff planning groups and to place much greater emphasis on the participation and involvement of line managers in the planning process.

Management by objectives

A useful planning technique that helps integrate planning and controlling is **management by objectives**, or just **MBO**. This is a structured process of regular communication in which a manager or team leader works with staff or team members to jointly set performance objectives and review results accomplished.[23] As shown in figure 8.3, MBO creates an agreement between the two parties regarding:

1. performance objectives for a given time period
2. plans through which they will be accomplished
3. standards for measuring whether they have been accomplished
4. procedures for reviewing performance results.

Of course, both parties in any MBO agreement are supposed to work closely together to fulfil the terms of the agreement.

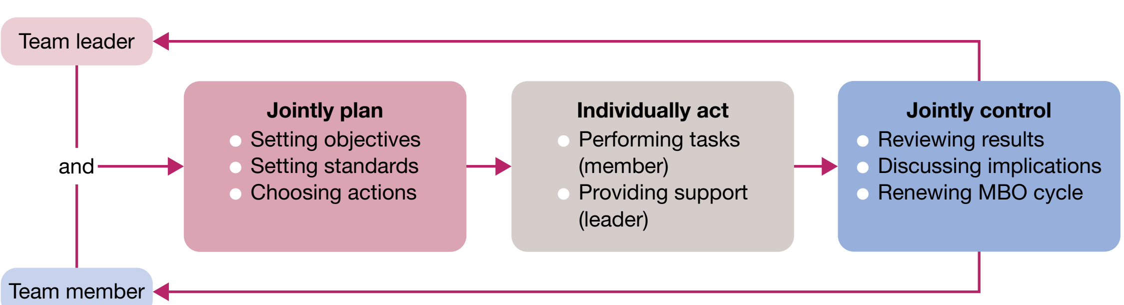

FIGURE 8.3 Performance objectives in MBO

Three types of objectives may be specified in an MBO contract.

1. Improvement objectives document intentions for improving performance in a specific way. An example is 'To reduce quality rejects by 10 per cent'.

2. Personal development objectives pertain to personal growth activities; often those resulting in expanded job knowledge or skills. An example is 'To learn the latest version of a computer software package'.
3. Some MBO contracts also include maintenance objectives that formally express intentions to maintain performance at an existing level.

One of the more challenging aspects of MBO is the need to make performance objectives as measurable as possible. Ideally there is agreement on a measurable objective, for example, 'To reduce travel expenses by 5 per cent by the end of the fiscal year'. However, performance in some jobs, particularly managerial ones, is sometimes hard to quantify. Rather than abandon MBO in such cases, it is often possible to agree on performance objectives that are stated as *verifiable work activities*. The accomplishment of the activities serves as an indicator of performance progress. An example is 'To improve communications with my team in the next three months by holding weekly team meetings'. Whereas it can be difficult to measure 'improved communications', it is easy to document whether the 'weekly team meetings' have been held.

MBO pros and cons

MBO is one of the most talked about and debated management concepts.[24] As a result, advice is available. Common mistakes to avoid include focusing too much attention on 'easy' objectives, requiring excessive paperwork, and having managers simply tell employees their objectives. The advantages of MBO are that it can focus workers on the most important tasks and objectives, and focus managers on areas of support that can truly help their employees meet the agreed-upon objectives. Because of the direct face-to-face communication, MBO can also contribute to relationship building. Further, by giving people the opportunity to participate in decisions that affect their work, MBO encourages self-management.[25]

Participation and involvement

Planning is a process, not an event, and 'participation' is a key component of the planning process. **Participatory planning** means that the process includes people who will be affected by the resulting plans and/or who will be asked to help implement them. This brings to the organisation many benefits. Participation can increase the creativity and information available for planning. It can also increase the understanding, acceptance and commitment of people to final plans. Indeed, planning should be organised and accomplished in a participatory manner that includes the contributions of many people representing diverse responsibilities and vantage points. This includes the level of strategic planning, once considered only the province of top management. The more aware all levels are of strategic plans and the more they are involved in helping to establish them, the greater the commitment throughout the organisation to their accomplishment.

The centrality of participation in the planning process is highlighted in figure 8.4. To create and implement the best plans, proper attention must be given to genuinely involving others during all planning steps. Even though this process may mean that planning takes more time, it can improve results by improving implementation. Sustainable Futures Australia is a small multidisciplinary organisation based in Byron Bay in New South Wales. With a strong and upfront philosophy of sustainability, they work with local government and regional communities to facilitate genuinely participative planning, working on implementation of plans for policy and governance applications. They emphasise solutions that are practical, environmentally appropriate, economically viable and socially acceptable. To enable this, the firm has developed a planning web tool related to key elements of sustainability, which incorporates the values of group participants.[26]

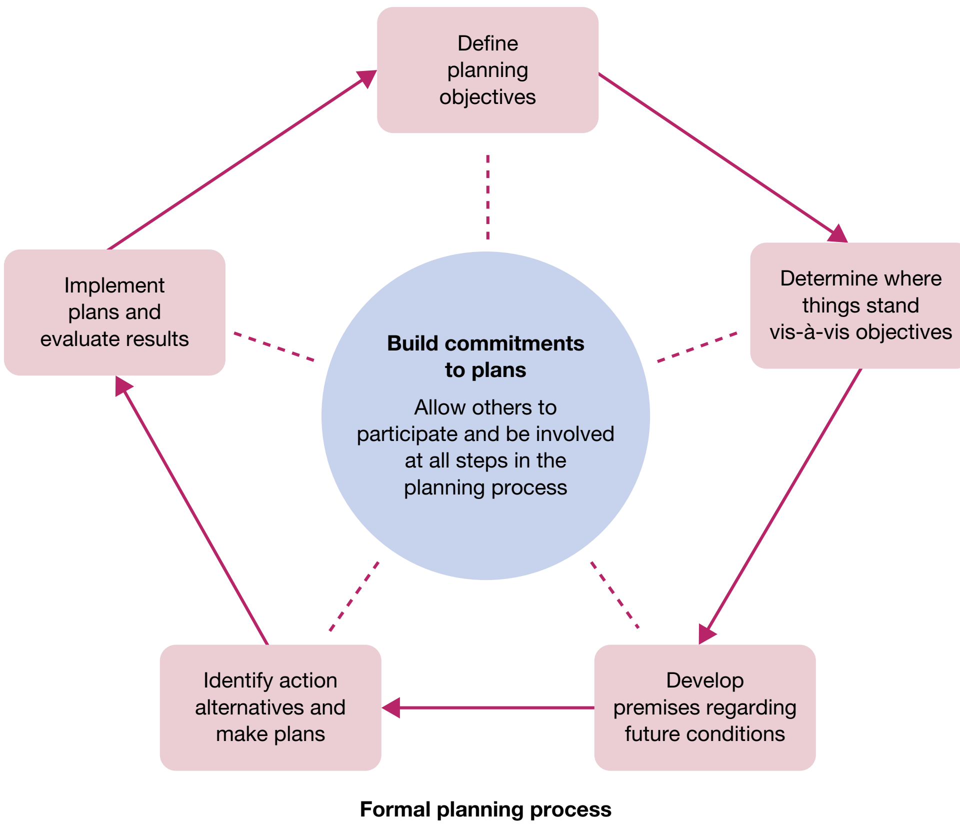

FIGURE 8.4 How participation and involvement help build commitments to plans

CRITICAL ANALYSIS

1. Is scenario planning limited by the predictive power of the participants in the process? If not, why not? How could it be improved?
2. Is MBO too limiting in terms of emergent issues and personal creativity? How might you ensure that it does not become so?
3. How can participatory planning be used in organisations? What resistance might it potentially create, and how would you deal with this?
4. Does the planning process, with its emphasis on resource utilisation and transformation processes to produce particular outcomes, inhibit innovation? What can be done to ensure that planning does not interfere with innovative thinking in organisations?

SUMMARY

8.1 How do managers plan?

- Planning is the process of setting performance objectives and determining what should be done to accomplish them.
- A plan is a set of intended actions for accomplishing important objectives.
- Scenario planning sets the stage for the other management functions — organising, leading and controlling.
- The steps in the planning process are: define your objectives; determine where you stand vis-à-vis objectives; develop your premises regarding future conditions; identify and choose among alternative ways of accomplishing objectives; and implement action plans and evaluate results.
- The SMART Model is an approach to determining effective organisational objectives that requires that they be Specific, Measurable, Actionable, Reasonable and Timetabled.
- The benefits of scenario planning include better focus and flexibility, action orientation, coordination, control and time management.

8.2 What types of plans do managers use?

- Short-range plans tend to cover a year or less, whereas long-range plans extend up to five years or more.
- Strategic plans set critical long-range directions; operational plans are designed to implement strategic plans.
- Organisational policies, such as a sexual harassment policy, are plans that set guidelines for the behaviour of an organisation's members.
- Organisational procedures and rules are plans that describe actions to be taken in specific situations, such as the steps to be taken when people believe they have been sexually harassed or victimised, or have witnessed unethical or corrupt practices.
- Organisational budgets are plans that allocate resources to activities, projects or programs.

8.3 What are the useful planning tools, techniques and processes?

- Forecasting, which attempts to predict what might happen in the future, is a planning aid but not a planning substitute.
- Contingency planning identifies alternative courses of action that can be implemented if and when circumstances change in certain ways over time.
- Planning, through the use of alternative versions of the future, is a useful form of contingency planning.
- Planning through benchmarking uses external comparisons to identify desirable action directions.
- Management by objectives is a process of joint objective-setting between a manager and a staff member.
- Participation and involvement open the planning process to valuable inputs from people whose efforts are essential to the effective implementation of plans.

KEY TERMS

Benchmarking uses external comparisons to gain insights for planning.

Budgets are plans that commit resources to projects or activities.

Contingency planning identifies alternative courses of action for use if and when circumstances change with time.

A **forecast** is an attempt to predict future outcomes.

Management by objectives, or **MBO**, is a process of joint objective-setting between a manager and a staff member.

Objectives are specific results usually expressed in measurable indices that someone wishes to achieve and may relate to the individual, a group or the whole organisation.

Operational plans define specific activities to implement strategic plans.

Participatory planning includes the people who will be affected by plans and/or whose help is needed to implement them.

A **plan** is a statement of intended means for accomplishing objectives.

Planning is the process of setting objectives and determining how to accomplish them.

A **policy** is a standing plan that communicates broad guidelines for decisions and action.

Procedures precisely describe actions that are to be taken in specific situations. They define the recommended sequence of events needed to accomplish a task or a set of tasks.

Project schedules are single-use plans for accomplishing a specific major project.

Rules indicate what is and what is not acceptable behaviour and often specify the outcome of breaking them.

Scenario planning identifies alternative future scenarios and makes plans to deal with each. In a fast-changing and unpredictable world, it is often necessary to have multiple scenarios for planning purposes.

The **SMART model** is an approach to determining effective organisational objectives that requires that they be specific, measurable, actionable, reasonable and timetabled.

Strategic plans define long-term needs and set action directions for the organisation. Tactical plans are developed and used to implement strategic plans.

A **zero-based budget** allocates resources to a project or activity as if it were brand new.

APPLIED ACTIVITIES

1. In your own words, briefly explain the steps in the planning process.
2. What are the main advantages of scenario planning?
3. Outline the various types of plans used by managers, and appropriate circumstances in which each can be used.
4. Provide an overview of planning tools, techniques and processes potentially available for managers, and an example of how each can be used.
5. Put yourself in the position of the CEO of a well-known Asia–Pacific corporation such as Mitsubishi Motor Company. You have been asked to make a 30-minute presentation to the Australian Chamber of Commerce at the biannual meeting. The topic is corporate planning and ethical management practices. What information would you include in your presentation and why?

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Photo: © Moonlight Cinema
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CHAPTER 9

Strategic management

LEARNING OBJECTIVES

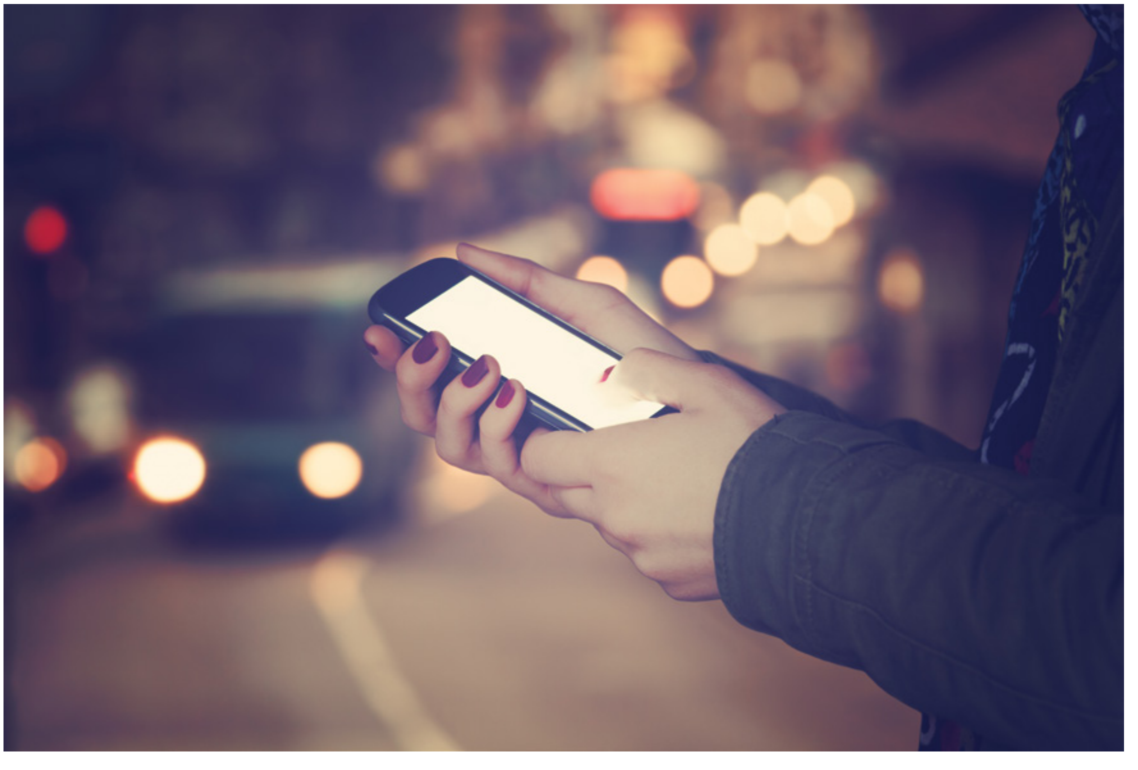
9.1 What are the foundations of strategic competitiveness?
9.2 What is strategic management?
9.3 What types of strategies are used by organisations?
9.4 How are strategies formulated?
9.5 What are current issues in strategy implementation?

Rise of the new tech companies

Let's take a quick quiz. Can you name the world's largest taxi company? Hint: it owns no vehicles. The answer is Uber. Can you name the world's most popular media company? Hint: it creates no content. The answer is Facebook. Can you name the world's most valuable retailer? Hint: it has no inventory. The answer is Alibaba. Can you name the world's largest accommodation provider? Hint: it owns no real estate. The answer is Airbnb.[1] (Note: These answers were correct at the end of 2015 but the commercial landscape is changing so rapidly that these facts may change quickly.)

Something interesting is happening in the commercial world where ownership of significant physical assets is no longer a perquisite to major business success. Traditionally, it was those who owned the means of production who ruled the business world. This is no longer the case. Even those who are responsible for transporting, storing and retailing goods are no longer the leaders of business. The internet, coupled with the smartphones and other mobile devices, is changing the way that customers access information and interact with businesses. Even more significantly, these changes are affecting who makes a profit and who fails in business.

So what is it that companies such as Uber, Facebook and Airbnb actually do to make a profit? In short, they are an interface between potential customers and businesses. The internet provides an unprecedented opportunity for businesses to provide dynamic and detailed information to customers, while providing a chance for customers to interact with each other. The smartphone and other mobile devices provide almost continuous communication and access for customers, coupled with GPS tracking, environmental scanning and an increasing range of information gathering systems. When these two seemingly limitless systems are paired, the company that provides an effective interface system which harnesses these systems while linking providers and customers can make a profit. For example, Uber provides privately owned cars in a premium way. Facebook provides information from friends who have visited the restaurant that you are considering. And Airbnb has empowered residents with spare accommodation to rent it to people who want unique, affordable accommodation options.[2]



So how can companies develop strategies to harness this new environment where enhanced internet and mobile devices connect with customers to earn significant profit? Clearly, companies need to be aware of technological changes that alter the rules of competition. In addition, companies need to be aware of how customers may interact with these technologies and where the technologies may provide access to certain 'slack' resources, such as privately owned vehicles or vacant residential accommodation. It could be said, therefore, that these marketplace companies enable existing infrastructure to be used more efficiently.

Strategic management, however, is more than just being aware of how environmental trends interact with each other to provide new opportunities and a changed business landscape. For instance, not every company who is aware of these trends can turn the opportunity into profit. The company must be able to harness its own resources and in some cases change itself to turn opportunity into profit. This is the essence of strategic management, and this chapter will explore how you as a manager can be an effective part of the strategic management process.

QUESTION

Name and describe other companies that have been able to make a profit from new customer interface opportunities. Why do these companies make a profit while many others do not?

Introduction

Companies such as Facebook don't achieve long-term success and growth without strategy. Service innovation is just one way for an organisation to potentially grow (and is also no guarantee of success). Other ways that companies in a wide variety of industries can grow and prosper are via the pursuit of pricing and cost leadership strategies. IKEA is an example of product or concept differentiation. IKEA has used a uniquely Scandinavian minimalist and functional approach to furniture design and lifestyle products to develop a successful global market for its products. Richard Branson's Virgin Group has achieved similar results in a range of industries, from airlines to mobile phones to credit cards, by attaching the values associated with the Virgin brand to a variety of products and services.

In developed economies such as Australia and New Zealand, there is often considerable market fragmentation, allowing companies to use different strategies to capture different fragments of national markets. In addition, as an increasing number of industries are being deregulated, more organisations are being exposed to market forces. Consequently, more than ever, today's environment places a great premium on effective 'strategy' and 'strategic management' as prerequisites for organisational success. Strategy formulation must become an important part of all senior managers' work.

9.1 Sustainable strategic competitiveness

LEARNING OBJECTIVE 9.1 What are the foundations of strategic competitiveness?

Competitive advantage arises when an organisation acquires or develops an attribute or combination of attributes that allows it to outperform its competitors. These attributes can include access to natural resources, such as high-grade ores or inexpensive power, or access to highly trained and skilled personnel — human resources. New technologies such as robotics and information technology — either to be included as part of the product, or to assist in making it — are often important sources of competitive advantage. In Australia and New Zealand considerable advances in agricultural technologies have given the livestock and wine industries a competitive advantage over international rivals. This has also been the case for the nickel, copper and strategic metals and energy resources industries, where companies like Rio Tinto have patented numerous techniques for improving efficiency and quality. The aim for any organisation, however, is not just to achieve competitive advantage but to make it sustainable in spite of competitors' attempts to copy or duplicate a success story.

Sustainable competitive advantage is the hallmark of successful companies such as Facebook, Sony and IKEA. In all these companies, technological and design leadership has been central to the strategy of sustainable competitive advantage and has been driven by senior management with almost crusading zeal and passion. Sustainable competitive advantage can also be achieved through applying technologies developed by other industries. For example, in Australia and New Zealand the supermarket chain Woolworths has used continuous IT improvement, supply chain innovation and a strong customer focus as a centrepiece of its corporate strategies.

Achieving and sustaining competitive advantage is a challenging task for even the largest organisations, all of which are very aware that new technologies, changes in the global economy or world geopolitics, and sudden shifts in consumer demand could lead to their demise. Indeed, the history of capitalism is littered with examples of corporate extinction. For example, in 1950 there were more than 100 car manufacturers in the United States and more than 60 in the United Kingdom. Today, there are fewer than ten major car manufacturers worldwide. Many ceased operation, while others, such as Australian-owned Holden, were taken over by companies such as General Motors, which expanded globally through acquisition. The global financial crisis, with the associated cash flow crunch, subsequently saw the once-mighty General Motors famously struggle under the weight of thousands of unsold vehicles. General Motors required a US government bailout package, and, more than anything, confronted the reality of having lost strategic competitiveness —with the company even having to sell off its subsidiary Saab because of the circumstances.

Competition tends to destroy competition, leading to a concentration of ownership and control in many industries. The telecommunications, insurance, airline, and retailing industries increasingly have fewer players as the process of competition 'weeds out' the weaker organisations. How many of today's big corporate names will be tomorrow's dinosaurs? Which ones will cease to operate or be swallowed up by their competitors? In other words, which organisations have the right strategy to survive and have a sustainable future? This process is not unlike what the 19th century British scientist Charles Darwin described for the biological world in his seminal book *The Origin of Species by Means of Natural Selection*. 'Survival of the fittest', in evolutionary terms, refers to those species that 'fit' themselves best to their environment. A species that fails to adapt fails to survive. Adaptation is the key concept. Hannan and Freeman have developed a very similar argument for the organisational world, which they call the 'population ecology of organisations'.[3]

What is organisational strategy?

Canadian management researcher Henry Mintzberg describes organisational **strategy** as 'a pattern in a stream of decisions'.[4] This decision-based concept of strategy has two important implications. First, strategy is not necessarily apparent from the analysis of just one decision, because it must be viewed in the context of several decisions and the consistency among the decisions. Second, the organisation must be aware of alternatives in all of its decisions. A deliberate strategy can be contained in a formal document that identifies long-term goals and outlines resource use to accomplish them. These are useful in focusing attention on the competitive environment and indicating how corporate objectives can be secured even as conditions alter. Of course, it is also important to recognise that new strategies and objectives may emerge as the environment changes in ways that could not be predicted. Unfortunately, it is not always possible to accurately predict the future based on the past in a fast-changing global economy. Organisations need to be prepared for a wide range of eventualities. Importantly, a strategy provides the plan for allocating and using resources with consistent **strategic intent** — that is, with all organisational energies directed towards a unifying and compelling target or goal.[5]

In our fast-paced world of globalisation, changing technologies and shifting social and economic needs, the 'long-term' aspect of strategy is becoming ever shorter. As it does so, the challenges to the strategist become even greater. It used to be that companies could count on traditional 'build-and-sell' business models that put them in control. In the early days of the car-making industry, for example, Henry Ford once said: 'The customer can have any colour he wants as long as it's black.' His firm, quite literally, was in the driver's seat. Today things have changed and strategy is increasingly driven by customers and flexibility. Says John M. Jordan, former director of e-commerce research for Ernst & Young: 'Customers are calling the shots, telling companies what they want, and companies have to respond to those desires or lose out.' Stephen Haeckel, former director of strategic studies at IBM's Advanced Business Institute, describes the shift in approach this way: 'It's a difference between a bus, which follows a set route, and a taxi, which goes where customers tell it to go.'[6] A number of writers have identified broader waves of change in the environment that force business strategists to restructure, and often reinvent, their corporate strategies.

Strategic management

On the surface, devising strategy may seem a simple task. Find out what customers want, then develop or use the appropriate production or product technologies to deliver it to them at an affordable price and with the best service. In practice this task is made much more complex because of the uncertainties and unpredictability of global markets. Every strategist must remember that at the same time they are trying to create competitive advantage for an organisation, competitors are always attempting to do the same. This gives rise to demands for strategies that can be called 'bold', 'aggressive', 'fast-moving' and 'innovative'. But call them what you will, strategies don't just happen. They must be created. And strategies alone don't automatically bring success. They must be both well chosen and well implemented.

Strategic management is the process of formulating and implementing strategies to accomplish long-term goals and sustain competitive advantage. The essence of strategic management is looking ahead, understanding the environment and the organisation, and effectively positioning the organisation for competitive advantage in changing times. Chief executives must think strategically as they try to position their organisations for contemporary markets. They must think strategically in deciding how to use new technologies to maximum advantage. They must think strategically in analysing the conditions in the global economy, highlighted by the 'global financial crisis induced' economic downturn. And they must think strategically where it really counts — in respect of what customers and clients really want.

Strategic management goals

Michael Porter, a strategy academic and consultant, says that 'sound strategy starts with having the right goal'.[7] He argues that the ultimate goal for any business should be superior profitability. This creates value for investors in the form of **above-average returns**, returns that exceed what an investor could earn by investing in alternative opportunities of equivalent risk.[8] At ANZ Bank, this goal is stated as 'Creating value for our shareholders'.[9]

The nature of the competition within an organisation's environment largely determines whether above-average returns are achievable. An understanding of the organisation's markets is crucial for setting strategic management goals. Good economic analysis is therefore essential. Indeed, the business strategist Michael Porter has long recognised that the roots of the structural and market analysis within strategic management lie within economics.[10]

Organisations compete in environments that vary according to their market structures. Where a *monopoly environment* exists there is only one organisation and no competition. This creates absolute competitive advantage, delivering sustainable and probably excessive business profits. This absolute competitive advantage may not be in the public interest — lack of consumer choice and high prices are the likely outcomes. Consequently, most Western governments have passed legislation preventing or limiting monopolies. For example, the Australian Competition and Consumer Commission investigates market dominance and competitive activity that is contrary to the Australian public interest. New Zealand's equivalent body is the Commerce Commission.

Until recent years, most monopolies in Australia and New Zealand were government-owned organisations accountable to the people through the democratic process. With the privatisation of many of these organisations, in industries such as telecommunications, transport and energy retailing, private monopolies have been created that have little or no accountability. To provide accountability their market structures must be changed to be more competitive, but in many cases this has been difficult to achieve. Some economists have called for the re-nationalisation of these companies to better serve the public interest, rather than making monopoly profits for their shareholders.

An *oligopoly environment* or oligopolistic competition is a market where a small number of competitors feel themselves constrained more by the actions of their rivals than by those of their customers. Organisations within an oligopoly sustain long-term competitive advantages within defined market segments. In the absence of competition within these segments, they can reap excessive business profits. Aircraft manufacturers, major machine tool producers, defence manufacturers, national newspapers, natural resource extraction operations and segments of the food manufacturing industry are in an oligopolistic environment. Aircraft manufacture is a particularly good example, where the European consortium Airbus Industrie and the US-based Boeing need to keep a close eye on each other's actions if they are to prosper. This often leads to industrial espionage, with Airbus Industrie claiming that the US government uses its intelligence-gathering organisations, such as the CIA, to obtain confidential information about its operations for its competitor.[11]

An effective understanding of the principles of game theory therefore becomes a critical skill of strategists under an oligopoly.[12] They need to guess correctly what a rival's response to a price change will be; to understand when a new entrant to the industry should be accommodated rather than driven out; and to know when to collude with a rival, either explicitly or implicitly, rather than fighting a cut-throat action. The domestic airline industry in Australia, with its rivalry between Qantas and Virgin Australia, previously constituted a duopoly — a form of oligopolistic competition. The emergence of discount operators, such as Jetstar (which is owned by Qantas and is now effectively in competition with its parent company), as well as the entry of Asian carriers, such as Singapore-based Tiger Airways, is making for a crowded market — at least while differences in prices and service levels stabilise.

GLOBALISATION

Rescuing a flagging icon

It would be no surprise to most management students that as of May 2015, McDonald's was the sixth most valuable brand according to *Forbes* magazine. In terms of global restaurant brands it was the clear leader, with Starbucks being the next entry on the list at number 52.[13] The golden arches of the fast-food restaurant chain are instantly recognisable to people of all ages around the world. What is surprising, however, is that this franchising giant is suffering flagging sales in the United States. In the second quarter of 2015, US sales slid by 2 per cent and the company's net profits fell 13 per cent.[14] What is going wrong with this iconic brand and does it matter?

From 2002 onwards, McDonald's in the US underwent a period of store remodelling and upgrading in an attempt to lure customers to return. Up until 2015, however, the sales problem persisted. The restaurant chain is now experimenting with greater food variety, greater customer choices and healthier food options. This strategy, however, is somewhat contrary to the company's traditional image as offering convenient, fast and cheap food. Some commentators have described McDonald's as undergoing an identity crisis, as customers are opting for higher priced and healthier food options in restaurants such as Grill'd burgers in Australia and Chipotle Mexican Grill in the United States.

McDonald's identity crisis, however, may be accelerating as it finds its sales and store openings soaring in China. In 2013, McDonald's opened 275 new stores in China with an aim of opening 300 in 2014. This contrasts with their activity in the United States, where there were 225 new restaurants in 2013 and 250 in 2014. The impressive expansion in China aims to tap into the expanding middle class there; the number of people earning between $17 000 to $35 000 in China is estimated to grow from 6 per cent in 2010 to 50 per cent by 2020. However, to succeed in China, McDonald's must change.[15]

McDonald's must change in China because its growth has been weak compared to KFC's spectacular growth from 1987 to 2012.[16] KFC succeeded, to some extent, by de-Westernising its stores and menu, offering, for example, Peking Duck burritos and creating a clean, upscale dining environment. McDonald's is trying to follow suit. There is indeed a limit as to how much Western culture a Chinese customer wants or expects in dining out, and so the architecture of a new McDonald's restaurant China often follows regional as well as more typical national trends. Some tables in the restaurant are round and seat up to ten people, which is more in line with the expectations of groups that are going out to dine in China. Menu offerings are more locally oriented, with pork and chicken, rather than beef, being included in more items.

Although global expansion and cultural adaptation is a strategy that is working for McDonald's, the fall of KFC in China from 2012 to 2015 is instructive. Major food scandals and intense local competition had a huge impact on KFC's sales in China, and the parent company Yum! Brands decided to spin off its Chinese unit as a separate publically listed company to decouple itself from China's roller coaster consumer ride. KFC suffered, in particular, after consumers became aware of reports outlining the use of expired meat.[17] Strategists at McDonald's will hopefully realise that there is no substitute for product quality and food safety and that it must continually innovate to survive against the inevitable onslaught of persistent, quality local competition.

QUESTION

What growth strategy would you recommend for McDonald's in China? How can McDonald's overcome the current challenges that it faces in the United States?

The global economy has helped to create for many businesses today an *environment of hypercompetition*.[18] This is an environment in which there are at least several players who directly compete with one another. An example is the fast-food industry where McDonald's, KFC, Pizza Hut and many other restaurant chains all compete for largely the same customers. Because the competition is direct and intense, any competitive advantage that is realised is temporary. Successful strategies are often copied and organisations must be agile, in that they must continue to find new strategies that deliver new sources of competitive advantage, even while trying to defend existing ones.[19] In hypercompetition, there are always some winners and losers. Business profits can be attractive but intermittent. The customer generally gains in this environment through lower prices and more product/-service innovation.

In the internet search engine market, Google quickly emerged as the world's most popular choice. Since its 1998 debut, Google — nimble, streamlined and reliable in returning relevant results — has set a benchmark in search technology. Its strategy was to design a search engine that directly serves the interest of the consumer first; and the advertiser second. Currently, Google's market leadership is largely unchallenged, but the organisation is constantly evolving in order to maintain and leverage its competitive edge. The organisation derives its revenue from advertising, and in 2006 it purchased YouTube for $1.65 billion, within a year of the popular video site first appearing. The acquisition, however, is yet to become a profitable business for Google; YouTube attracts over 1 billion views each month but still struggles to expand its viewers from the beyond the teens and tweens demographics.[20] YouTube hopes to change this through higher quality programming, subscription services and better ad-targeting, however, its strategy must improve if it is to reach profitability 10 years after acquisition by Google.

CRITICAL ANALYSIS

1. What do you think determines the kind of strategy a firm adopts? Is the environment of an organisation more important than management intent or organisational resources (including capacity)?
2. Is growth the only real goal of organisations? In some operating environments, where growth is all but impossible, what strategies are appropriate?
3. What is the role of time when developing strategy? Is it a part of strategy development, and if so, under what circumstances?

9.2 The strategic management process

LEARNING OBJECTIVE 9.2 What is strategic management?

Strategic management is successful when organisations, even those operating in environments of hypercompetition, achieve sustainable competitive advantage and earn above-average returns. Successful strategies are crafted from insightful understandings of the competitive environment as well as intimate knowledge of the organisation. And they are implemented with commitment and resolution. Figure 9.1 describes a series of steps involved in fulfilling the two major responsibilities of the strategic management process — strategy formulation and strategy implementation.

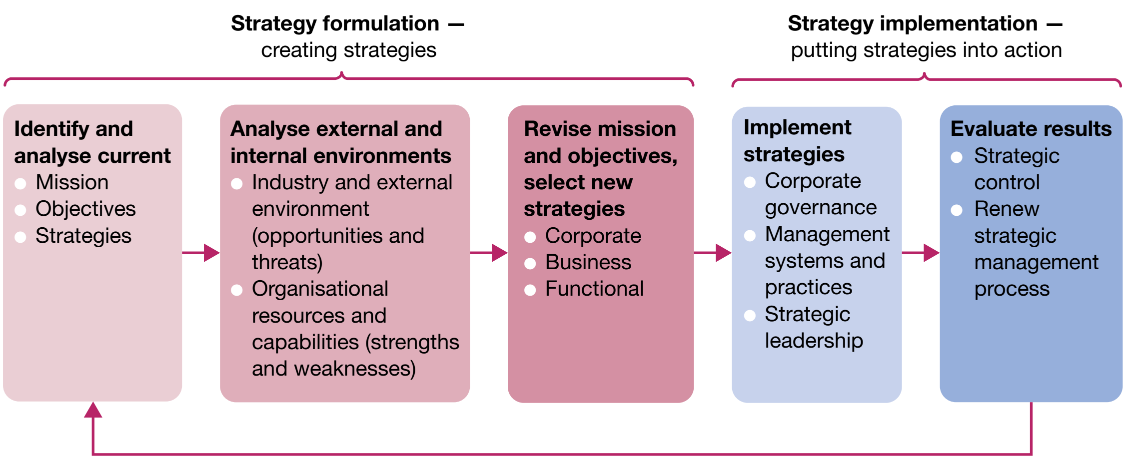


FIGURE 9.1 Strategy formulation and implementation in the strategic management process

The first strategic management responsibility is **strategy formulation**, the process of creating strategy. This involves assessing existing strategies, the organisation and your environment to develop new strategies and strategic plans capable of delivering future competitive advantage. Peter Drucker associates this process with a set of five strategic questions: *What is our business mission? Who are our customers? What do our customers consider value? What have been our results? What is our plan?*[21]

The second strategic management responsibility is **strategy implementation**, the process of allocating resources and putting strategies into action. Once strategies are created, they must be successfully acted on to achieve the desired results. As Drucker says: 'The future will not just happen if one wishes hard enough. It requires decision — now. It imposes risk — now. It requires action — now. It demands allocation of resources, and above all, of human resources — now. It requires work — now.'[22] This is the responsibility for putting strategies and strategic plans into action. Every organisational and management system must be mobilised to support and reinforce the accomplishment of strategies. Scarce resources must be used for maximum impact on performance. All of this, in turn, requires a commitment to mastering the full range of strategic management tasks posed in Manager's notepad 9.1.[23]

MANAGER'S NOTEPAD 9.1

Five strategic management tasks

1. Identify organisational mission and objectives. *Ask:* 'What business are we in? Where do we want to go?'
2. Assess current performance in relation to mission and objectives. *Ask:* 'How well are we currently doing?'
3. Create strategic plans to accomplish purpose and objectives. *Ask:*'How can we get where we really want to be?'
4. Implement the strategic plans. *Ask:* 'Has everything been done that needs to be done?'
5. Evaluate results; change strategic plans and/or implementation *processes* as necessary. *Ask:* 'Are things working out as planned? What can be improved?'

Analysis of mission, values and objectives

The strategic management process begins with a careful assessment and clarification of the organisational mission, values and objectives.[24] A clear sense of mission and objectives sets the stage for assessing the organisation's resources and capabilities as well as competitive opportunities and threats in the external environment.

Mission

As first discussed in chapter 1, the **mission** or purpose of an organisation may be described as its reason for existence in society. Strategy consultant Michael Hammer believes that a mission should represent what the strategy or underlying business model is trying to accomplish. He suggests asking: 'What are we moving to? What is our dream? What kind of a difference do we want to make in the world?'[25]

National governments often take the lead in defining the mission for the domestic economy, and, in doing so, provide vision and direction for business organisations. For example, China's broad objectives in the 21st century are to achieve sustainable levels of development aimed at improving domestic economic and political stability, and to legitimise the continuation of one-party rule. This national mission is being pursued through promotion of a peaceful regional and global environment in order to guarantee economic, political and territorial security for the Chinese government, which enhances its international status and power. The actions and behaviour of Chinese businesses are strongly influenced by their government's overall mission. In liberal democracies, such as Australia, the United Kingdom, Canada and France, governments also play an important role in developing the broader national mission that businesses and other domestic organisations will be influenced to follow.

The Special Broadcasting Service (SBS), Australia's multicultural and multilingual public broadcaster, was established with the mission to give voice and exposure to multicultural Australia. Specifically, the broadcaster was established by the federal government to define, facilitate and promote Australia's cultural heterogeneity in accordance with its charter obligation.

A good mission statement identifies the domain in which the organisation intends to operate — including the customers it intends to serve, the products and/or services it intends to provide, and the location in which it intends to operate. The mission statement should also communicate the underlying philosophy that will guide employees in these operations. Consider the mission statement for Merck, one of the world's leading pharmaceutical companies: 'To discover, develop and provide innovative products and services that save and improve lives around the world'.[26]

An important test of corporate purpose and mission is how well it serves the organisation's **stakeholders**. Remember that these are individuals and groups — customers, shareholders, suppliers, creditors, community groups and others — who are directly affected by the organisation and its accomplishments. In the strategic management process, the stakeholder test can be done as a constituencies analysis. Here, the specific interests of each stakeholder are assessed along with the organisation's record in responding to them. Figure 9.2 gives an example of how stakeholder interests can be reflected in a mission statement.

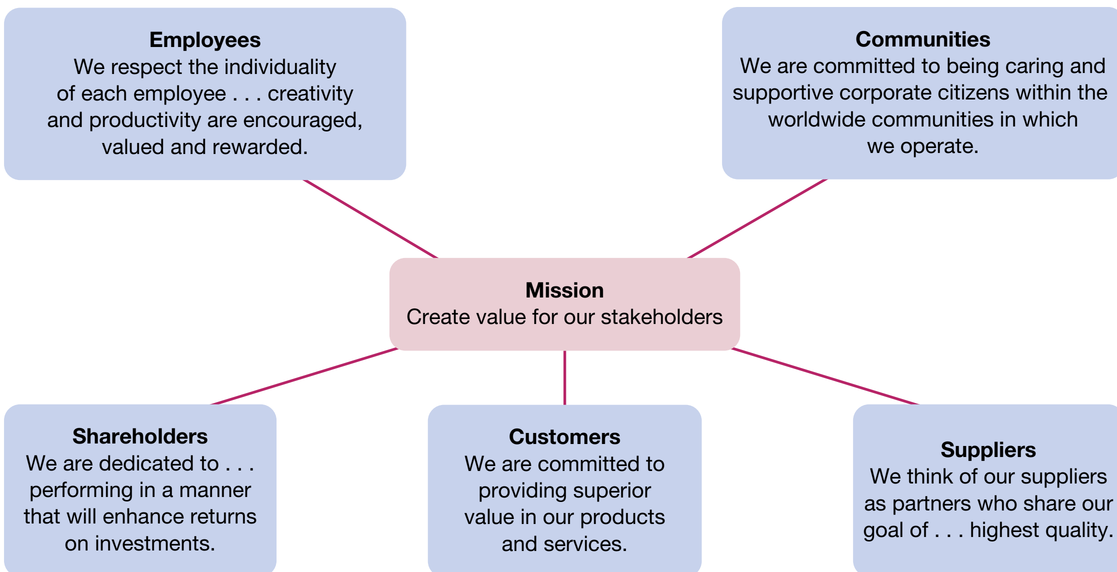


FIGURE 9.2 External stakeholders and the mission statement

Core values

Behaviour in and by organisations will always be affected in part by values, which are broad beliefs about what is or is not appropriate. **Organisational culture** was first defined in the chapter on environment and diversity as the predominant value system of the organisation as a whole.[27] Through organisational cultures, the values of managers and other members are shaped and pointed in common directions. In strategic management, the presence of strong core values for an organisation helps build institutional identity. It gives character to an organisation in the eyes of its employees and external stakeholders, and it backs up the mission statement. Shared values also help guide the behaviour of organisation members in meaningful and consistent ways. For example, Merck backs up its mission with a public commitment to core values that state 'our core values are driven by a desire to improve human life, achieve scientific excellence, operate with the highest standards of integrity, expand access to our products and employ a diverse workforce that values collaboration'.[28]

Objectives

Whereas a mission statement sets forth an official purpose for the organisation and the core values describe appropriate standards of behaviour for its accomplishment, **operating objectives** direct activities towards specific performance results. These objectives are shorter term targets against which actual performance results can be measured as indicators of progress and continuous improvement. Any and all operating objectives should have clear means–ends links to the mission and purpose. Any and all strategies should, in turn, offer clear and demonstrable opportunities to accomplish operating objectives. According to Peter Drucker, the operating objectives of a business might include:

1. *profitability* — producing at a profit in business
2. *market share* — gaining and holding a specific market share
3. *human talent* — recruiting and maintaining a high-quality workforce
4. *financial health* — acquiring capital; earning positive returns
5. *cost efficiency* — using resources well to operate at low cost
6. *product quality* — producing high-quality goods or services
7. *innovation* — developing new products and/or processes
8. *social responsibility* — making a positive contribution to society.[29]

Analysis of organisational resources and capabilities

Two important steps in the strategic management process are analysis of the organisation and analysis of its environment. They may be approached by a technique known as **SWOT analysis** — the internal analysis of organisational Strengths and Weaknesses as well as the external analysis of environmental Opportunities and Threats. The origin of the SWOT framework is obscure; however, it has been in use in business since the 1960s.[30]

As shown in figure 9.3, a SWOT analysis begins with a systematic evaluation of the organisation's resources and capabilities. A major goal is to identify core competencies in the form of special strengths that the organisation has or where it does exceptionally well in comparison with competitors. They are capabilities that by virtue of being rare, costly to imitate, and non-substitutable become viable sources of competitive advantage.[31] **Core competencies** may be found in special knowledge or expertise, superior technologies, efficient manufacturing technologies or unique product distribution systems, among many other possibilities. But always, and as with the notion of strategy itself, they must be viewed relative to the competition. Simply put, organisations need more competencies that do important things better than the competition and that are very difficult for competitors to duplicate.

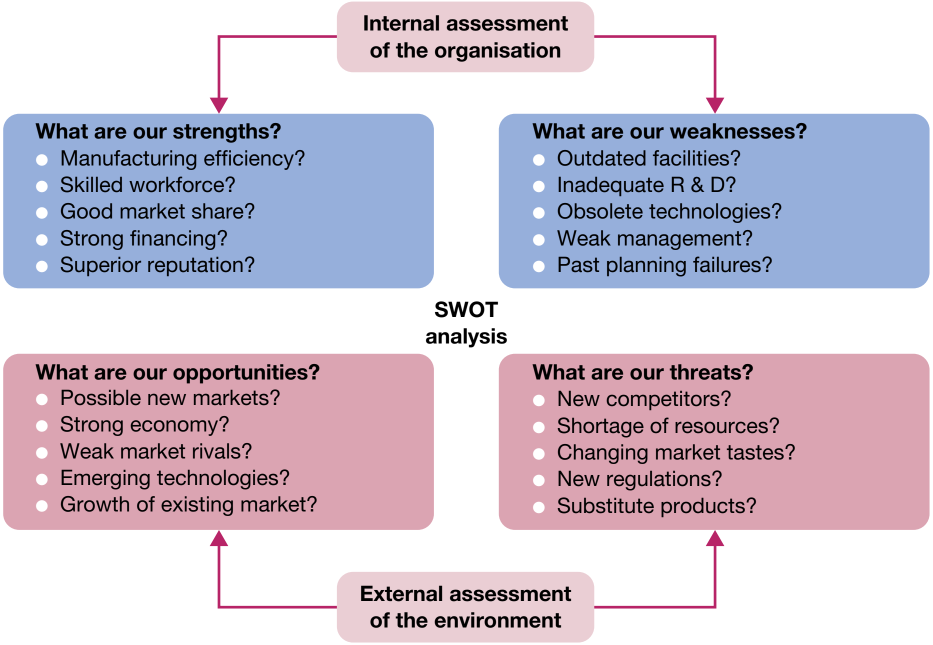


FIGURE 9.3 SWOT analysis of strengths, weaknesses, opportunities and threats

Figure 9.3 highlights several reference points for the internal analysis of organisational strengths. Organisational weaknesses, of course, are the other side of the picture. They can also be found in the same or related areas and must be identified if you are to gain a realistic perspective on the formulation of strategies. The goal in strategy formulation is to create strategies that make the most of core competencies for competitive advantage by building upon organisational strengths and minimising the impact of weaknesses.

Analysis of industry and environment

A SWOT analysis is not complete until opportunities and threats in the external environment are also analysed. They can be found among *macroenvironment factors* such as technology, government, social structures and population demographics, the global economy and the natural environment. They can also include developments in the *industry environment* of resource suppliers, competitors and customers. As shown in figure 9.3, opportunities may exist as possible new markets or a strong economy; threats may be identified in such things as the emergence of new competitors or technologies, resource scarcities, changing customer tastes and new government regulations, among other possibilities.

In respect to the external environment as a whole, the more stable and predictable it is, the more likely that a good strategy can be implemented with success for a longer period of time. But when the environment is composed of many dynamic elements that create uncertainties, more flexible strategies that change with time are needed. Given the nature of competitive environments today, strategic management must be considered an ongoing process in which strategies are formulated, implemented, revised and implemented again in a continuous manner.

Michael Porter offers the five forces model shown in figure 9.4 as a way of adding sophistication to this analysis of the environment.[32]

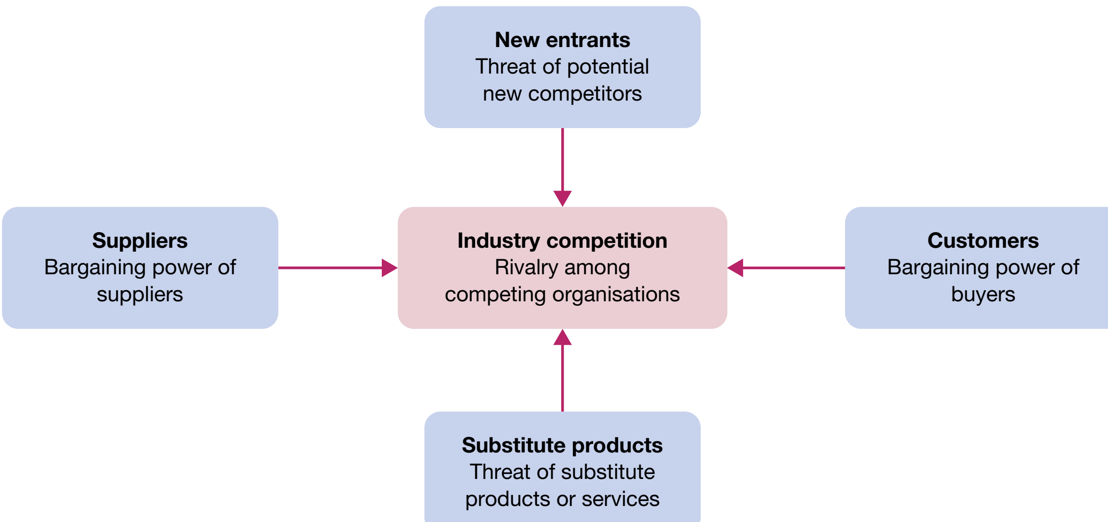


FIGURE 9.4 Porter's model of five strategic forces affecting industry competition

Source: Developed from Michael E. Porter, *Competitive Strategy* (New York: Free Press, 1980).

Porter's framework for competitive industry analysis directs attention towards understanding the following forces:

1. *industry competitors* — intensity of rivalry among firms in the industry
2. *new entrants* — threats of new competitors entering the market
3. *suppliers* — bargaining power of suppliers
4. *customers* — bargaining power of buyers
5. *substitutes* — threats of substitute products or services.

From Porter's perspective, the foundations for any successful strategy rest with a clear understanding of these competitive environmental forces. He calls this the 'industry structure'. The strategic management challenge is to position an organisation strategically within its industry, taking into account the implications of forces that make it more or less attractive. In general, an *unattractive industry* is one in which rivalry among competitors is intense, substantial threats exist in the form of possible new entrants and substitute products, and suppliers and buyers are very powerful in bargaining over such things as prices and quality. An *attractive industry*, on the other hand, has less existing competition, few threats from new entrants or substitutes, and low bargaining power among suppliers and buyers.[33] By systematically analysing industry attractiveness with respect to the five forces, Porter believes that strategies can be chosen to give the organisation a competitive advantage relative to its rivals.[34]

COUNTERPOINT

Why does strategy fail?

One of the great weaknesses of strategic management is a failure to pay attention to the implementation of the strategy. In fact, recently over 400 global CEOs reported that effective execution of strategy was their number one challenge out of a list of 80 issues.

The reasons for inadequate execution of strategy have been identified by a large-scale research project that included over 40 experiments to explore the effects of changes on strategy execution. The project also explored responses to a survey administered to almost 8000 managers in over 250 companies. The research discovered five common myths that some managers believe regarding strategy execution. The five myths are summarised below.

Myth 1: Execution equals alignment

The research discovered that although managers can rely on their bosses and direct reports, they couldn't rely on colleagues in other functions and other units. This leads to managers duplicating organisation efforts, letting promises to customers slip, passing up attractive opportunities and delaying deliverables. A failure to coordinate, therefore, is a common reason for failure in executing strategy.

Myth 2: Execution means sticking to the plan

Developing budgets, assigning responsibilities and setting realistic goals is usually performed well in organisations. However, plans are made on the basis of assessments of circumstances and situations that inevitably will turn out to be different in reality. Thus, managers who craft creative solutions to unforeseen problems are mastering execution rather than failing by following the plan. Agility is key to strategy execution and fluid reallocation of funds, people and attention is more important than sticking to an out-dated budget. Agility also means that companies should disinvest from declining businesses sooner rather than later. Managers must also be careful not to get carried away with the common mistake of pursuing attractive opportunities outside of their strategic objectives.

Myth 3: Communication equals understanding

The project found that although top managers were relentlessly communicating the strategy within the organisation, the recall of organisational priorities by middle managers was found to be poor. In fact, only 55 per cent of middle managers could name even one of their company's top five priorities. The research also found that middle managers could not see how the priorities fit together. Executives need to move from measuring effectiveness by how many meetings and emails they send regarding strategy (inputs) to how well their leaders understand what is communicated.

Myth 4: A performance culture drives execution

The mantra of hiring, rewarding and promoting high performers and firing low performers is widely appreciated in strategy execution. However, such an approach usually fails to appreciate that individual performance is not the only game in town and that other things such as agility, teamwork and ambition should also be recognised and rewarded. Agility means trying new things and, inevitably, some new initiatives will fail. Emphasising performance can also cause workers to be conservative in setting goals and so lack of ambition may ultimately be rewarded. Once again, coordination between work units is important to success, but rarely will a worker be corrected if they meet their targets yet fail to collaborate with colleagues across units.

Myth 5: Execution should be driven from the top

If the organisation relies too heavily on top-driven execution, it remains vulnerable to poor performance after the personnel at the top move on (as they inevitably do). Although concentrating decision-making at the top can boost performance in the short term, such a process degrades organisational capacity in the long term. Distributing leadership and decision-making is a process to help broaden the organisation's capacity to execute strategy.

The research suggests that effective strategy execution is more about seizing strategically aligned opportunities and developing organisation wide coordination in achieving goals. Emphasising these organisational aspects is regarded as key to effective strategy execution.[35]

QUESTION

Emphasising performance in developing strategy is considered essential by many managers. Explain why this may be a mistake.

CRITICAL ANALYSIS

1. Think of an industry known to you. Do an analysis of the environment it is facing in terms of Porter's five forces model.
2. An understanding of Porter's forces is unlikely to provide every answer to every question in every different environment, but it is a good platform on which to build particular strategies for particular situations. What additional factors might need to be considered?

9.3 Strategies used by organisations

LEARNING OBJECTIVE 9.3 What types of strategies are used by organisations?

The strategic management process encompasses the three levels of strategy shown in figure 9.5. Strategies are formulated and implemented at the organisational or corporate level, business level and functional level. All should be integrated in means–ends fashion to accomplish objectives and create sustainable competitive advantage.

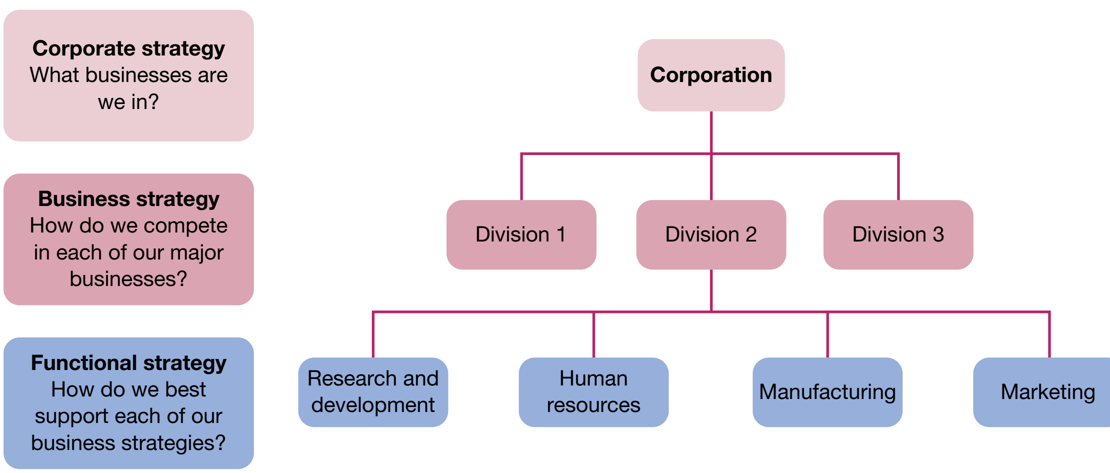


FIGURE 9.5 Levels of strategy in organisations

Levels of strategy

The level of **corporate strategy** directs the organisation as a whole towards sustainable competitive advantage. For a business it describes the scope of operations by answering the following question: In what industries and markets should we compete? The purpose of corporate strategy is to set direction and guide resource allocations for the entire enterprise. In large, complex organisations like General Electric (GE), corporate strategy identifies the different areas of business in which a company intends to compete. The organisation presently pursues business interests in aviation, home and businesses solutions, financial (capital) services, healthcare, energy and transportation, for example.[36] Typical strategic decisions at the corporate level relate to the allocation of resources for acquisitions, new business development, divestitures and so on across the business portfolio. Increasingly, corporate strategies for many businesses include an important role for global operations such as international joint ventures and strategic alliances.

Business strategy is the strategy for a single business unit or product line. It describes intent to compete within a specific industry or market. Large conglomerates such as GE, the biggest company in the world, are composed of many businesses, with many differences among them in product lines and even industries. The term **strategic business unit (SBU)** is often used to describe a single business or a component that operates with a separate mission within a larger enterprise. The selection of strategy at the business level involves answering the question: How are we going to compete for customers in this industry and market? Typical business strategy decisions include choices about product/service mix, the location of facilities and new technologies. In single-business enterprises, business strategy is the corporate strategy.

Functional strategy guides the use of organisational resources to implement business strategy. This level of strategy focuses on activities within a specific functional area of operations. Looking again at figure 9.5, the standard business functions of marketing, manufacturing, human resources, and research and development illustrate this level of strategy. The question to be answered in selecting functional strategies becomes: How can we best use resources to implement our business strategy? Answers to this question typically involve the choice of progressive management and organisational practices that improve operating efficiency, product or service quality, customer service or innovativeness.

Growth and diversification strategies

Traditionally one of the most common and popular of the grand or master strategies pursued by organisations at the corporate or business levels is growth.[37] **Growth strategies** pursue an increase in size and the expansion of current operations. They are popular in part because growth is viewed as necessary for long-term survival in some industries.

One approach to growth is through **concentration**, where expansion is within the same business area. The Bank of Queensland, for example, has pursued an aggressive market share growth strategy. It grew by increasing activity among existing customers and by attracting new customers, particularly in regional Queensland. The bank's traditional emphasis on personal service is central to its strategy.[38]

DIVERSITY

Overseas diasporas — more than just ethnic restaurants

A diasporic community is usually defined as a group of people who have been dispersed from their homeland. Diasporas are often thought of in connection with Jewish people, Irish, Chinese and many other ethnic and religious groups. Diasporas play an important role in many economies through mutually supportive business associations, remittances sent home to emigrants' families, trading relationships between host and home country, a source of investment for home countries and other benefits between host and home country, such as building bridges of cultural understanding, new skills and new technologies.[39] Remittances, for example, can be as much as half of a nation's GDP, as was the case of Tajikistan in 2015.[40]

Sometimes diasporas are seen negatively when loyalty to the host country is questioned, and the outflow of capital from host countries is seen as having a negative effect on the host economy. Business strategists, however, note that companies should pay attention to diasporas if they are to tap into potential benefits available from diverse communities in host countries.[41]

Business strategists are paying particular attention to the opportunity of borrowing technologies and knowledge from the host to develop new industries in the home country, and taking home country technologies and products and exporting them to the host country. An example of host-to-home transfer would be the business process outsourcing industry in India where some companies were established by diasporic business people using internet-based technology originally developed in advanced economies. Disapsoric business people establishing restaurants featuring their home country cuisine and importing food products from their home country are examples of home-to-host transfers.[42]

One way to encourage the transfer of technologies and knowledge between countries is for host country businesses to facilitate and encourage the development of business and professional networks among diasporic communities. The Australia Africa Business Council (AABC), African Professionals in Australia (APA) and the Council for Young Africans Living Abroad (CYALA) in Australia are examples of the kind of networks that build businesses opportunities between Africa and Australia. By organising trade conferences, facilitating trade missions, promoting investment opportunities, and providing networking opportunities, the AABC helps build trade and investment.[43] APA facilitates mentoring, scholarships, networking events, runs professional workshops and runs an annual awards program to build the African professional community in Australia.[44] In building the diasporic community, the host nation benefits by helping professionals realise their creative and vocational potential, thus positioning the professionals to facilitate knowledge and technology transfer between Africa and Australia.

Companies that recognise the potential to expand their business internationally through diasporic communities build an ethnically diverse workforce and encourage their members to participate in organisations such as the AAP and the CYALA. Businesses often join organisations such as the AABC as corporate members, to help inform their strategic expansion. Thus, diversity in the organisation becomes a key resource for strategic expansion.

QUESTION

Explain the different business strategies to harness the potential of diasporas from the host country and home country perspectives.

Another approach to growth is through **diversification**, where expansion takes place through the acquisition of, or investment in, new and sometimes different business areas. A strategy of *related diversification* involves growth by acquiring new businesses or entering business areas that are related to what the organisation already does. This strategy seeks the advantages of growth in areas that use core competencies and existing skills. For example, Coles Group Limited, now owned by Wesfarmers, has established a network of Officeworks superstores throughout Australia, including regional locations.[45] Although Officeworks specialises in office stationery and equipment and photocopying services, the business is related to Coles' expertise in the retail industry.

A corporate strategy of *unrelated diversification* involves growth by acquiring businesses or entering business areas that are different from what the organisation already does. For example, before the creation of St George Bank, which has since merged with Westpac, the organisation was a building society providing mortgages for home buyers. It acquired banking status in order to offer a full range of financial services to consumers and commercial customers. Optus, a telecommunications company, formed OptusTV in partnership with News Corporation's Foxtel, at one time dominating the pay television industry. Occasionally, a company will invest in a market that is completely unrelated to its current operations. For example, the US-based conglomerate ITT, which designs and manufactures telecommunication equipment, purchased the Sheraton Hotels chain and several banks and insurance companies. Similarly, General Electric has a large number of business units across a diverse range of industries, including heavy engineering, jet propulsion, lighting, finance and transport.

Diversification can also take the form of **vertical integration**, where a business seeks added value creation by acquiring suppliers (*backwards vertical integration*) or distributors (*forwards vertical* *integration*). In the car-making industry, backwards vertical integration has been common as firms purchased suppliers of key parts to ensure quality and control over their availability. In beverages, both Coca-Cola and PepsiCo have pursued forward vertical integration by purchasing some of their major bottlers.

There is a tendency to equate growth with effectiveness, but that is not necessarily true. Any growth strategy, whether by concentration or some form of diversification, must be well planned and well managed to achieve the desired results. Increased size of operation in any form adds challenge to the management process. Diversification, in particular, brings the difficulties of complexity and the need to manage and integrate very dissimilar operations. Research indicates that business performance may decline with too much unrelated diversification.[46]

Restructuring and divestiture strategies

When organisations experience performance problems, perhaps due to unsuccessful diversification, retrenchment of some sort often takes place. The most extreme **retrenchment strategy** is *liquidation*, when operations cease, owing to the complete sale of assets or the declaration of bankruptcy. Less extreme but still of potential dramatic performance impact is **restructuring**. This changes the scale and/or mix of operations in order to gain efficiency and improve performance. The decision to restructure can be difficult for managers to make because, at least on the surface, it seems to be an admission of failure. But in today's era of challenging economic conditions and environmental uncertainty, restructuring is used frequently and with new respect.

Restructuring is sometimes accomplished by **downsizing**, which decreases the size of operations with the intention of becoming more streamlined.[47] The expected benefits are reduced costs and improved operating efficiency. A common way to downsize is to cut the size of the workforce. Research has shown that such downsizing is most successful when the workforce is reduced in a way that allows for better focusing of resources on key performance objectives.[48] Retrenchment with a strategic focus is sometimes referred to as *rightsizing*. This contrasts with the less-well-regarded approach of simply cutting staff 'across the board'.

Restructuring by **divestiture** involves selling off parts of the organisation to refocus on core competencies, cut costs and improve operating efficiency. This is a common strategy for organisations that find they have become overdiversified and are encountering problems managing the complexity of diverse operations. It is also a way for organisations to take advantage of the value of internal assets by 'spinning off' or selling to shareholders a component that can stand on its own as an independent business. The Anglo-Australian company BHP Billiton sold off its steel-making operation, now known as Arrium Limited, in order to concentrate on the core revenue earner and strategic direction of the company: resource extraction. Steel making used to be important to the former BHP but became increasingly less important as global steel-making capacity outstripped demand and the world price fell. Low-cost competition from Japan, Korea, China and Taiwan further reduced the importance of BHP's steel-making operations.

Cooperation in business strategies

In recent years increasing globalisation and regionalisation of markets has led to the dramatic growth of cross-border cooperation between companies. The steady reduction of trade barriers has been accompanied by considerable economic turbulence and uncertainty in world markets, and the spread of a high degree of trade liberalisation in most countries of the world. A major response to this has been the growth of **strategic alliances** and other forms of cooperative strategy between companies, particularly in technology and marketing. For Porter and Fuller, the basic motivation for an alliance is that: 'Coalitions that arise when performing a value chain activity with a partner are superior to any other way . . . Coalitions can be a valuable tool in many aspects of global strategy, and the ability to exploit them will be an important source of international advantage.'[49]

In the chapter on the global dimensions of management, *international joint ventures* were discussed as a common form of international business; they constitute one among many forms of strategic alliance. For example, in the airline industry most companies have entered into some form of strategic marketing alliance. Qantas, British Airways, Cathay Pacific and American Airlines established oneworld Alliance to give customers seamless access to global routes covering much of the Western world. A further eleven companies — including LAN, Japan Airlines and Royal Jordanian Airlines — have since joined the alliance, working with the other companies to give customers a better service.[50]

In the television broadcasting industry, the British Broadcasting Corporation (BBC) and the Public Broadcasting Service (PBS) in the United States jointly produce numerous documentaries and dramas in order to share production costs and gain access to larger audiences. Similar alliances have been formed between the BBC and Discovery Channel. The Australian Broadcasting Corporation (ABC) and the BBC have jointly produced programs for use in both home markets and overseas.

Another way to cooperate strategically is through outsourcing alliances — contracting to purchase important services from another organisation. Many organisations are outsourcing their payroll, recruitment, information technology and security functions to specialised companies. This is often driven by a combination of motives — the desire to reduce costs and to gain access to expertise that does not exist within the company. Supplier alliances, in which preferred supplier relationships ensure a smooth and timely flow of supplies among alliance partners, stem from cooperation in the supply chain. For example, car manufacturers such as General Motors and Ford relied on multisourcing during much of the 20th century, but in the 1980s began to develop supplier alliances which were necessary for their just-in-time (JIT) production systems and to guarantee improved component quality.[51]

Distribution alliances are another cooperative approach. These involve organisations joining together to accomplish product or service sales and distribution. For example, Telstra in Australia and Cisco Systems in the United States have an alliance to jointly market internet services to business customers. In Europe, the French electronics manufacturer Thomson and Japan's Matsushita established an alliance in the 1990s whereby Thomson would use its European marketing and sales network to sell the Japanese company's electrical products. Thomson possessed expert knowledge of the European market, and Matsushita had considerable expertise in efficient production of televisions, video recorders and music systems for a mass market.

E-business strategies

Without a doubt, one of the most frequently asked questions these days for the business executive is: 'What is your **e-business strategy**?' This is the strategic use of the internet to gain competitive advantage.

Popular e-business strategies involve B2B (business-to-business) and B2C (business-to-customer) applications. *B2B business strategies* involve the use of IT and the internet to vertically link organisations with members of their supply chains. One of the interesting developments in this area involves the use of online auctions as a replacement for preferred supplier relationships and outsourcing alliances. Organisations can now go to the internet to participate in auction bidding for supplies of many types. Whether small or large in size they immediately have access to potential suppliers competing for their attention from around the world.

B2C business strategies use IT and the internet to link organisations with their customers. A common B2C strategy is e-tailing; that is, the sale of goods directly to customers via the internet. For some organisations, e-tailing is all that they do; these are 'new economy' organisations and the business strategy is focused entirely on internet sales — examples include Amazon.com, priceline.com and Dell.com. For others who are part of the traditional or 'old economy', e-tailing has been added as a component in their business strategy mix — including David Jones, Coles, Woolworths, ANZ and BNZ. By way of further introduction, Manager's notepad 9.2 lists some of the web-based business models now being tried.[52]

MANAGER'S NOTEPAD 9.2

Web-based business models

1. *Brokerage* — bringing buyers and sellers together to make transactions (e.g. eBay).
2. *Advertising* — providing information or services while generating revenue from advertising (e.g. Facebook).
3. *Merchant model* — selling products wholesale and retail through the web, e-tailing (e.g. Alibaba).
4. *Subscription model* — selling access to the site through subscription (e.g. *Australian Financial Review*).
5. *Infomediary model* — collecting information about users and selling to other businesses (e.g. ePinions.com).
6. *Community model* — supporting site by donations from a community of users (e.g. Wikipedia).
7. *Manufacturer or direct model* — creating a product or service and reaching buyers directly (e.g. Dell).
8. *Affiliate* — providing purchasing opportunities wherever people may be browsing, while offering a percentage of revenue to affiliated partners sites (e.g. Amazon).
9. *Utility or on-demand model based on metering usage* — requiring customers to 'pay as you go' (e.g. Slashdot).

CRITICAL ANALYSIS

1. If growth through acquisition is a strategy, along with backwards or forwards vertical integration, and diversification is the 'horizontal' counterpart, what is the place of 'creative destruction' — where a deliberate 'demolish and rebuild' strategy is embarked upon?
2. When should vertical integration *not* be used as a strategy, independent of the merits of other strategic options?
3. What strategies emerged during the global financial crisis and subsequent economic downturn? Were they successful? What have we learned as a result about strategy?

9.4 Strategy formulation

LEARNING OBJECTIVE 9.4 How are strategies formulated?

Michael Porter says: 'The company without a strategy is willing to try anything'.[53] With a good strategy in place, on the other hand, the resources of the entire organisation can be focused on the overall goal — superior profitability or above-average returns. Whether one is talking about building e-business strategies for the new economy or crafting strategies for more traditional operations, it is always important to remember this goal and the need for **sustainable competitive advantage**. The major *opportunities for competitive advantage* are found in the following areas, which should always be considered in the strategy formulation process:[54]

1. *cost and quality* — where strategy drives an emphasis on operating efficiency and/or product or service quality
2. *knowledge and speed* — where strategy drives an emphasis on innovation and speed of delivery to market for new ideas
3. *barriers to entry* — where strategy drives an emphasis on creating a market stronghold that is protected from entry by others
4. *financial resources* — where strategy drives an emphasis on investments and/or loss sustainment that competitors can't match.

Importantly, any advantage gained in today's global and information-age economy of intense competition must always be considered temporary, at best. Things change too fast. Any advantage of the moment will sooner or later be eroded as new market demands, copycat strategies and innovations by rivals take their competitive toll over time.[55] The challenge of achieving sustainable competitive advantage is thus a dynamic one. Strategies must be continually revisited, modified and changed if the organisation is to keep pace with changing circumstances. Formulating strategy to provide overall direction for the organisation thus becomes an on-going leadership responsibility.[56]

Fortunately, a number of strategic planning models or approaches are available to help executives in the strategy formulation process. At the business level, one should understand Porter's generic strategies model and product lifecycle planning. At the corporate level, it is helpful to understand portfolio planning, adaptive strategies and incrementalism and emergent strategies.

Porter's generic strategies

Michael Porter's five forces model for industry analysis was introduced earlier. Use of the model helps answer the question: Is this an attractive industry for us to compete in? Within an industry, however, the initial strategic challenge becomes positioning your organisation and products relative to competitors. The strategic question becomes: How can we best compete for customers in this industry?[57] Porter advises managers to answer this question by using his generic strategies framework shown in figure 9.6.

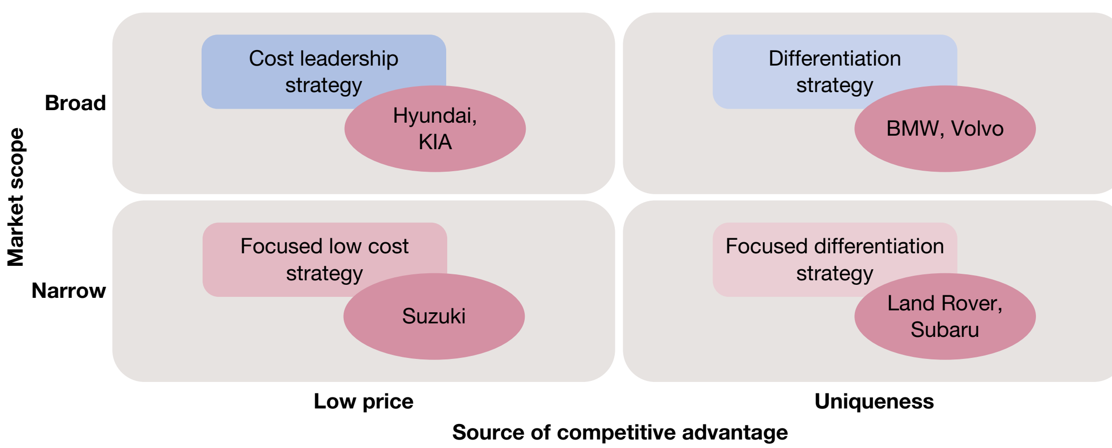


FIGURE 9.6 Porter's generic strategies framework: motor vehicle industry examples

According to Porter, business-level strategic decisions are driven by two basic factors: (1) *market scope* — ask: 'How broad or narrow is your market target?' and (2) *source of competitive advantage* — ask: 'How will you compete for competitive advantage, by lower price or product uniqueness?' As shown in the figure, these factors combine to create the following four generic strategies that organisations can pursue. The examples in the figure are of competitive positions within the motor vehicle industry:

1. *differentiation* — where the organisation's resources and attention are directed towards distinguishing its products from those of the competition (e.g. BMW, Volvo)
2. *cost leadership* — where the organisation's resources and attention are directed towards minimising costs to operate more efficiently than the competition (e.g. Hyundai, KIA)
3. *focused differentiation* — where the organisation concentrates on one special market segment and tries to offer customers in that segment a unique product (e.g. Land Rover, Subaru)
4. *focused cost leadership* — where the organisation concentrates on one special market segment and tries in that segment to be the provider with lowest costs (e.g. Suzuki).

Organisations pursuing a **differentiation strategy** seek competitive advantage through uniqueness. They try to develop goods and services that are clearly different from those made available by the competition. The objective is to attract customers who become loyal to the organisation's products and lose interest in those of competitors. This strategy requires organisational strengths in marketing, research and development, technological leadership and creativity. It is highly dependent for its success on continuing customer perceptions of product quality and uniqueness. An example in the apparel industry is Polo Ralph Lauren, retailer of upscale classic fashions and accessories.

Organisations pursuing a **cost leadership strategy** try to continuously improve the operating efficiencies of production, distribution and other organisational systems. The objective is to have lower costs than competitors and therefore achieve higher profits. This requires tight cost and managerial controls as well as products that are easy to manufacture and distribute. Of course, quality must not be sacrificed in the process. In fast food, McDonald's remains the most cost-effective operation of its type through preferential bulk-purchasing agreements with suppliers, de-skilled and often automated in-house operations, and large customer volume providing economies of scale. It also uses one of the youngest and least expensive labour forces. It pays the minimum wage and keeps most staff on part-time or casual employment, thereby escaping government requirements to pay superannuation and other statutory full-time entitlements.[58]

Since its inception in the early 1990s, Aussie Home Loans has captured a small but significant share of the Australian mortgage market from the traditional lenders — banks and building societies — through keeping its costs low and passing these savings on to the consumer. Its low overheads and younger staff profile have been key ingredients of its low-cost strategy. The company has since applied this low-cost strategy to additional product offerings including car and personal loans, credit cards and insurance. Interestingly, since 2012, the Commonwealth Bank has owned 80 per cent of the company.[59]

Organisations pursuing a **focused differentiation strategy** or a **focused cost leadership strategy** concentrate attention on a special market segment with the objective of serving its needs better than anyone else. The strategies focus organisational resources and expertise on a particular customer group, geographical region or product or service line. They seek to gain competitive advantage in product differentiation or cost leadership. Importantly, focused strategies require willingness to concentrate and the ability to use resources to special advantage in a single area.

Product life cycle planning

Another way to consider the dynamic nature of business strategy formulation is in terms of **product life cycle**. This is a series of stages a product or service goes through in the 'life' of its marketability (see figure 9.7). In terms of planning, different business strategies are needed to support products in the life-cycle stages of *new product development*, *introduction, growth, maturity* and *decline*.[60] Products in the new product development, introduction and growth stages lend themselves to differentiation strategies. They require investments in market research, product development and advertising in order to establish a product, market presence and customer base. In the maturity stage, the emphasis shifts towards keeping customers and gaining production efficiencies. This may involve focused and an attempt at cost leadership. These strategies may hold initially as the product moves into decline. But at some point, strategic planners must seek new ways to extend product life.

Understanding product life cycles and adjusting strategy accordingly is an important business skill. Especially in dynamic times, managers need to recognise when a product life cycle is maturing. They should have contingency plans for dealing with potential decline, and they should be developing alternative products with growth potential. Consider what happened at IBM, an organisation that dominated the market for large mainframe computers for years. As customers began to use more powerful and smaller PCs, the mainframe became less important to their operating systems. When the mobile phone industry was starting to use new digital technologies, Motorola continued to emphasise its successful, but older, analogue products. Both IBM's and Motorola's top managers failed to properly consider industry trends. Their companies lost momentum against very aggressive competitors such as Hewlett-Packard, Compaq and Dell in the computer industry and Nokia and Ericsson and in the mobile phone industry.

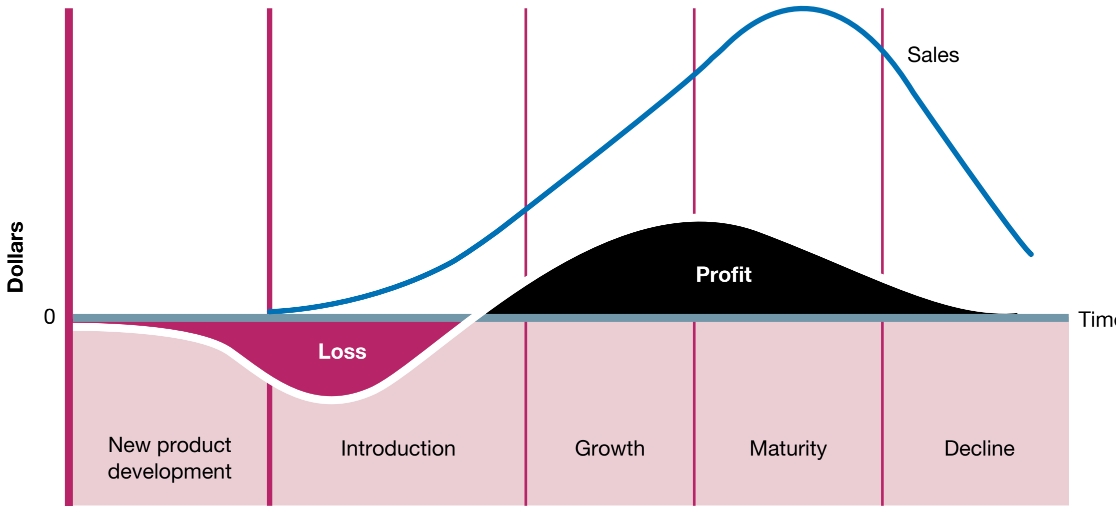


FIGURE 9.7 The product life cycle

INNOVATION

The last mover advantage

Management strategists are usually on the lookout for innovations and new opportunities so that their organisation can achieve a first mover advantage. The first mover in a new market can usually help to define the parameters of the new market and can achieve high brand awareness to the point where the brand name is also the name of the new innovation. For example, Walkman or Fitbit are product names that have often been associated with a family of products as they were seen as the first famous brands in that family.

However, Moore's law would seem to suggest that first mover advantage can be quickly lost by advancing technology. Gordon Moore originally observed in 1965 that the number of transistors in a dense integrated circuit doubles approximately every two years. This 'law' has now come to describe the driving force of technological advancement, with the initial observation equated with the doubling of computer chip performance every two years or so.[61] While these same improving conditions give rise to an innovation that you may be able to capture, the conditions also suggest that your success as a first mover is at risk from others who develop later. WhatsApp, for example, rose quickly, but its successors rose just as quickly due to constant innovation in the environment.[62] Thus, because advances in technology are so rapid, first mover advantage can be lost rapidly as the new innovation replaces the old.

WhatsApp and other innovations also taught businesses to chase users rather than consumers. WhatsApp started out in 2009 and in 2014 Facebook acquired the company for approximately US$19 billion. At that time, WhatsApp had about 500 million active monthly users, but the company had almost no revenue from its operations. Thus, the company was sold for US$19 billion with 500 million users but almost no customers.[63]

This move to chase users rather than customers has been associated with 'Metcalf's law'.[64] In 1980, when discussing the ethernet, Robert Metcalf suggested that the value of a telecommunications network is proportional to the square of the number of connected compatible devices using the system.[65]

Today this law is understood in relation to the 'users' of a system, hence WhatsApp could be valued in relation to its users rather than paying customers.These examples serve to demonstrate that those who are first to market with an innovation are not always the market share winners. Innovation is a continual evolving process that requires a dynamic approach to strategy in order to successfully turn ideas into profit.

QUESTION

What implications does Moore's law have for companies planning to invest in research and development? Why, or why not, is it worth including research and development in your strategic plan?

Portfolio planning

In a single-product or single-business organisation the strategic context is one industry. Corporate strategy and business strategy are the same, and resources are allocated on that basis. When organisations move into different industries, resulting in multiple product or service offerings, they become internally more complex and often larger in size. This makes resource allocation a more challenging strategic management task, since the mix of businesses must be well managed. The strategy problem is similar to that faced by an individual with limited money who must choose between alternative shares, bonds and real estate in a personal investment portfolio. In multi-business situations, strategy formulation also involves **portfolio planning** to allocate scarce resources among competing uses.[66]

BCG matrix

Figure 9.8 summarises an approach to business portfolio planning developed by the Boston Consulting Group and known as the **BCG matrix**. This framework ties strategy formulation to an analysis of business opportunities according to industry or market growth rate and market share.[67] This comparison results in the following four possible business conditions, with each being associated with a strategic implication: *stars* — high market share, high-growth businesses; *cash cows* — high market share, low-growth businesses; *question marks* — low market share, high-growth businesses; and *dogs* — low market share, low-growth businesses.

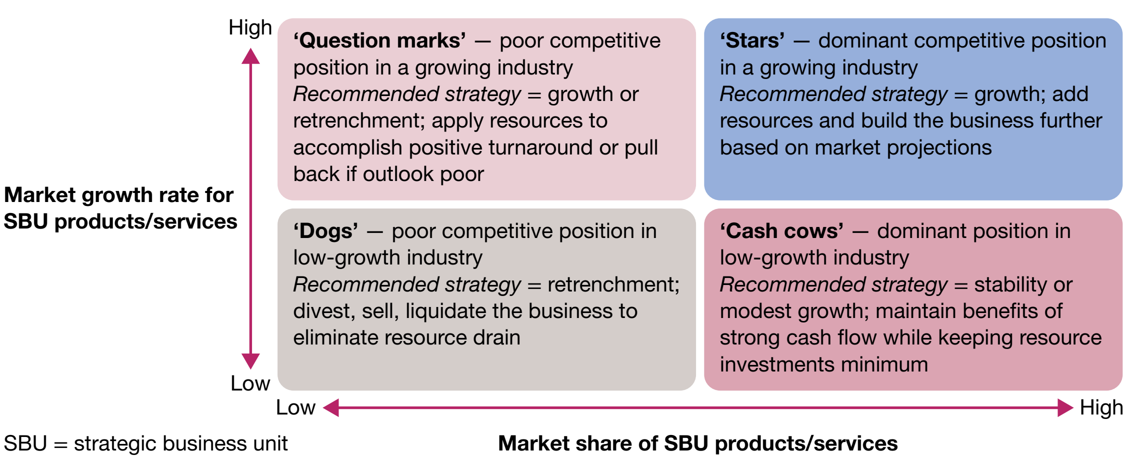


FIGURE 9.8 The BCG matrix approach to corporate strategy formulation

Stars are high market share businesses in high-growth markets. They produce large profits through substantial penetration of expanding markets. The preferred strategy for stars is growth, and further resource investments in them are recommended. *Question marks* are low market share businesses in high-growth markets. They do not produce much profit but compete in rapidly growing markets. They are the source of difficult strategic decisions. The preferred strategy is growth, but the risk exists that further investments will not result in improved market share. Only the most promising question marks should be targeted for growth; others are restructuring or divestiture candidates. *Cash cows* are high market share businesses in low-growth markets. They produce large profits and a strong cash flow. Because the markets offer little growth opportunity, the preferred strategy is stability or modest growth. 'Cows' should be 'milked' to generate cash that can be used to support needed investments in stars and question marks. *Dogs* are low market share businesses in low-growth markets. They do not produce much profit, and they show little potential for future improvement. The preferred strategy for dogs is retrenchment by divestiture.

General electric (GE) business screen

The appeal of portfolio planning is its ability to help managers focus attention on the comparative strengths and weaknesses of multiple businesses and/or products. Although the BCG matrix is easy to understand and use, it is criticised for limiting attention to only market share and business growth. Business situations are more complex than that. At GE, for example, corporate strategy must achieve the best allocation of resources among the mix of some 150-plus businesses owned by the conglomerate at any point in time. The businesses operate in very different environments, use different business models, and have different competitive advantages. What is known as the **GE Business Screen**, shown in figure 9.9, was developed as an alternative portfolio planning framework. In fact, GE became famous under the leadership of former CEO Jack Welch for following a rigorous decision rule in strategic planning — either a business is or has the potential to be number 1 or number 2 in its industry, or it is removed from the GE portfolio.

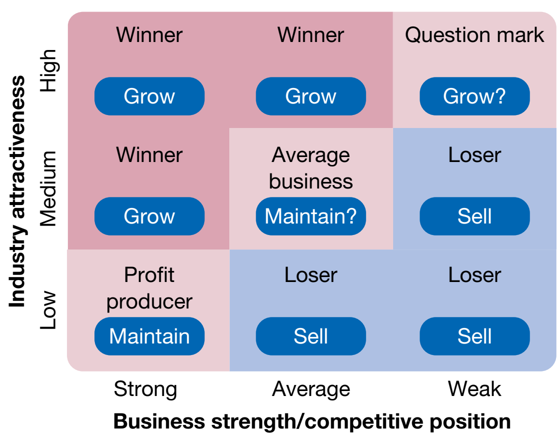


FIGURE 9.9 The GE Business Screen as a portfolio planning framework

In the GE Business Screen, the key planning dimensions are business strength and industry attractiveness.[68] Each is analysed on multiple factors similar to a SWOT analysis. Industry attractiveness is considered in terms of market size and growth, capital requirements and competitive intensity. Business strength or competitive position is assessed not only on market share but also on things such as technological advantage, product quality, operating costs and price competitiveness. The resulting nine-cell matrix allows for a finer classification of business units as 'winners', 'question marks', 'average businesses', 'profit producers' or 'losers'. The recommended strategic directions are to invest for growth in winners and question marks, maintain or stabilise average businesses and profit producers, and retrench or sell losers.

Adaptive strategies

The Miles and Snow adaptive model of strategy formulation suggests that organisations should pursue product/market strategies congruent with their external environments.[69] A well-chosen strategy, in this sense, allows an organisation to successfully adapt to environmental challenges. The *prospector strategy* involves pursuing innovation and new opportunities in the face of risk and with prospects for growth. This is best suited to a dynamic and high-potential environment. A prospector 'leads' an industry by using existing technology to new advantage and creating new products to which competitors must respond. This contrasts with a *defender strategy*, in which an organisation avoids change by emphasising existing products and current market share without seeking growth. Defence as a strategy is suited only for a stable environment and perhaps declining industries. Defenders, as do many small local retailers, try to maintain their operating domains with only slight changes over time. As a result, many suffer long-term decline in the face of competition.

The *analyser strategy* seeks to maintain the stability of a core business while exploring selective opportunities for innovation and change. This strategy lies between the prospector and reactor strategies. It is a 'follow-the-leader-when-things-look-good' approach. Many of the 'clone' makers in the personal computer industry are analysers; that is, they wait to see what the industry leaders do and how well it works out before modifying their own operations. Organisations pursuing a *reactor strategy* are mainly responding to competitive pressures in order to survive. This is a 'follow-as-last-resort' approach. Reactors do not have long-term and coherent strategies. Some public utilities and other organisations operating under government regulation may use this strategy to some extent.

Incrementalism and emergent strategy

Not all strategies are clearly formulated at one point in time and then implemented step by step. Not all strategies are created in systematic and deliberate fashion and then implemented as dramatic changes in direction. Instead, strategies sometimes take shape, change and develop over time as modest adjustments to past patterns. James Brian Quinn calls this a process of *incrementalism*, whereby modest and incremental changes in strategy occur as managers learn from experience and make adjustments.[70] This approach has much in common with Henry Mintzberg's and John Kotter's descriptions of managerial behaviour, as described in chapter 1.[71] They view managers as planning and acting in complex interpersonal networks and in hectic, fast-paced work settings. Given these challenges, effective managers must have the capacity to stay focused on long-term objectives while still remaining flexible enough to master short-term problems and opportunities as they occur.

Such reasoning has led Mintzberg to identify what he calls **emergent strategies**.[72] These are strategies that develop progressively over time as 'streams' of decisions made by managers as they learn from and respond to work situations. There is an important element of 'craftsmanship' here that Mintzberg worries may be overlooked by managers who choose and discard strategies in rapid succession while using the formal planning models. He also believes that incremental or emergent strategic planning allows managers and organisations to become really good at implementing strategies, not just formulating them.

CRITICAL ANALYSIS

1. Aren't all strategies 'adaptive'? What would distinguish others?
2. GE successfully chose to reduce costs and improve efficiency, while pulling out of businesses where it wasn't the number 1 or 2 player.[73] What strategies were being used here? As business conditions improve, and companies outsource more of their IT needs, what strategies are open to GE?

9.5 Strategy implementation

LEARNING OBJECTIVE 9.5 What are current issues in strategy implementation?

No strategy, no matter how well formulated, can achieve longer term success if it is not properly implemented. This includes the willingness to exercise control and make modifications as required to meet the needs of changing conditions. More specifically, current issues in strategy implementation include re-emphasis on excellence in all management systems and practices, the responsibilities of corporate governance, and the importance of strategic leadership.

Management practices and systems

The rest of *Management* is all about strategy implementation. In order to successfully put strategies into action the entire organisation and all its resources must be mobilised in support of them. This, in effect, involves the complete management process from planning and controlling through organising and leading. No matter how well or elegantly selected, a strategy requires supporting structures, the right technology, a good allocation of tasks and workflow designs, and the right people to staff all aspects of operations. The strategy needs to be enthusiastically supported by leaders who are capable of motivating everyone, building individual performance commitments, and using teams and teamwork to best advantage. And the strategy needs to be well and continually communicated to all relevant persons and parties. Only with such total systems support can strategies succeed in today's environments of change and innovation.

Common strategic planning pitfalls that can hinder implementation include both failures of substance and failures of process. *Failures of substance* reflect inadequate attention to the major strategic planning elements — analysis of mission and purpose, core values and corporate culture, organisational strengths and weaknesses, and environmental opportunities and threats. *Failures of process* reflect poor handling of the ways in which the various aspects of strategic planning were accomplished. An important process failure is the *lack of participation error*. This is failure to include key people in the strategic planning effort.[74] As a result, their lack of commitment to all-important action follow-through may severely hurt strategy implementation. Process failure also occurs with too much centralisation of planning in top management or too much delegation of planning activities to staff planners or separate planning departments. Another process failure is the tendency to get so bogged down in details that the planning process becomes an end in itself instead of a means to an end. This is sometimes called 'goal displacement'.

Recent research on strategy implementation has identified that information flow and decision rights are two of the most important drivers in strategy execution.[75] Clarification on what decisions and actions each person in the organisation is responsible for is one of the most important factors in strategy implementation. Also, in terms of decision rights, once decisions are made they should only rarely be second-guessed, as second-guessing tends to slow down implementation. In terms of information flow, information about the competitive environment must flow to headquarters quickly and information must flow freely across organisational boundaries.

Corporate governance

Organisations today are experiencing new pressures at the level of **corporate governance**, especially since the spate of high-profile corporate collapses in the past decade. Corporate governance is the system of control and performance monitoring of top management that is maintained by boards of directors and other major stakeholder representatives. In businesses, for example, corporate governance is enacted by boards, institutional investors in a company's assets, and other ownership interests. Each in its own way is a point of accountability for top management.[76] The trend towards strategic alliances within and between industries raises new issues for corporate governance.[77]

Boards of directors are formally charged with ensuring that an organisation operates in the best interests of its owners and/or the representative public in the case of not-for-profit organisations. Controversies often arise over the role of *inside directors*, who are chosen from the senior management of the organisation, and *outside directors*, who are chosen from other organisations and positions external to the organisation. In the past, corporate boards may have been viewed as largely endorsing or confirming the strategic initiatives of top management. Today they are increasingly expected to exercise control and take active roles in ensuring that the strategic management of an enterprise is successful.

If anything, the current trend is towards greater emphasis on the responsibilities of corporate governance. Top managers probably feel more accountable for performance than ever before to boards of directors and other stakeholder interest groups. Furthermore, this accountability relates not only to financial performance but also to broader social responsibility concerns.[78]

Strategic leadership

Strategic management is a leadership responsibility. Effective strategy implementation and control depends on the full commitment of all managers to supporting and leading strategic initiatives within their areas of supervisory responsibility. To successfully put strategies into action, the entire organisation and all its resources must be mobilised in support of them. In our dynamic and often uncertain environment, the premium is on **strategic leadership** — the capability to enthuse people to successfully engage in a process of continuous change, performance enhancement and implementation of organisational strategies.[79]

Porter argues that the managing director or CEO of an organisation has to be the chief strategist, someone who provides strategic leadership.[80] He describes the task in the following way: a strategic leader has to be the *guardian of trade-offs*. It is the leader's job to make sure that the organisation's resources are allocated in ways consistent with the strategy. This requires the discipline to sort through many competing ideas and alternatives to stay on course and not get sidetracked. A strategic leader also needs to *create a sense of urgency*, not allowing the organisation and its members to grow slow and complacent. Even when doing well, the leader keeps the focus on getting better and being alert to conditions that require adjustments to the strategy. A strategic leader needs to *make sure that everyone understands the strategy*. Unless strategies are understood, the daily tasks and contributions of people lose context and purpose. Everyone might work very hard, but without alignment to strategy the impact is dispersed rather than advancing in a common direction to accomplish the goals. Importantly, a strategic leader must *be a teacher*. It is the leader's job to teach the strategy and make it a 'cause', says Porter. In order for strategy to work it must become an ever present commitment throughout the organisation. People must understand the strategy that makes their organisation different from others. This means that a strategic leader must *be a great communicator*.

Finally, it is important to note that the challenges faced by organisations today are so complex that it is often difficult for one individual to fulfil all strategic leadership needs. Strategic management in large firms is increasingly viewed as a team leadership responsibility. It takes hard work and special circumstances to create a real team — at the top or anywhere else in the organisation.[81] Top management teams must work up to their full potential in order to bring the full advantages of teamwork to strategic leadership.

CRITICAL ANALYSIS

1. Think of a company that responded proactively to the economic downturn. Were they successful?
2. Is the process of strategic planning the critical element in an effective strategy, and is it perhaps even as important as the strategy itself? Justify your answer.

SUMMARY

9.1 What are the foundations of strategic competitiveness?

- Competitive advantage is achieved by operating in ways that are difficult for competitors to imitate.
- A strategy is a comprehensive plan that sets long-term direction and guides resource allocation to achieve sustainable competitive advantage.
- The strategic goals of a business should include superior profitability and the generation of above-average returns for investors.
- Strategic thinking involves the ability to understand the different challenges of monopoly, oligopoly and hypercompetition environments.

9.2 What is strategic management?

- Strategic management is the process of formulating and implementing strategies that achieve organisational goals in a competitive environment.
- The strategic management process begins with analysis of mission, clarification of core values and identification of objectives.
- A SWOT analysis systematically assesses organisational resources and capabilities and industry/environmental opportunities and threats.
- Porter's five forces model analyses industry attractiveness in terms of competitors, new entrants, substitute products and the bargaining power of suppliers and buyers.

9.3 What types of strategies are used by organisations?

- Corporate strategy sets direction for an entire organisation; business strategy sets direction for a business division or product/service line; functional strategy sets direction for the operational support of business and corporate strategies.
- The grand or master strategies used by organisations include growth — pursuing expansion; retrenchment — pursuing ways to scale back operations; stability — pursuing ways to maintain the status quo; and combination — pursuing the strategies in combination.

9.4 How are strategies formulated?

- The three options in Porter's model of competitive strategy are: differentiation — distinguishing your products from the competition; cost leadership — minimising costs relative to the competition; and focus — concentrating on a special market segment.
- The product lifecycle model focuses on different strategic needs at the introduction, growth, maturity and decline stages of a product's life.
- The BCG matrix is a portfolio planning approach that classifies businesses or product lines as 'stars', 'cash cows', 'question marks' or 'dogs'.
- The adaptive model focuses on the congruence of prospector, defender, analyser or reactor strategies with demands of the external environment.
- The incremental or emergent model recognises that many strategies are formulated and implemented incrementally over time.

9.5 What are current issues in strategy implementation?

- Management practices and systems — including the functions of planning, organising, leading and controlling — must be mobilised to support strategy implementation.
- Among the pitfalls that inhibit strategy implementation are failures of substance, such as poor analysis of the environment, and failures of process, such as lack of participation in the planning process.
- Corporate governance, involving the role of boards of directors in the performance monitoring of organisations, is an important element in strategic management today.
- Strategic leadership involves the ability to manage trade-offs in resource allocations, maintain a sense of urgency in strategy implementation, and effectively communicate the strategy to key constituencies.
- Increasingly, organisations use top management teams to energise and direct the strategic management process.

KEY TERMS

Above-average returns exceed what could be earned from alternative investments of equivalent risk.
The **BCG matrix** analyses business opportunities according to market growth rate and market share.
A **business strategy** identifies how a division or strategic business unit will compete in its product or service domain.
A **competitive advantage** allows an organisation to deal with market and environmental forces better than its competitors.
Growth through **concentration** is within the same business area.
Core competencies are special strengths that give an organisation a competitive advantage.
Corporate governance is the system of control and performance monitoring of top management.
A **corporate strategy** sets long-term direction for the total enterprise.
A **cost leadership strategy** seeks to operate with lower costs than competitors.
A **differentiation strategy** offers products that are unique and different from the competition.
Growth through **diversification** is by acquisition of or investment in new and different business areas.
Divestiture sells off parts of the organisation to focus attention and resources on core business areas.
Downsizing or retrenchment decreases the size of operations with the intention of becoming more streamlined.
An **e-business strategy** strategically uses the internet to gain competitive advantage.
Emergent strategies develop over time as managers learn from and respond to experience.
A **focused cost leadership strategy** seeks the lowest costs of operations within a special market segment.
A **focused differentiation strategy** offers a unique product to a special market segment.
A **functional strategy** guides activities within one specific area of operations.
The **GE Business Screen** analyses business strength and industry attractiveness for strategy formulation.
Growth strategies involve expansion of the organisation's current operations.
The **mission** is the organisation's reason for existence in society.
Operating objectives direct activities towards specific performance results.
Organisational culture is the system of shared beliefs and values that develops within an organisation and guides the behaviour of its members.
A **portfolio planning** approach seeks the best mix of investments among alternative business opportunities.
Product life cycle is the series of stages a product or service goes through in the 'life' of its marketability.
Restructuring changes the scale and/or mix of operations to gain efficiency and improve performance.
A **retrenchment strategy** involves reducing the scale of current operations.
Stakeholders are individuals, groups and institutions directly affected by an organisation's performance.
In **strategic alliances** organisations join together in partnership to pursue an area of mutual interest.
A **strategic business unit (SBU)** is a major business area that operates with some autonomy.
Strategic intent focuses and applies organisational energies on a unifying and compelling goal.
Strategic leadership enthuses people to continuously change, refine and improve strategies and their implementation.
Strategic management is the process of formulating and implementing strategies.
A **strategy** is a pattern in a stream of organisational decisions.
Strategy formulation is the process of creating strategies.
Strategy implementation is the process of putting strategies into action.
Sustainable competitive advantage exists through realising cost and quality, knowledge and speed, creating a market stronghold and protecting financial resources.

A **SWOT analysis** examines organisational strengths and weaknesses and environmental opportunities and threats.

Growth through **vertical integration** is by acquiring suppliers or distributors.

APPLIED ACTIVITIES

1. What is the difference between corporate, business and operational strategies?
2. What are the advantages of performing a SWOT analysis?
3. Why are European organisations leading the world in their approach to sustainable business?
4. Why is strategic leadership important to organisations?
5. Allie Haroum is the owner of a small independent café in Sydney. Her café serves the local inner-city area, which has an increasing number of female office workers. She sells high-quality European and Middle Eastern food. A large food court has just opened across the street from her store. It sells American and Australian fast food at lower prices. It is a no-frills operation and its lower prices are attracting business away from Allie's café. Assume you are part of a student team assigned to do a management class project for Allie. Her question for the team is: 'How can I apply Porter's generic business strategies to better deal with my strategic planning challenges in this situation?' How will you reply?

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CHAPTER 10

Organising

LEARNING OBJECTIVES

10.1 What is organising as a management function?
10.2 What are the major types of organisation structures?
10.3 What are the essentials of organisational design?
10.4 How do contingency factors influence organisational design?
10.5 What are the new developments in organisation structures and operating systems?
10.6 What are the major issues in subsystems design?
10.7 What organising trends are changing the workplace?

The 'no manager' company: how does it work?

Imagine a company where there are no managers, no-one has a private office, there is no clear organisation structure, and employees choose who they work with, what projects they work on and what hours they work. Perhaps this sounds like an ideal workplace for you, or maybe it sounds like chaos.

It may be a surprise to know that this is the organisational approach of one of the world's largest computer games design and social entertainment platform companies. The company is Valve and is famous for games series such as Half-Life, Left 4 Dead, Counterstrike, Portal and Team Fortress. They are also responsible for Steam, which is the world's largest online gaming platform with over 35 million active users. The game engine Source is also part of the Valve Corporation's stable of products and services.[1]

So with no managers to plan, lead, control and organise, how does the company achieve its enviable record of growth and innovation? The short answer is that they hire the right people and work together to develop a corporate culture that rewards performance and innovation. In reality, however, the answer is more complex.[2]

The kind of person that Valve looks to employ is someone with a broad range of skills, including the ability to work effectively in teams, coupled with expertise in a more narrow field. These could be called 'T–shaped' people, with the horizontal line of the 'T' representing generalist breadth in terms of teamwork and customer orientation and the vertical line representing narrow skill depth in areas such as programming or digital art. Most importantly, however, the person must have a passion for what they do, so that motivation comes largely from within rather than from external sources. Valve hires staff from around the world, and because they have such a large fan base of active gamers who interact in online forums, attend conventions and create modifications for games, they have no shortage of suitable applicants knocking on their electronic door every day.[3]

To build the right organisational culture, the company issues each new employee with *The Valve Handbook for New Employees*. The handbook reads a little like a 'game guide' and is structured around frequently asked questions and explains how the company performance reward system works, the history of the company, how they can move their desk on wheels, how to prepare for the annual company vacation and how they can participate in choosing the next group of new employees.[4]

The company *does* have a structure, which is based around multidisciplinary project teams called cabals. The teams exist to ship products to consumers and the 'lead' person for each team emerges rather than being appointed by an external authority. Temporary structures that set expectations on deadlines, roles and tasks do emerge, but these exist only as long as is needed. Some former employees have criticised this as being a little like high school, with hints of bullying, and a clear line of the 'in-group' separating the 'out-group'.[5]

While there may be some healthy scepticism that the flat organisational structure of Valve is really as flat as claimed, the reality is that the company is a leader in innovative games design and games delivery. The company is growing with over 330 employees, however, there are sometimes struggles to agree on who the next new employee should be. In attempting to emphasise company culture over structure Valve may be having some success, but the company's continued growth may eventually limit this approach. Problems are emerging as customers complain that their favourite game is not receiving enough development focus but it remains to be proven whether this is related to the employees' freedom to choose the projects they work on. The development of the company, however, remains a challenge to traditional ways of thinking about company structure and may be an indication of the direction of companies of the future.[6]

QUESTION

Do you think that having no designated managers in an organisation is a good or bad idea? Justify your perspective.

Introduction

Valve's structure challenges long-held ideas that management and managers are essential to an organisation's success. On closer examination, however, is appears that, although there are no employees with the title of 'manager', the company does have a structure and a culture that fulfils the management function or organising.

The Canadian management scholar and consultant Henry Mintzberg is well known internationally for his work in the area of strategy and structure. Writing with a colleague in the *Harvard Business Review*, he points out that organisations are changing very quickly in today's world and that the people within them are struggling to find their place.[7] The point is, people need to understand how their organisations work if they are to work well within them. Mintzberg notes some common questions: What parts connect to one another? How should processes and people come together? Whose ideas have to flow where? These and related questions raise critical issues about organisation structures and how well they meet an organisation's performance needs.

Among the vanguard organisations — those that consistently deliver above-average returns and outperform their competitors — consistent themes are found. Regardless of the specific approaches taken, they all emphasise empowerment, support for employees, responsiveness to client or customer needs, flexibility in dealing with a dynamic environment, and continual attention to quality improvements. They also strive for positive cultures and high quality of work–life experiences for members and employees. Importantly, nothing is constant, at least not for long. Change is always a possibility. Managers in progressive organisations are always seeking new ways to better organise the workplace to support strategies and achieve high-performance goals. By attending to these performance factors, Valve has developed in a short time into a strong, high-performing company in the computer gaming industry.[8]

10.1 Organising as a management function

LEARNING OBJECTIVE 10.1 What is organising as a management function?

Formally defined, **organising** is the process of arranging people and other resources to work together to accomplish a goal. As one of the basic functions of management, organising involves creating a division of labour for task performance and coordinating results to achieve a common purpose. Figure 10.1 shows the central role organising plays in the management process. Once plans are created, the manager's task is to see that they are carried out.

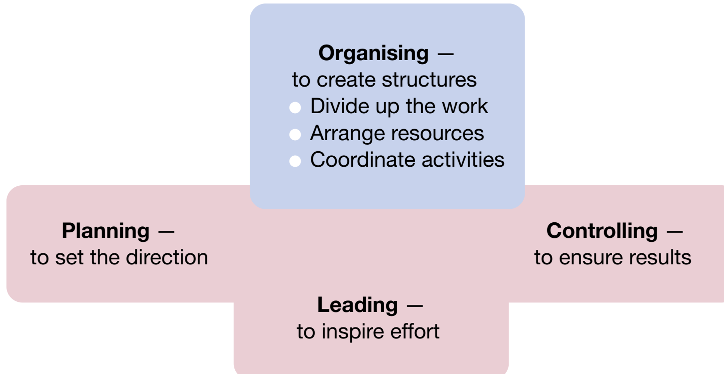

FIGURE 10.1 Organising viewed in relationship with the other management functions

Given a clear mission, core values, objectives and strategy, organising begins the process of implementation by clarifying jobs and working relationships. It identifies who is to do what, who is in charge of whom, and how different people and parts of the organisation relate to and work with one another. All of this, of course, can be done in different ways. This is where an understanding of situational contingencies becomes important. The leadership challenge is to choose the best organisational form to fit the strategy and the situation.

What is organisational structure?

The way in which various parts of an organisation are formally arranged is usually referred to as the **organisational structure**. The organisational structure is the system of tasks, workflows, reporting relationships and communication channels that link the work of diverse individuals and groups. Any structure should both allocate task assignments, through a division of labour, and provide for the coordination of performance results. A good structure that does both of these things well can be an important asset to an organisation.[9] Unfortunately, it is easier to talk about good structures than it is to create good structures. This is why you often read and hear about organisations *restructuring*, or changing their structures in an attempt to improve performance. However, there is no structure that meets the needs of all circumstances. Structure must be handled in a contingency fashion; as environments and situations change, structures must often be changed too. To make good choices, a manager must know the alternatives and be familiar with current trends and developments. They must also be prepared to create 'chaos' to help produce innovative solutions to complex problems, when necessary. Nothing new and innovative can emerge from organising systems that are highly ordered and stable. Chaotic systems, such as revolutions and resistance, create new configurations of decision-making and power.

Formal structure

You may know the concept of structure best in the form of an **organisation chart**, which is a diagram that shows reporting relationships and the formal arrangement of work positions within an organisation.[10] A typical organisation chart identifies various positions and job titles, as well as the lines of authority and communication between them. This is the *formal structure*, or the structure of the organisation in its official state. It represents the way the organisation is intended to function. Manager's notepad 10.1 identifies some of the things that you can learn by reviewing an organisation chart.

MANAGER'S NOTEPAD 10.1

What you can learn from an organisation chart

- *Division of work*. Positions and titles show work responsibilities.
- *Supervisory relationships*. Lines show who reports to whom.
- *Communication channels*. Lines show formal communication flows.
- *Major subunits*. Positions reporting to a common manager are shown.
- *Levels of management*. Vertical layers of management are shown.

Informal structure

Behind every formal structure typically lies an **informal structure**. This is a 'shadow' organisation made up of the unofficial, but often critical, working relationships between organisational members. This is the way that things get done at Valve, even if the processes seem like those in high school at times. If the informal structure could be drawn, it would show who talks to and interacts regularly with whom, regardless of their formal titles and relationships. The lines of the informal structure would cut across levels and move from side to side. They would show people meeting for coffee, in exercise groups and in friendship cliques, among other possibilities. Importantly, no organisation can be fully understood without first gaining insight into the informal structure, as well as the formal one.[11]

Informal structures can be very helpful in getting needed work accomplished in any organisation. Indeed, they may be considered essential in many ways to organisational success. This is especially true during times of change, when out-of-date formal structures may simply not provide the support people need to deal with new or unusual situations. Because it takes time to change or modify formal structures, this is a common occurrence. Through the emergent and spontaneous relationships of informal structures, people gain access to interpersonal networks of emotional support and friendship that satisfy important social needs. They also benefit in task performance, by being in personal contact with others who can help them get things done when necessary. In fact, what is known as *informal learning* is increasingly recognised as an important resource for organisational development.[12] This is learning that takes place as people interact informally throughout the working day, and in a wide variety of unstructured situations.

Of course, informal structures also have potential disadvantages. Because they exist outside the formal authority system, the activities of informal structures can sometimes work against the best interests of the organisation as a whole. They can also be susceptible to rumour, carry inaccurate information, breed resistance to change and even divert work efforts from important objectives. In addition, 'outsiders' or people who are left out of informal groupings may feel less a part of daily activities, and may suffer a loss of satisfaction. Some expatriate managers of Japanese firms, for example, complain at times about being excluded from the 'shadow cabinet', which is an informal group of Japanese executives who hold the real power to get things done in the organisation — and sometimes do so without the participation of others.[13] In some workplaces, staff consciously or unconsciously exclude new workers from the informal structure. Recent migrants are particularly vulnerable to this form of discrimination, as they may be unfamiliar with the social protocols of the 'in' group. For example, many new migrants are surprised that staff who join other colleagues in social activities are regarded as 'team players' — more so than staff members who work long hours at the office.[14]

CRITICAL ANALYSIS

1. Think of your current workplace or your university. How many parts and personalities of the organisation chart can you identify? Why do you think that most organisational members can only identify the details of the very top of the chart and the part to which they belong?
2. Think of organisations in which you have been a member. Reflecting on your experience, do you think that informal structures or formal structures are more influential in getting things done? Why do you think this is?

10.2 Traditional organisation structures

LEARNING OBJECTIVE 10.2 What are the major types of organisation structures?

A traditional principle of organising is that performance gains are possible when people are allowed to specialise and become experts in specific jobs or tasks. Given this division of labour, however, decisions must then be made on how to group work positions into formal teams or departments, and then link them together in a coordinated fashion within the larger organisation. These decisions involve a process called **departmentalisation**, which has traditionally resulted in three major types of organisation structures — the functional, divisional and matrix structures.[15]

Functional structures

In **functional structures**, people with similar skills and performing similar tasks are formally grouped together into work units. Members of functional departments share technical expertise, interests and responsibilities. The first example in figure 10.2 shows a common functional structure in a business. In this case, senior management includes the functions of marketing, finance, production and human resources. In this functional structure, manufacturing problems are the responsibility of the production director; marketing problems are the province of the marketing director, and so on. The key point is that members of each function work within their areas of expertise. If each function works properly, the expectation is that the business will operate successfully.

Functional structures are not limited to businesses. The figure also shows how this form of departmentalisation can be used in other types of organisations, such as banks and hospitals. These types of structures typically work well for small organisations that produce only one or a few products or services. They also tend to work best in relatively stable environments, where problems are predictable and there are limited demands for innovation and change. The major *advantages of functional structures* include the following:

- economies of scale with efficient use of resources
- task assignments consistent with expertise and training
- high-quality technical problem-solving
- in-depth training and skill development within functions
- clear career paths within functions.

There are also potential *disadvantages of functional structures*. Common problems with functional structures involve difficulties in pinpointing responsibilities for things like cost containment, product or service quality, timeliness and innovation in response to environmental changes. Such problems with functional structures are magnified as organisations grow in size and environments begin to change.

Another significant concern is often called the *functional chimneys problem*. An alternative term for chimneys is 'silos'. This refers to the lack of communication, coordination and problem-solving across functions. Because the functions become formalised, not only on an organisation chart, but also in the mindsets of people, the sense of cooperation and common purpose breaks down. When functional units develop self-centred and narrow viewpoints, they lose the total system perspective. When problems occur with another unit, they are often referred up to higher levels for resolution, rather than being solved by people at the same level. This slows decision-making and problem-solving, and can result in a loss of advantage in competitive situations. For example, the former chairman of the Jaguar car company blamed many of Jaguar's infamous quality problems on what he called 'excessive compartmentalisation'. In building cars, the different departments did very little talking and working with one another.[16]

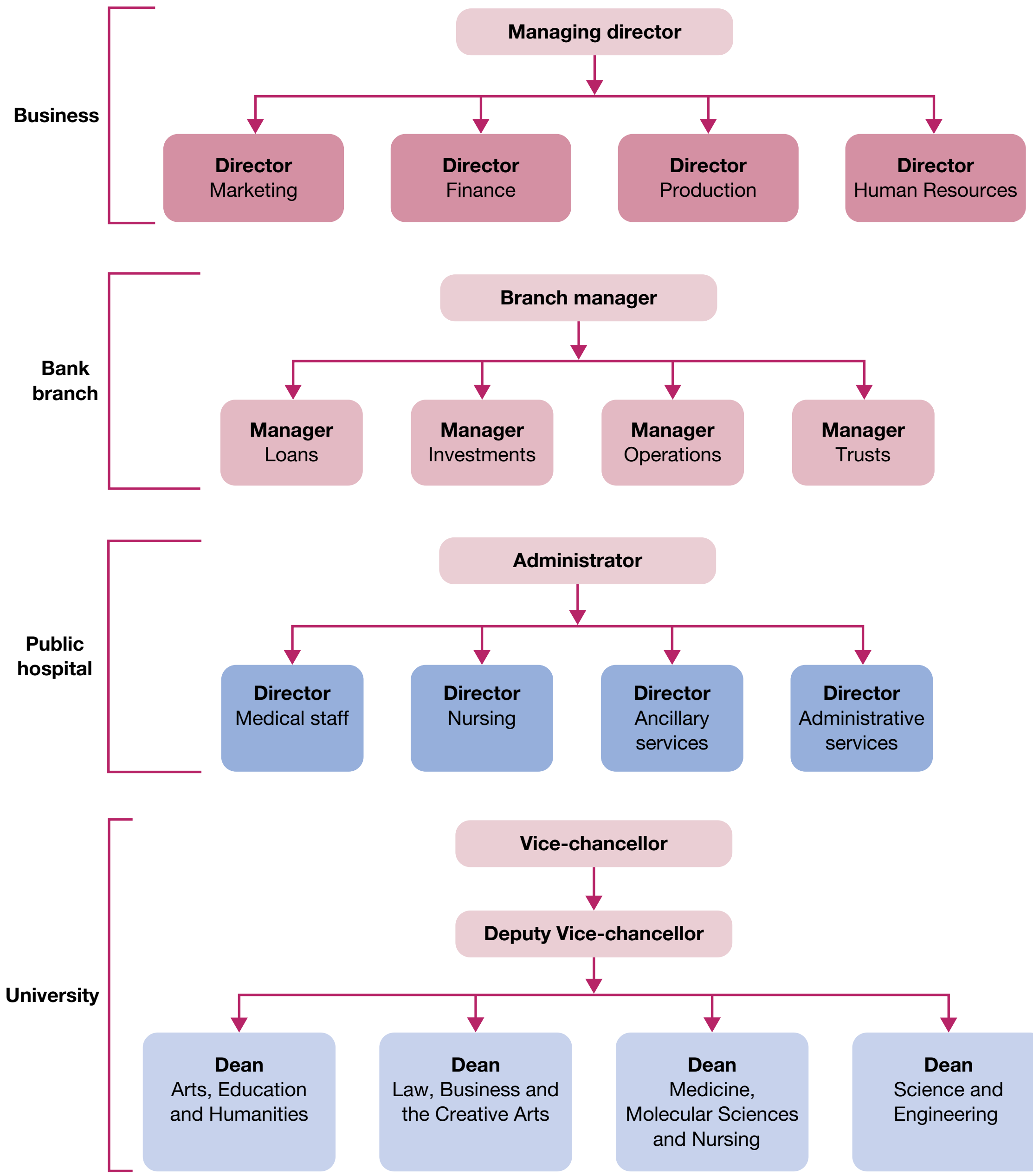

FIGURE 10.2 Functional structures in a business, a bank branch, a public hospital and a university

Divisional structures

A second organisational alternative is the **divisional structure**. It groups together people who work on the same product or process, serve similar customers, and/or are located in the same area or geographical region. As illustrated in figure 10.3, divisional structures are common in complex organisations that have multiple and differentiated products and services, serve diverse customers, pursue diversified strategies, and/or operate in various and different competitive environments. The major types of divisional approaches are the product, geographical, customer and process structures.

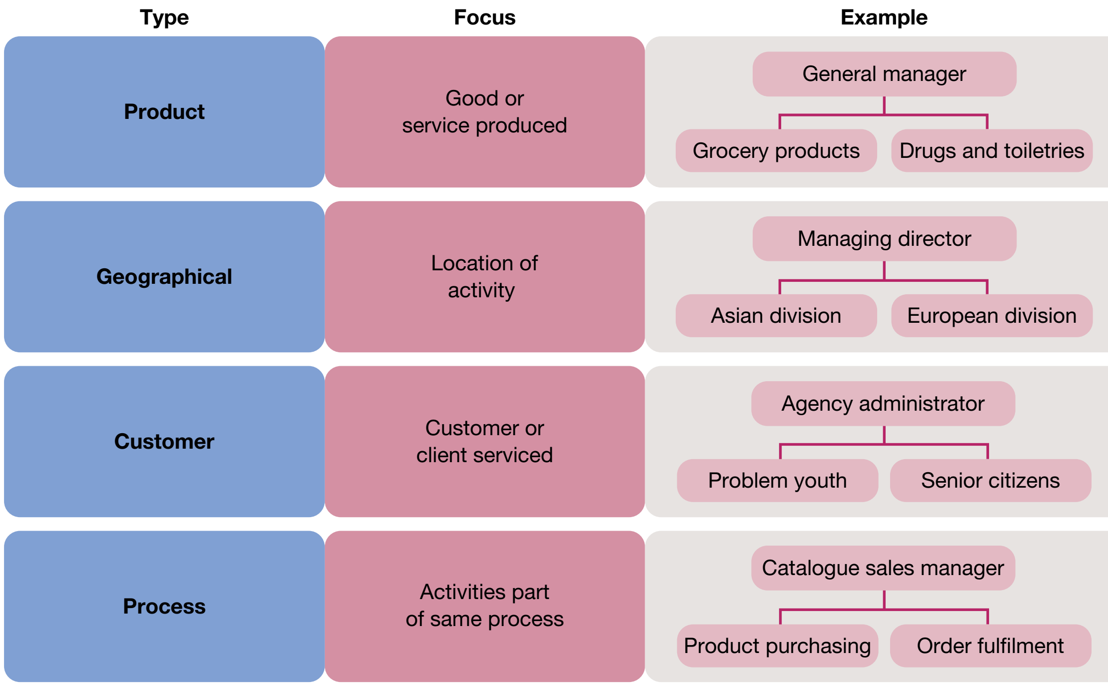

FIGURE 10.3 Divisional structures based on product, geography, customer and process

Divisional structures attempt to avoid problems common to functional structures. They are especially popular among organisations with diverse operations that extend across many products, territories, customers and work processes.[17] The potential *advantages of divisional structures* include:

- more flexibility in responding to environmental changes
- improved coordination across functional departments
- clear points of responsibility for product or service delivery
- expertise focused on specific customers, products and regions
- greater ease in changing size by adding or deleting divisions.

As with other alternatives, there are potential *disadvantages of divisional structures*. They can reduce economies of scale and increase costs, through the duplication of resources and efforts across divisions. They can also create unhealthy rivalries — as divisions compete for resources and attention, and they emphasise division needs and goals to the detriment of the goals of the organisation as a whole.

Product structures

Product structures group together jobs and people working on a single product or service. They clearly identify costs, profits, problems and successes in a market area with a central point of accountability. Consequently, managers are encouraged to be responsive to changing market demands and customer tastes. Common in large organisations, product structures may even extend into global operations. Product structures are becoming less common in major companies, as many companies are constantly trying to innovate and create new products. Heinz, Intel and Apple have all moved away from product structures in recent years.

Geographical structures

Geographical structures group together jobs and activities being performed in the same location or geographical region. They are typically used when there is a need to differentiate products or services in various locations, such as in different regions of a country. They are also quite common in international operations, where they help to focus attention on the unique cultures and requirements of particular regions. For example, the French-based, Chinese-owned global resort and tourism operator Club Med (now owned by Fosun International)[18] groups its operations into three areas: (1) Europe Africa, (2) Americas and (3) Asia.[19] With increasing market pressure for corporate 'globalisation', a number of companies have restructured into either product or customer-based divisions. The development of better internet-based communications systems and the dismantling of trade barriers will promote further organisational changes from geographical to product (or customer) structures.

Customer structures

Customer structures group together people and jobs that are serving the same customers or clients. The major appeal is the ability to serve the special needs of the different customer groups. With increasing differentiation of global markets, this structure is often well suited to complex businesses.

Process structures

A *work process* is a group of tasks related to one another that collectively create something of value to a customer.[20] An example is order fulfilment — when you email a catalogue retailer and request a particular item. The process of order fulfilment takes the order from point of initiation by the customer to point of fulfilment by a delivered order. **Process structures** group together jobs and activities that are part of the same processes. In the example in figure 10.3, this might take the form of product-purchasing teams, order-fulfilment teams and systems-support teams for the mail-order catalogue business. The importance of understanding work processes and designing process-driven organisations has been popularised by management consultant and author Michael Hammer.[21] These concepts are explored later in this chapter.

Matrix structures

The **matrix structure**, often called the *matrix organisation*, combines the functional and divisional structures just described. In effect, it is an attempt to gain the advantages and minimise the disadvantages of each. This is accomplished in the matrix by using permanent cross-functional teams to integrate functional expertise, in support of a clear divisional focus on a product, project or program.[22] As shown in figure 10.4, workers in a matrix structure belong to at least two formal groups at the same time — a functional group and a product, program or project team. They also report to two bosses — one within the function and the other within the team.

The matrix organisation has gained a strong foothold in the workplace, with applications in diverse settings, such as manufacturing (e.g. aerospace, electronics, pharmaceuticals), service industries (e.g. banking, brokerage, retailing), professional fields (e.g. accounting, advertising, law) and the not-for-profit sector (e.g. city, state and federal agencies; hospitals; universities). Matrix structures are also in multinational organisations, in which they offer the flexibility to deal with both regional differences and multiple product, program or project needs. Matrix structures are common in organisations pursuing growth strategies in dynamic and complex environments.

The main contribution of matrix structures to organisational performance lies in the use of permanent cross-functional teams. Team members work closely together, and in a timely manner, to share expertise and information to solve problems. The potential *advantages of matrix structures* include:

- better inter-functional cooperation in operations and problem-solving
- increased flexibility in adding, removing and/or changing operations to meet changing demands
- better customer service, since there is always a program, product or project manager informed and available to answer questions
- better performance accountability through the program, product or project managers
- improved decision-making, as problem-solving takes place at the team level — where the best information is available
- improved strategic management, since top managers are freed from unnecessary problem-solving and can focus on strategic issues.

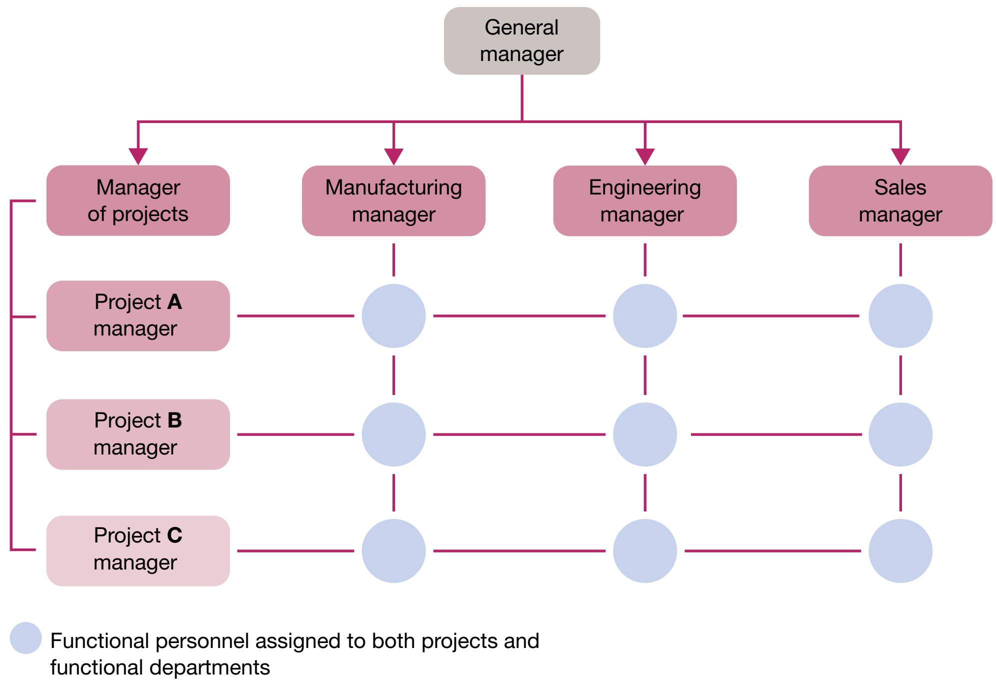

FIGURE 10.4 Matrix structure in a small multiproject business

Predictably, there are also potential *disadvantages of matrix structures*. The two-boss system is susceptible to power struggles, as functional supervisors and team leaders vie with one another to exercise authority. The two-boss system can also be frustrating for matrix members, if it creates task confusion and conflicts in work priorities. Team meetings in the matrix are also time-consuming. Teams may develop 'groupitis', or strong team loyalties that cause a loss of focus on larger organisational goals, and the requirements of adding the team leaders to a matrix structure can result in increased costs.[23]

GLOBALISATION

How big is too big?

In recent years, three global vehicle manufacturers have hit or neared the staggering mark of selling over 10 million vehicles per year — Toyota, Volkswagen and General Motors. Unfortunately, this growth trajectory also coincided with significant problems for the global giants. From 2009 onwards, Toyota faced significant vehicle recall problems and a US$1.2 billion settlement associated with reports of acceleration problems in some vehicles. GM recalled millions of vehicles in 2014 linked with reported faulty ignition switches. Volkswagen faced multiple problems after admitting in 2015 that it manipulated diesel emissions tests.

Partially in response to its own issues, Toyota changed its global structure to be region focused, with one unit dealing with developed markets, another with emerging markets, a third handling important components such as transmissions and engines, and the fourth with the luxury Lexis brand. This change has allowed Toyota to respond to global issues more rapidly, although the change naturally required staff to adjust to changing conditions. However, the distinction between emerging and developed markets in terms of vehicles has become less clear. For example, in response to growing pollution problems, many emerging markets such as China and India are introducing more stringent pollution control restrictions that are similar to those in developed markets. As the middle class expands in emerging markets, vehicle tastes and preferences are merging with those of developed markets.

In recognition of this and other trends, Toyota is restructuring again in 2016 and 2017. This change will realign the structure based on vehicle size and type, such as compact cars, sedans and commercial vehicles. In early 2016 the new structure had not yet been announced, but what is clear is that new structures would be based on changing market conditions and ensure that Toyota's growth does not compromise its strategic emphasis on quality, reliability and safety. Toyota has learned from past mistakes and its structure is likely to continue to evolve based on maintaining its strategic focus in an ever-changing environment.[24]

QUESTION

What do you think of the idea that companies can grow too large for effective quality control and legislative compliance? How can companies structure themselves to avoid such problems in the future?

10.3 Essentials of organisational design

LEARNING OBJECTIVE 10.3 What are the essentials of organisational design?

Organisational design is the process of choosing and implementing structures that best arrange resources to serve the organisation's mission and objectives.[25] The ultimate purpose of organisational design is to create an alignment between supporting structures and situational challenges. As shown in figure 10.5, this includes taking into consideration the implications of environment, strategies, people, technology and size.[26] Importantly, the process of organisational design is a problem-solving activity that should be approached in a contingency fashion that takes all of these factors into account. There is no universal design that applies in all circumstances. The goal is to achieve a best fit between the structure and the unique situation faced by each organisation. In the contemporary global economy, one of the key developments in organisational design is the emergence of the virtual organisation. The idea of a deliberately formless and fluid organisation might seem at odds with notions of organisational design. However, virtual organisations are the antithesis of the rigid hierarchies and bureaucracies that often characterise conventional organisations.

Key directions for changes in organisations today involve a basic shift in attention — from a traditional emphasis on more vertical or authority-driven structures to an emphasis on structures that are more horizontal and task-driven. In management theory, these developments are framed by the distinction between bureaucratic designs that are mechanistic and vertical in nature, and adaptive designs that are more organic and horizontal in nature. This distinction itself is viewed from the contingency position that there is no one best way to organise, and that the choice of organisational design should always achieve the best fit with situational needs.

Bureaucratic designs

As first introduced in the chapter on historical foundations of management, a *bureaucracy* can be described as a form of organisation based on logic, order and the legitimate use of formal authority. Its distinguishing features include a clear-cut division of labour, a strict hierarchy of authority, formal rules and procedures, and promotion based on competency. According to sociologist Max Weber, bureaucracies were supposed to be orderly, fair and highly efficient.[27] In short, they were a model form of organisation. Yet, if you use the term 'bureaucracy' today, it may well have a negative connotation. If you call someone a 'bureaucrat', they may feel insulted. Instead of operating efficiency, the bureaucracies that we know are often associated with 'red tape'. Instead of being orderly and fair, they are often cumbersome and impersonal, to the point of insensitivity to customer or client needs. And the bureaucrats: do we not assume that they work only according to rules, diligently following procedures and avoiding any opportunities to take initiative or demonstrate creativity?

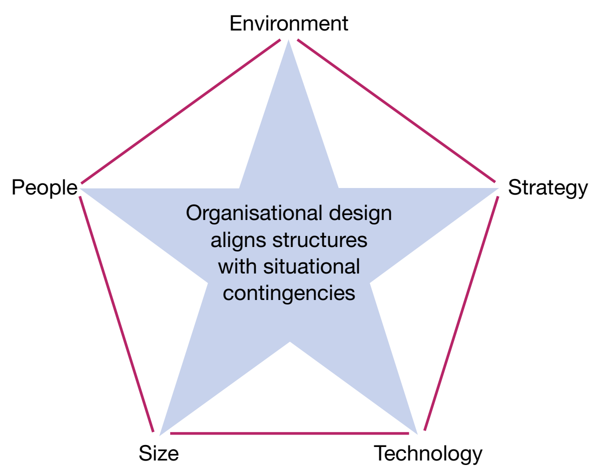

FIGURE 10.5 A framework for organisational design — aligning structures with situational contingencies

Management researchers recognise that there are limits to bureaucracies, particularly in the sense that they tend to become unwieldy and rigid.[28] Instead of viewing all bureaucratic structures as inevitably flawed, however, management theory takes a contingency perspective. Some critical contingency questions to ask include: When is a bureaucratic form a good choice for an organisation? What alternatives exist when it is not a good choice?

A basis for answering these questions lies in pioneering research conducted in England during the early 1960s, by Tom Burns and George Stalker.[29] After investigating 20 manufacturing companies, Burns and Stalker concluded that two quite different organisational forms could be successful, with the choice between them depending on the nature of an organisation's external environment. A more bureaucratic form, which Burns and Stalker called a *mechanistic approach*, thrived when the environment was stable, but experienced difficulty when the environment was rapidly changing and uncertain. In these dynamic situations, a much less bureaucratic form, called an *organic approach*, performed best. Figure 10.6 portrays these two approaches as opposite extremes on a continuum of organisational design alternatives.

Organisations that operate with highly **mechanistic designs** are very bureaucratic in nature. As shown in the figure, they typically operate with more centralised authority, many rules and procedures, a precise division of labour, narrow spans of control and formal means of coordination. Mechanistic designs are described as 'tight' structures of the traditional vertical or pyramid form.[30] An example is your local KFC or McDonald's. A relatively small operation, each store operates quite like others in the franchise chain and according to rules established by the corporate management. Service personnel work in orderly and disciplined ways, guided by training, rules and procedures, and with close supervision by crew leaders who work alongside them. Even the appearance of service personnel is carefully regulated, with everyone working in a standard uniform. These restaurants perform well, as they repetitively deliver items that are part of their standard menus. You quickly encounter the limits, however, if you try to order something not on the menu. The servers do not prepare anything out of the ordinary. The chains also encounter difficulty when consumer tastes change or take on regional preferences that are different from what the corporate menu provides. Adjustments to the system are typically a long time coming.

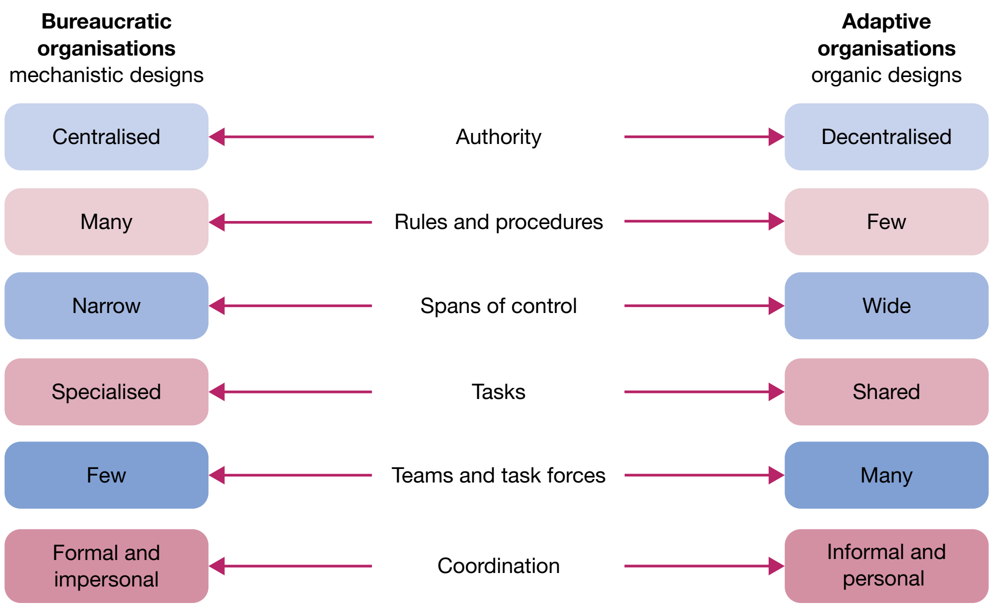

FIGURE 10.6 A continuum of organisational design alternatives — from bureaucratic to adaptive organisations

COUNTERPOINT

Crisis time for Australian mines

In 2015, Australian mining faced a crisis. The crisis started with a cooling in the resource-hungry Chinese economy, leading to resource oversupply, which in turn lead to falling commodity prices. This meant that the margin for returns on mining investment shrunk dramatically. In addition to falls in the market price for mining commodities, a falling Australian dollar (relative to many Australian trading partner currencies) meant that profit margins for investors shrunk even further. Companies that borrowed heavily to fund the construction of mines and mining infrastructure found that their creditor banks and financial institutions were soon knocking on their door, seeking to salvage some return on their investment. Many investors lost confidence in the Australian mining industry, and so share prices in the sector fell sharply.

Some mines were closed as they were either not profitable or not profitable enough compared to other units in an organisation. Overall, mining in Australia shifted from a construction and production phase to almost production only, putting further pressure on industries or organisational units associated with mining construction.

This process of adjusting company operations is often referred to as organisational restructuring, as unprofitable or barely profitable organisational units are sold off, consolidated or closed. Financial survival of the company is often the fundamental strategic goal of the process, but managers with a short-term survival perspective may be restructuring their company towards death rather than life. This is the case when companies divest themselves of units and operations that eventually become more profitable when economic conditions improve.

The managers and boards who took the high-risk strategy of borrowing heavily to build mines and those who decided to incorrectly believe in an optimistic view of the industry future were often the managers and boards who were then charged with restructuring the company to survive the industry downturn. This can be a risky proposition in restructuring as sticking with the same decision-makers and same decision processes may not lead to optimal organisational outcomes. Some Australian mining organisations called in organisational restructuring experts to help the companies get back on their feet. Often the restructuring decisions are not popular, especially when mines close, staff are made redundant and salaries may be reviewed. A restructuring that focuses on long-term opportunities, however, and helps the company prepare for the inevitable upswing in mining activity, may help the company thrive when the golden days finally return.[31]

QUESTION

Organisational restructuring sometimes takes place in an environment where a company sees itself as losing its competitive position as well as losing money. What do you see as the risks of restructuring in this environment as opposed to an environment where the company is financially strong?

Adaptive designs

The limits of bureaucracy are especially apparent in organisations that must operate in the highly competitive environments created by the forces of globalisation and new technologies. It is hard, for example, to find a technology company, consumer products firm, financial services business or dot-com retailer today that is not making continual adjustments to its operations and organisational design.

'It's a millennial change', says Dee Hock, the founder of Visa International. 'We can't run 21st century society with 17th century notions of organization.'[32] Enlightened managers are helping organisations reconfigure into new forms that emphasise flexibility and speed, while retaining sight of important performance objectives. Harvard scholar and consultant Rosabeth Moss Kanter notes that the ability to respond quickly to shifting environmental challenges often distinguishes successful organisations from less successful ones. Specifically, Kanter states that to be successful, an organisation must be flexible.

> They will need to be able to bring particular resources together quickly, on the basis of short-term recognition of new requirements and the necessary capacities to deal with them . . . The balance between static plans — which appear to reduce the need for effective reaction — and structural flexibility needs to shift toward the latter.[33]

The organisational design trend now is towards more **adaptive organisations** that operate with a minimum of bureaucratic features and with cultures that encourage worker empowerment and participation.[34] Such organisations display features of the **organic designs** portrayed in figure 10.6, including more decentralised authority, fewer rules and procedures, less precise division of labour, wider spans of control and more personal means of coordination. They are described as relatively loose systems in which a lot of work is done through informal structures and networks of interpersonal contacts.[35] Organic designs recognise and legitimise these links, and give them the resources they need to operate best. This works well for organisations facing dynamic environments that demand flexibility in dealing with changing conditions. They are also increasingly popular in the new workplace, where the demands of total quality management and competitive advantage place more emphasis on internal teamwork and responsiveness to customers.

Above all, adaptive organisations are built on trusting that people will do the right things on their own initiative. They move organisational design in the direction of what some might call *self-organisation*, where the focus is on freeing otherwise capable people from unnecessarily centralised control and restrictions. Moving towards the adaptive form means letting workers take over production scheduling and problem-solving; it means letting workers set up their own control techniques; it means letting workers use their ideas to improve customer service. In the ultimate adaptive organisations, it means that members are given the freedom to do what they can do best — get the job done. This creates what has been described in earlier chapters as a **learning organisation** — one designed for continuous adaptation through problem-solving, innovation and learning.[36]

Virtual designs

Virtual organisations are emerging as new and distinctive organisational forms designed to create value in the global economy. Definitions of the virtual organisation tend to be 'fuzzy'; however, a number of common features define virtual organisations. First, the lack of physical structure compared with conventional organisations means there are fewer tangible assets, such as office buildings, warehouses and fleet vehicles. Bleeker describes virtual firms as 'defined not by concrete walls or physical space, but by collaborative networks'.[37] Organisations are emerging that are structured entirely in virtual reality, with computer links replacing physical infrastructure, so that companies exist only in cyberspace.

Second, electronic communications technologies — the internet, social media platforms, instant and text messaging, and other forms of electronic communication — form the basis of the virtual organisation, linking people, assets, knowledge and ideas. Communications technology is the enabler for the virtual organisation. A third feature of the virtual organisation is mobility of work. In other words, communication networks, rather than buildings and physical assets, become the 'workspace' for organisational members. Some workers keep their electronic files and programs on an internet-based virtual 'cloud', rather than carrying memory hardware, such as portable hard drives, with them. Consequently, work groups and teams do not have to work in close contact with each other; rather, they can be geographically dispersed locally, nationally or globally. The workplace is wherever the worker can productively undertake tasks and create value.

A fourth feature of virtual organisations is their hybrid nature. They can consist of a loose framework of human resources, assets and knowledge involving organisational units, a consortia of companies, and autonomous members brought together for a given time period to achieve a mutual objective. Once the objective is achieved, the virtual organisation either ceases to exist or reconfigures itself to tackle the next goal. These hybrids can be short-term but also long-term if they are tackling difficult research or infrastructure projects, or are part of an ongoing supply chain. A fifth and related feature is their lack of boundaries and inclusiveness. Virtual organisations are not constrained by what is traditionally thought of as an individual company or corporation and how they are legally defined. Virtual organisations often encompass suppliers and distributors to such an extent that it is difficult to unravel where one company ends and the other begins. Finally, virtual organisations embody flexibility, through their ability to restructure and to redeploy assets to meet changing requirements. This requires human resources that are equally able to show flexibility in their deployment and job tasks.[38]

CRITICAL ANALYSIS

1. Online gaming communities and social networking websites, such as Facebook, Twitter and LinkedIn, may make it easier to create virtual organisations. Consider if you are a part of a virtual organisation. If so, describe advantages and disadvantages that you have experienced as a member of online communities.
2. In light of the increasing popularity of virtual organisations, do you think that Westpac's decision to reopen bank branches is a mistake? Why or why not?

10.4 Contingencies in organisational design

LEARNING OBJECTIVE 10.4 How do contingency factors influence organisational design?

Good organisational design decisions should result in supportive structures that satisfy situational demands and allow all resources to be used to best advantage. This is true contingency thinking. Among the contingency factors in the organisational design checklist featured in Manager's notepad 10.2 are the environment, strategy, technology, size and life cycle, and human resources. Recent research indicates that another factor that should be considered in organisational design is the approach to restructuring as led by internal and external organisational design consultants. Thus, the approach to organisational redesign may be the seventh contingency. However, this research requires further empirical testing for validation.[39]

MANAGER'S NOTEPAD 10.2

Organisational design checklist

- *Check 1*. Does the design fit well with the major problems and opportunities of the external environment?
- *Check 2*. Does the design support the implementation of strategies and the accomplishment of key operating objectives?
- *Check 3*. Does the design support core technologies and allow them to be used to best advantage?
- *Check 4*. Can the design handle changes in organisational size and different stages in the organisational life cycle?
- *Check 5*. Does the design support and empower workers and allow their talents to be used to best advantage?

Environment

The organisation's external environment and the degree of uncertainty it offers are of undeniable importance in organisational design.[40] The decline of the Australian mining industry is an example of this. A *certain environment* is composed of relatively stable and predictable elements. As a result, an organisation is able to succeed with relatively few changes in the goods or services produced or in the manner of production over time. Bureaucratic organisations and mechanistic designs are quite adequate under such conditions. An *uncertain environment* will have more dynamic and less predictable elements. Changes occur frequently and may catch decision-makers by surprise. As a result, organisations must be flexible and responsive over relatively short time horizons. This requires more adaptive organisations and organic designs. This applies particularly to companies that expand internationally.[41] Figure 10.7 summarises these relationships, showing how increasing uncertainty in organisational environments calls for more horizontal and adaptive designs.

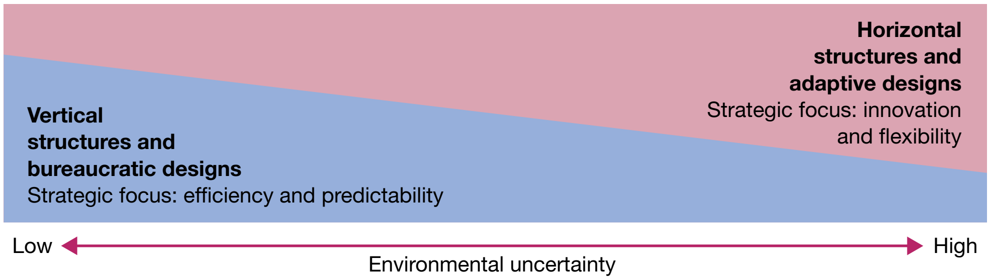

FIGURE 10.7 Environmental uncertainty and the performance of vertical and horizontal designs

Strategy

The nature of organisational strategies and objectives should influence the choice of structure. Research on these contingency relationships is often traced to the pioneering work of Alfred Chandler.[42] Chandler concluded that 'structure follows strategy'. An organisation's structure must support its strategy if the desired results are to be achieved.[43]

When strategy is stability oriented, the choice of organisational design should be based on the premise that little significant change will be occurring in the external environment. This means that plans can be set and operations programmed to be routinely implemented. To best support this strategic approach, the organisation should be structured to operate in well-defined and predictable ways. This is most characteristic of bureaucratic organisations that use more mechanistic design alternatives.

When strategy is growth oriented and likely to change frequently, the situation as a whole becomes more complex, fluid and uncertain. Operating objectives are likely to include the need for innovation and flexible responses to changing competition in the environment. Operations and plans are likely to have short life spans, and require frequent and even continuous modification over time. The most appropriate structure is one that allows for internal flexibility and freedom to create new ways of doing things. This is most characteristic of the empowerment found in adaptive organisations using more organic design alternatives.[44]

Size and life cycle

Organisational size, typically measured by number of employees, is another contingency factor in organisational design.[45] The situations at Toyota and Volkswagen provide examples of growing pains. Although research indicates that larger organisations tend to have more mechanistic structures than smaller ones, it is clear that this is not always best for them.[46] In fact, a perplexing managerial concern is that organisations tend to become more bureaucratic as they grow in size and consequently have more difficulty adapting to changing environments.

It is especially important to understand the design implications of the **organisational life cycle**, or the evolution of an organisation over time through different stages of growth. The stages in the organisational life cycle can be described as:

1. *birth stage* — when the organisation is founded by an entrepreneur
2. *youth stage* — when the organisation starts to grow rapidly
3. *midlife stage* —when the organisation has grown large with success
4. *maturity stage* — when the organisation stabilises at a large size.[47]

In its *birth stage*, the founder usually runs the organisation. It stays relatively small, and the structure is quite simple. The organisation starts to grow rapidly during the *youth stage* and management responsibilities extend among more people. Here, the simple structure begins to exhibit the stresses of change. An organisation in the *midlife stage* is even larger, with a more complex and increasingly formal structure. More levels appear in the chain of command, and the founder may have difficulty remaining in control. In the *maturity stage*, the organisation stabilises in size, typically with a mechanistic structure. It runs the risk of becoming complacent and slow in competitive markets. Bureaucratic tendencies towards stability may lead an organisation at this stage towards decline. Steps must be taken to counteract these tendencies and allow for needed creativity and innovation.

One way of coping with the disadvantages of large size is downsizing; that is, taking action to reduce the scope of operations and number of employees. This response is often used when top management is challenged to reduce costs quickly and to increase productivity.[48] Research indicates, however, that downsizing is often associated with decreases in subsequent firm profitability, and that research and development industries in particular may suffer many negative effects from downsizing.[49] But, perhaps more significantly, good managers in many organisations find unique ways to overcome the disadvantages of large size — before the crisis of downsizing hits. They are creative in fostering intrapreneurship, which is the pursuit of entrepreneurial behaviour by individuals and subunits within large organisations.[50] They also find ways for smaller entrepreneurial units to operate with freedom and autonomy within the larger organisational framework. *Simultaneous systems*, for example, are organisations that use both mechanistic and organic designs to meet the need for production efficiency and continued innovation. This 'loose–tight' concept in organisational design is depicted in figure 10.8.

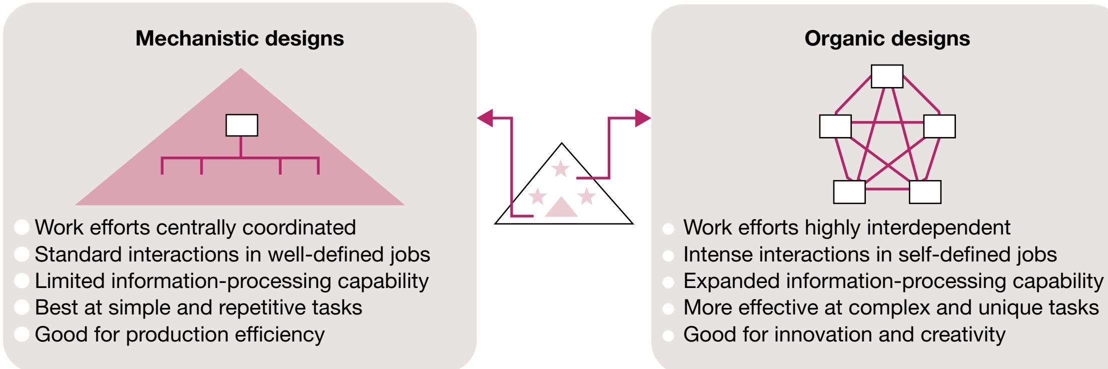

FIGURE 10.8 Simultaneous 'loose–tight' properties of team structures support efficiency and innovation

Human resources

A contingency factor in organisational design is people — the human resources that staff the organisation for action. A good organisational design provides people with the supporting structures they need to achieve both high performance and satisfaction in their work.

Modern management theory views people–structure relationships in a contingency fashion. The prevailing argument is that there should be a good 'fit' between organisation structures and the human resources.[51] An important human resource issue in organisational design is skill. Any design should allow the expertise and talents of organisational members to be realised to the full. High-involvement organic designs, with their emphasis on empowerment, are crucial. When IBM purchased the software firm Lotus, for example, the intention was to turn it into a building block for the organisation's networking business, but Lotus was small and IBM was huge. The whole thing had to be carefully handled, or IBM might have lost many of the talented people who created the popular Lotus Notes and related products. The solution was to adapt the design to fit the people. IBM gave Lotus the space it needed to retain the characteristics of a creative software house. The organisation's head of software at the time said: 'You have to keep the people, so you have to ask yourself why it is they like working there'.[52]

Another aspect of organisational design related to preserving competitive advantage, by keeping and developing talent, is how knowledge is governed or managed in the organisation.[53] For example, if the organisational structure does not effectively bring talented people together to collaborate on innovation, nor does it govern who owns or transfers knowledge, then employees are less likely to continue to transfer innovations to build the organisation's competitive advantage. Employees feel that they have ownership and control of good ideas, eventually restricting organisational access to and utilisation of ideas.

DIVERSITY

Discrimination in the workplace

Businesses and workplaces in Australia have generally recognised the value of cultural diversity in their workforce, particularly when they are designing and delivering services to Australia's multicultural consumers. Occasionally, however, these organisations have to deal with incidents of discrimination and perceived discrimination. Often these incidents are sparked by external events, such as a perceived rise in the discrimination of Muslims associated with

Sydney's Martin Place siege in December 2014. In this incident, a gunman took 17 hostages, two of whom died during efforts to break the siege. The gunman identified himself as a Muslim and in the aftermath of the incident many Australian Muslims reported a rise in apparent anti-Muslim sentiment in workplaces and on public transport.[54]

As a response to the original incident, many Australian Muslim groups condemned the actions of the lone gunman. Social media also played a role in diffusing community tensions associated with the tragic incident. People from the broader Australian community began posting images and statements with the hashtag '#illridewithyou' in an attempt to support Muslims who felt intimidated when using public transportation. Also, community leaders such as Associate Professor Mohamad Abdalla from Griffith University and Ali Kadri from the Islamic Council of Queensland provided balanced commentary on the situation through media outlets in an attempt to build bridges of understanding between Muslims and others.

In addition, many Muslim groups in Australia stepped up their efforts to build bridges of understanding between followers of Islam and others, and leaders from the Prime Minister down called on Muslim communities to do more to combat homegrown terrorism in Australia. Many of these organisations were originally established as religious and community support organisations and they have expressed that they are ill-equipped to deal with counter terrorism or even to try and deal with the negative community perceptions directed against their members. Muslim organisations in Australia have struggled with the competing pressures of community education, mutual support for members, assistance for newly arrived refugees and assistance with counter-terrorism. All of this is often in the context of organisations that are sometimes led by relatively conservative men who are appointed to leadership on the basis of religious expertise, rather than other qualities associated with community dialogue.[55]

From an organisational perspective, however, this situation demonstrates the contrast between 'virtual' organisations such as the initiators of the #illridewithyou movement and traditional organisations such as the Islamic Council of Queensland. One is organic, reactive and short-lived, whereas the other eventually adapts in order to deal with discrimination through expansion and improvement of its community education resources. Both structures seem relevant to dealing with negative community sentiment.

The rise in reports of workplace discrimination demonstrate that the challenge remains for many businesses and workplaces to build organisations that are effectively able to respond to increased discrimination associated with terror-related incidents.[56]

QUESTION

How should companies be structured to deal with negative community sentiment about those they represent?

CRITICAL ANALYSIS

1. The most important contingencies in organisational design have changed over time. Previously, the most important contingencies were size, strategy and environment. With the arrival of more advanced information and communication technologies, some say that technology is now the most important contingency. What do you think is the most important contingency in organisational design and why?

10.5 Developments in organisation structures

LEARNING OBJECTIVE 10.5 What are the new developments in organisation structures and operating systems?

The environmental realities of a global economy and the demands of strategies driven by competition are putting increasing pressures on organisation structures. There are performance demands for more speed to market, greater customer orientation, constant productivity improvements and better technology use.

Structural innovation is always important in the search for productivity improvement and competitive advantage.[57] Today, the vertical and control-oriented structures of the past are proving less sufficient for mastering the tasks at hand. The matrix structure is a first step towards improving flexibility and problem-solving, through better cross-functional integration. This structure is part of a broader movement towards horizontal structures that drive performance by decreasing hierarchy, increasing empowerment and mobilising employees to better use their talents. When combined with the ever increasing power of information technologies, horizontal structures are more responsive to environmental demands and much better aligned with organisational strategies. Manager's notepad 10.3 offers guidelines for effective horizontal structures.[58]

MANAGER'S NOTEPAD 10.3

Guidelines for effective horizontal structures

- Focus the organisation around processes, not functions.
- Put people in charge of core processes.
- Decrease hierarchy and increase the use of teams.
- Empower people to make decisions important to performance.
- Make use of information technology.
- Emphasise multiskilling and multiple competencies.
- Teach people how to work in partnership with others.
- Build a culture of openness, collaboration and performance commitment.

Team structures

Organisations are being restructured for greater internal integration. As the traditional vertical structures give way to more horizontal ones, teams are serving as the basic building blocks.[59] Organisations using *team structures* extensively mobilise both permanent and temporary teams to solve problems, complete special projects and accomplish day-to-day tasks.[60] Valve's use of cabals is an example of a team structure.

As illustrated in figure 10.9, a team structure involves teams of various types working together as needed to solve problems and explore opportunities, either on a full-time or part-time basis. These are often **cross-functional teams** composed of members from different areas of work responsibility.[61] The intention is to break down the functional chimneys or barriers inside the organisation and create more effective lateral relations for ongoing problem-solving and work performance. There are also often **project teams** that convene for a particular task or project and disband once it is completed. The intention here is to quickly convene people with the needed talents and focus their efforts intensely to solve a problem or take advantage of a special opportunity.

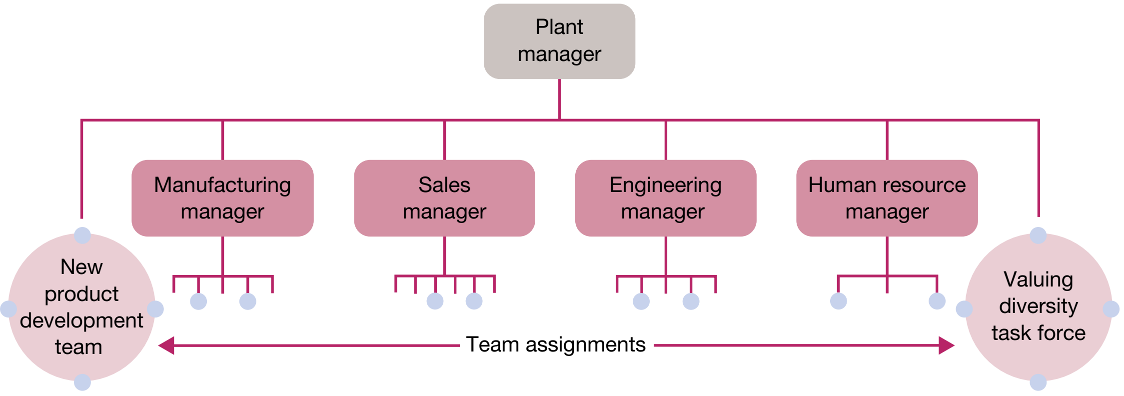

FIGURE 10.9 How a team structure uses cross-functional teams for improved lateral relations

There are many potential *advantages of team structures*. They are frequently tried when an organisation has trouble with communication and decision-making because of the functional chimneys problem. At the same time that team assignments help to break down barriers between operating departments, they can also boost morale when people from different parts of an organisation get to know more about one another. Because teams focus shared knowledge and expertise on specific problems, they can also improve the speed and quality of decisions in many situations. People working in teams can experience a greater sense of involvement and identification, increasing their enthusiasm for the job.

All organisation structures should harness the full talents of the workforce. However, in team structures, this goal is relentlessly pursued, with full recognition of the value of group, as well as individual, contributions. Within teams and under the guidance of formal and informal leaders, individuals are expected to work together through cooperation, shared commitments to a common purpose and consensus.[62] Multidisciplinary teams of doctors, nurses, technicians, social workers and allied health professionals provide a good example of how patient care teams provide effective service for patients with complex health problems.[63] After a research team at Polaroid Corporation developed a new medical imaging system in three years, when most had predicted it would take six, a senior executive said: 'Our researchers are not any smarter, but by working together they get the value of each other's intelligence almost instantaneously'.[64]

Network structures

Organisations using variations of the **network structure** operate with a central core that is linked through 'networks' of relationships with outside contractors and suppliers of essential services. With the great advantages offered by communications and information technology, network structures can simplify and streamline organisational structures. Network structures accomplish this by engaging in a shifting variety of strategic alliances and business contracts that sustain operations. The old model was for organisations to own everything and for the hierarchy to control everything. The new model is to network and operate without the costs of owning all supporting functions or directly employing persons with all needed expertise. Network organisations only own the most essential or 'core' components. They are able to do this by using information technology to support aggressive outsourcing strategies.[65]

Figure 10.10 illustrates a network structure as it might work for a mail-order company selling outdoor furniture through a catalogue. The company itself is very small, consisting of relatively few full-time employees working from a central headquarters. Beyond that, it is structured as a series of business relationships, maintained operationally using the latest in information technology.

The creative use of information technology adds to the potential *advantages of network structures*. With the technological edge, the mail-order company in the first example can operate with fewer full-time employees and less complex internal systems. Network structures are very lean and streamlined. The structure has the potential to help organisations reduce costs by cutting overheads and increasing operating efficiency. Network concepts allow organisations to use outsourcing strategies and to contract out specialised business functions, rather than maintaining full-time staff to do them. A bank may contract with local firms to provide mailroom, café and legal services; an airline might contract out customer service jobs at various airports. Information technology also allows the business relationships of networks to operate across great distances, rather than face to face. Such arrangements are increasingly common in the international arena, where the internet, email, online conferences and other computer networks bring the advantages of global operations into easy reach at minimum cost.

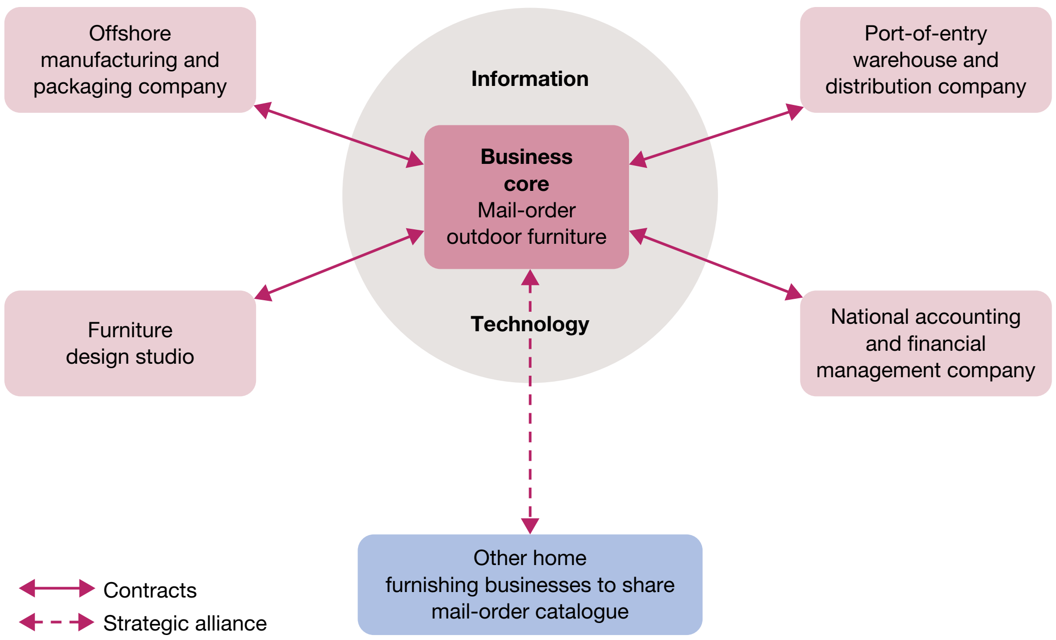

FIGURE 10.10 A network structure for a catalogue-based retail business

SUSTAINABILITY

Innovation, rubbish and sustainability

Innovation, rubbish and sustainability are not usually concepts that are positively associated when used in the same sentence. The complementary interaction of these concepts, however, is evident in the formation of a successful company called Solar Bins Australia. The company focuses on the distribution and management of high-tech Bigbelly solar bins manufactured in the United States. These rubbish bins contain an automatic solar powered compactor that increases the bin's capacity by five. The bins are wirelessly connected to a central control platform that allows the operator to monitor and control the unit.[66]

A surprising aspect of Solar Bins Australia is that the founder of the company, Leon Hayes, prefers to give the bins away for free. The company earns its money by deploying advertising on the four panels of the bin. The company also offers a full service rental option for customers who do not opt for advertising on the bins. When the full service option is utilised, the company plants 250 trees for every station deployed.[67]

Organisationally, the company is a relatively small start-up venture with ten staff as of 2015. They outsource their warehousing and logistics but keep their design and marketing functions in-house. Some of the team are employed on a part-time basis and other contract work is outsourced. The company focuses on providing fast, responsive and intelligent customer service. The company distinguishes itself in the waste management industry through their customer service, so this core function will always be kept in-house.

The company is headquartered in Brisbane and is structuring itself for growth through establishing a regional office in Melbourne and branches in Sydney. Solar Bins Australia provides a good example of a company that embraces sustainability not only in its product offerings, but also in its operations.[68]

QUESTION

In what way do you think that Solar Bins Australia are a good example of integrating sustainability both in products and in production? How does their structure play a role in this example?

CRITICAL ANALYSIS

1. Many students are given team projects to complete at university. What do you like and what do you dislike about team projects? Considering your response, why do you think that so many organisations are structured around teams?
2. What are the advantages and disadvantages of shorter chains of command?

10.6 Subsystems design and integration

LEARNING OBJECTIVE 10.6 What are the major issues in subsystems design?

Organisations are composed of **subsystems**, such as a department or work unit headed by a manager, that operate as smaller parts of a larger and total organisational system. Ideally, the work of subsystems serves the needs of the larger organisation. Ideally, too, the work of each subsystem supports the work of others. However, things do not always work out this way. Another challenge of organisational design is to create subsystems and to coordinate relationships to meet the entire organisation's interests.

Important research in this area was reported in 1967 by Paul Lawrence and Jay Lorsch of Harvard University.[69] They studied ten companies in three different industries — the plastics, consumer goods and container industries. The companies were chosen because they differed in performance. The industries were chosen because they faced different levels of environmental uncertainty. The plastics industry was uncertain; the consumer goods industry was moderately uncertain; and the containers industry was certain.

The results of the Lawrence and Lorsch study can be summarised as follows. Firstly, the total system structures of successful companies in each industry matched their respective environmental challenges. Successful plastics companies in uncertain environments had more organic designs; successful container companies in certain environments had more mechanistic designs. This result was consistent with the earlier research by Burns and Stalker.[70] Secondly, Lawrence and Lorsch found that subsystem structures in the successful companies matched the challenges of their respective sub-environments. Subsystems within the successful companies assumed different structures to accommodate the special problems and opportunities of their operating situations. Thirdly, the researchers found that subsystems in the successful companies worked well with one another, even though they were very different from one another.

Subsystem differences

Figure 10.11 depicts operating differences between three divisions in one of the companies studied by Lawrence and Lorsch. The illustration shows how research and development, manufacturing, and sales subunits may operate differently in response to unique needs. This illustrates *differentiation*, which is the degree of difference that exists between the internal components of an organisation.

There are four common *sources of subsystems differentiation*. Firstly, the planning and action horizons of managers vary from short-term to long-term. Sometimes, *differences in time orientation* become characteristic of work units themselves. In a business, for example, the manufacturing subsystem may have a shorter-term outlook than the research and development group. These differences can make it difficult for personnel from the two units to work well together. Secondly, the different tasks assigned to work units may also result in *differences in objectives*. For example, cost-conscious production managers and volume-conscious marketing managers may have difficulty agreeing on solutions to common problems. Thirdly, *differences in interpersonal orientation* can affect subsystem relations. To the extent that patterns of communication, decision-making and social interaction vary, it may be harder for personnel from different subsystems to work together. And fourthly, *differences in formal structure* can also affect subsystem behaviours. Someone who is used to flexible problem-solving in an organic setting may find it very frustrating to work with a manager from a mechanistic setting who is used to strict rules.

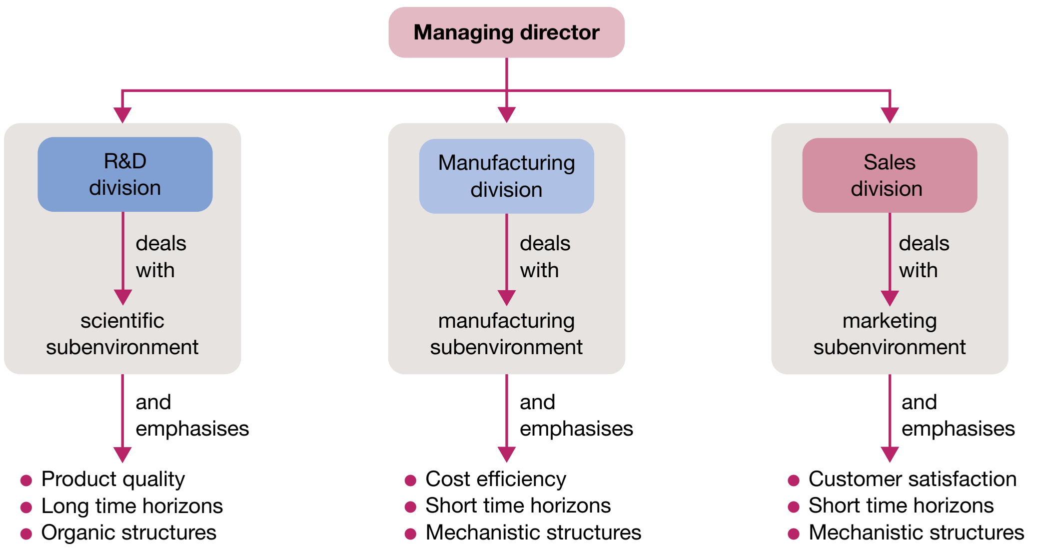

FIGURE 10.11 Subsystems differentiation among research and development (R&D), manufacturing and sales divisions

How to achieve integration

The term *integration* in organisation theory refers to the level of coordination achieved among an organisation's internal components. Organisational design involves the creation of both differentiated structures and appropriate integrating mechanisms. A basic *organisational design* paradox, however, makes this a particularly challenging managerial task. Increased differentiation among organisational subsystems creates the need for greater integration; however, integration becomes harder to achieve as differentiation increases.

Manager's notepad 10.4 identifies several mechanisms for achieving subsystem integration.[71] The first integrating mechanisms listed rely more on vertical coordination and the use of authority relationships in the chain of command. Rules and procedures, hierarchical referral, and planning work best when differentiation is low. Integrating mechanisms that emphasise horizontal coordination and improved lateral relations work best when differentiation is high.[72] These mechanisms include the use of direct contact between managers, liaison roles, task forces, teams and matrix structures. Too much integration, however, may lead to lower levels of organisational learning. Moderate levels of cross-group linking may help superior ideas to diffuse across organisational groups without reducing organisational diversity too quickly.[73]

MANAGER'S NOTEPAD 10.4

How to improve subsystem integration

- *Rules and procedures*. Clearly specify required activities.
- *Hierarchical referral*. Refer problems upwards to a common superior.
- *Planning*. Set targets that keep everyone headed in the same direction.
- *Direct contact*. Have subunit managers coordinate directly.
- *Liaison roles*. Assign formal coordinators to link subunits together.
- *Task forces*. Form temporary task forces to coordinate activities and solve problems on a timetable.
- *Teams*. Form permanent teams with the authority to coordinate and solve problems over time.
- *Matrix organisations*. Create a matrix structure to improve coordination on specific programs.

TECHNOLOGY

Is it possible for a company to outgrow its name?

Over the years, Google has gradually developed from a company founded on a brilliant algorithm that gave the world an effective internet search engine. From 1998 onwards, the company has continually developed new products, such as Google Glass in 2013, and has acquired a number of significant innovative services such as Android in 2005 and YouTube in 2006. Some of the lesser known business units that have their origin with Google include GV (Google Ventures), a venture capital investment firm that invests in innovative ideas in fields such as technology, the internet, healthcare and artificial intelligence; Google Capital, a business unit that invests for profit in large established technology companies; Google Fibre, which provides cable television and broadband internet services; Nest Labs, which produces home automation products and was acquired by Google in 2014; and Google Life Sciences, a spinoff company from Google X (Google's research and development group), which began developing products such as contact lenses for people with diabetes to check their glucose levels non-intrusively.[74]

Such a wide range of companies associated with an internet search engine does pose challenges for both brand identity and effective operations. Thus, in 2015 Google's founders Larry Page and Sergey Brin announced the formation of a company called Alphabet. Alphabet is a conglomerate structure formed as a parent for Google and other companies such as GV, Nest Labs and Google Fibre. Some business units changed their name after the restructuring, with Google Life Sciences becoming Verily and Google X becoming X. Larry Page is CEO of Alphabet and Sergey Brin is President.[75]

The new structure allows the internet company 'Google' to provide a more focussed approach to its internet services. Similar to the 'clean' page characteristic of the Google search engine, the internet company can now be more accountable for its core business, while the other Alphabet companies can focus on their core business. The link to the original Google logo is retained through the name Alphabet, as Google is well known for the creative use of the letters in its logo to reflect seasonal and historical events.[76]

QUESTION

What challenges might the Alphabet and Google teams encounter when creating and navigating the new organisational design?

CRITICAL ANALYSIS

1. Have you ever worked for an organisation in which departments or units could not work well together? If so, what was the cause of the conflict? Did the problems relate to differences in objectives, or differences in time or interpersonal orientation?
2. Do you agree that clear rules and procedures can help to achieve work-unit or department integration? Do you agree with the statement that 'some people, or departments, only follow the rules when it suits them?' What are some strategies to stop departments from not consistently following rules?

10.7 Organising trends

LEARNING OBJECTIVE 10.7 What organising trends are changing the workplace?

Change is part of organisational life. Even as traditional structures are modified, refined and abandoned in the search for new ones, the organising practices that create and implement them must change too. In chapter 1, the concept of the **upside-down pyramid** was introduced as an example of new directions in management. By putting customers on top — served by workers in the middle, and supported by managers at the bottom — this notion tries to refocus attention on the marketplace and customer needs. Although more of a concept than a depiction of an actual structure, such thinking is representative of forces shaping new directions as to how the modern workplace is organised. A common theme runs among the organising trends discussed shortly: that it is important to make the adjustments needed to streamline operations for cost efficiency, higher performance and increased participation by workers.

Shorter chains of command

A typical organisation chart shows the **chain of command**, or the line of authority that vertically links each position with successively higher levels of management. The classical school of management suggested that the chain of command should operate according to the *scalar principle*; that is, there should be a clear and unbroken chain of command linking every person in the organisation with successively higher levels of authority up to and including the top manager.

When organisations grow in size, they tend to get taller, as more and more levels of management are added to the chain of command. This increases overhead costs; it tends to decrease communication and access between top and bottom levels; it can greatly slow decision-making; and it can lead to a loss of contact with the client or customer. These are all reasons that 'tall' organisations with many levels of management are often criticised for inefficiencies and poor productivity. The current trend in organising seeks to solve this problem directly.

In summary, organisations are being 'streamlined' by cutting unnecessary levels of management, with flatter and more horizontal structures being viewed as a competitive advantage.

Less unity of command

Another classical management principle describes how the chain of command should operate in daily practice. The *unity-of-command principle* states that each person in an organisation should report to one and only one supervisor. This notion of 'one person–one boss' is a foundation of the traditional pyramid form of organisation. It is intended to avoid the confusion potentially created when a person gets work directions from more than one source. Unity of command is supposed to ensure that everyone clearly understands assignments and does not get conflicting instructions. It is violated, for example, when a senior manager bypasses someone's immediate supervisor to give orders to the subordinate. This can create confusion for the subordinate and also undermine the supervisor's authority.

The 'two-boss' system of the matrix structure is a clear violation of unity of command. Whereas the classical advice is to avoid creating multiple reporting relationships, the matrix concept creates them by design. It does so in an attempt to improve lateral relations and teamwork in special programs or projects.[77] Unity of command is also less predominant in the team structure and in other arrangements that emphasise the use of cross-functional teams or task forces. Clearly, the current trend is for less, not more, unity of command in organisations.

The greatest advantage of this management trend is its ability to facilitate rapid and innovative responses to new situations, without the incursion of 'red tape' and without the need for constant referrals upwards, but within a context that allows for scrutiny and performance challenge. Intel's Centrino microchip technology, which is designed specifically for mobile computing applications, was developed rapidly within the corporation as the need to support greater mobile computing and wireless internet connection grew quickly among the business sector.

In summary, organisations are using more cross-functional teams, task forces and horizontal structures, and they are becoming more customer conscious. As these changes take place, employees are often finding themselves working for more than one 'boss'.

Wider spans of control

The **span of control** relates to the number of people directly reporting to a manager. When span of control is 'narrow', only a few people are under a manager's immediate supervision; a 'wide' span of control indicates that the manager supervises many people. There was a time in the history of management thought when people searched for the ideal span of control. Although the magic number was never found, this *span-of-control principle* evolved: there is a limit to the number of people one manager can effectively supervise; care should be exercised to keep the span of control within manageable limits.

Figure 10.12 shows the relationship between span of control and the number of levels in the hierarchy of authority. *Flat structures* have wider spans of control — they have few levels of management; *tall structures* have narrow spans of control — they have many levels of management. Because tall organisations have more managers, they are more costly. They are also generally viewed as less efficient, less flexible and less customer-sensitive than flat organisations. Before plans are made to make spans of control smaller, serious thought should be given to both the cost of the added management overhead and the potential disadvantages of a taller chain of command. When spans of control are increased, overhead costs are reduced, and workers with less direct supervision in the flatter structure may benefit from more independence.[78]

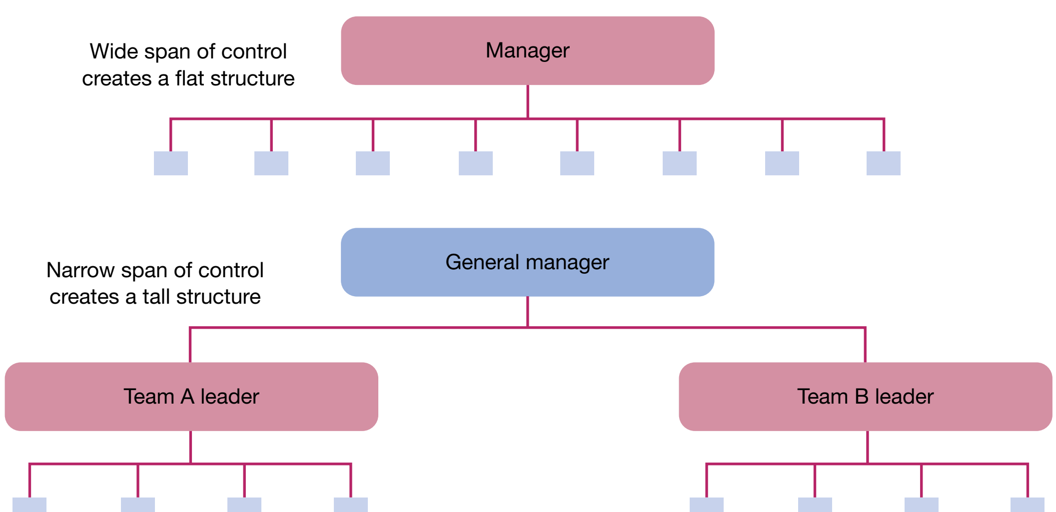

FIGURE 10.12 Spans of control in 'flat' versus 'tall' structures

In summary, many organisations are shifting to wider spans of control as levels of management are eliminated and empowerment gains prominence. Individual managers are taking responsibility for larger numbers of subordinates who operate with less direct supervision.

More delegation and empowerment

All managers must decide what work they should do themselves and what should be left for others. The issue here is **delegation** — the process of entrusting work to others by giving them the right to make decisions and take action. There are three steps to delegation. In step 1, the *manager assigns responsibility* by carefully explaining the work or duties someone else is expected to do. This responsibility is an expectation for the other person to perform assigned tasks. In step 2, the *manager grants authority to act*. Along with the assigned task, the right to take necessary actions (e.g. to spend money, direct the work of others or use resources) is given to the other person. Authority is a right to act in ways needed to carry out the assigned tasks. In step 3, the *manager creates accountability*. By accepting an assignment, the person takes on a direct obligation to the manager to complete the job as agreed on. *Accountability* is the requirement to answer to a supervisor for performance results.

A classical principle of organisation warns managers not to delegate without giving the subordinate sufficient authority to perform. When insufficient authority is delegated, it will be very hard for someone to live up to performance expectations. They simply don't have the authority needed to get the job done. The *authority-and-responsibility principle* states: authority should equal responsibility when work is delegated from a supervisor to a subordinate. Useful guidelines are offered in Manager's notepad 10.5.[79]

MANAGER'S NOTEPAD 10.5

Ground rules for effective delegation

- Carefully choose the person to whom you delegate.
- Define the responsibility; make the assignment clear.
- Agree on performance objectives and standards.
- Agree on a performance timetable.
- Give authority; allow the other person to act independently.
- Show trust in the other person.
- Provide performance support.
- Give performance feedback.
- Recognise and reinforce progress.
- Help when things go wrong.
- Don't forget *your* accountability for performance results.

A common management failure is unwillingness to delegate. Whether due to a lack of trust in others or to a manager's inflexibility in the way things get done, failure to delegate can be damaging. It overloads the manager with work that could be done by others; it also denies others many opportunities to fully use their talents on the job. When well done, however, delegation leads to empowerment, in that people have the freedom to contribute ideas and do their work in the best possible way. This involvement can increase job satisfaction for the individual, and often results in better job performance.

To summarise, managers in progressive organisations are delegating more — they are finding more ways to empower people at all levels to make more decisions affecting themselves and their work.

Decentralisation with centralisation

A question often asked by managers is: should most decisions be made at the top levels of an organisation, or should they be dispersed by extensive delegation throughout all levels of management? The former approach is referred to as **centralisation**; the latter is called **decentralisation**. There is no classical principle on centralisation and decentralisation. The traditional pyramid form of organisation may give the impression of being a highly centralised structure, whereas decentralisation is characteristic of newer structures, and many recent organising trends. However, the issue does not have to be framed as an either/or choice. Today's organisations can operate with greater decentralisation without giving up centralised control. This can be facilitated by developments in information technology.

With computer networks and advanced information systems, managers at higher levels can more easily stay informed about a wide range of day-to-day performance matters. Because they have information on results readily available, they can allow more decentralisation in decision-making.[80] If something goes wrong, presumably the information systems will sound an alarm and allow corrective action to be quickly taken.

In summary, whereas empowerment and related forces are contributing to more decentralisation in organisations, advances in information technology are simultaneously allowing for the retention of centralised control.

CRITICAL ANALYSIS

1. Trends such as wider spans of control, increased delegation and empowerment and shorter chains of command imply that there are now fewer managers (particularly middle managers). What are the dangers of having fewer managers in an organisation? Do you think that these trends limit future career opportunities in management?
2. Delegation and empowerment shifts responsibility to lower levels in organisations, without necessarily compensating lower-level workers for the increased responsibility. Alternatively, managers have to take responsibility for areas that they have no control over, as control is delegated to lower levels within organisations. Do you agree that there are dangers with current organisational trends? Why or why not?

SUMMARY

10.1 What is organising as a management function?

- Organising is the process of creating work arrangements of people and resources, be it for a small unit, a large division or an entire enterprise.
- To organise a work setting, decisions must be made about how to divide up the work that needs to be done, how to allocate people and resources to do it, and how to coordinate results to achieve productivity.
- Structure is the system of tasks, reporting relationships and communication that links together the people and positions within an organisation.
- Formal structure, such as that shown on an organisation chart, describes how an organisation is supposed to work.
- The informal structure of organisation consists of the unofficial working relationships among members.

10.2 What are the major types of organisation structures?

- Departmentalisation is the process of creating structure by grouping people together in formal work units or teams.
- In functional structures, people with similar skills who perform similar activities work together under a common manager.
- In divisional structures, people who work on a similar product, work in the same geographical region, serve the same customers, or participate in the same work process are grouped together under common managers.
- A matrix structure combines the functional and divisional approaches to create permanent cross-functional project teams.

10.3 What are the essentials of organisational design?

- Organisational design is the process of choosing and implementing structures that best arrange resources to serve an organisation's mission and purpose.
- Bureaucratic or mechanistic organisational designs are vertical in nature and are best suited to routine and predictable tasks.
- Adaptive or organic organisational designs are horizontal in nature and are best suited to conditions requiring change and flexibility.

10.4 How do contingency factors influence organisational design?

- Environment, strategy, technology, size and people are all contingency factors influencing organisational design.
- Certain environments lend themselves to more vertical and mechanistic organisational designs. Uncertain environments require more horizontal and adaptive organisational designs.
- Technology — including the use of knowledge, equipment and work methods in the transformation process — is an important consideration in organisational design.
- Although organisations tend to become more mechanistic as they grow in size, designs must be used to allow for innovation and creativity in changing environments.

10.5 What are the new developments in organisation structures and operating systems?

- Increasing complexity and greater rates of change in the environment are challenging the performance capabilities of traditional organisation structures.
- New developments include the growing use of team structures that create horizontal organisations using cross-functional teams and task forces to improve lateral relations and improve problem-solving at all levels.
- New developments are also under way with respect to network structures that cluster systems of contracted services and strategic alliances around a core business or organisational centre.
- Virtual organisations aim to eliminate external organisational boundaries and to mobilise a shifting mix of strategic alliances to accomplish specific tasks and projects.

10.6 What are the major issues in subsystems design?

- Organisations are composed of subsystems that must work well together.
- Differentiation is the degree of difference that exists between various subsystems; integration is the level of coordination achieved among them.
- As organisations become more highly differentiated, they develop a greater need for integration, but as differentiation increases, integration is harder to accomplish.
- Low levels of differentiation can be handled through authority relationships and more vertical organisational designs.
- Greater differentiation requires more intense coordination through horizontal organisational designs, with an emphasis on cross-functional teams and lateral relations.

10.7 What organising trends are changing the workplace?

- Traditional vertical command-and-control structures are giving way to more horizontal structures that have an emphasis on employee involvement and flexibility.
- Many organisations today are operating with shorter chains of command and less unity of command.
- Many organisations today are operating with wider spans of control and fewer levels of management.
- The emphasis in many organisations today is on effective delegation and empowerment.
- Advances in information technology are making it possible to operate with decentralisation, while still maintaining centralised control.

KEY TERMS

Adaptive organisations operate with a minimum of bureaucratic features and encourage worker empowerment and teamwork.

Centralisation is the concentration of authority for most decisions at the top level of an organisation.

The **chain of command** links all persons with successively higher levels of authority.

Cross-functional teams bring together members from different functional departments.

Customer structures group together people and jobs that serve the same customers or clients.

Decentralisation is the dispersion of authority to make decisions throughout all levels of the organisation.

Delegation is the process of distributing and entrusting work to other persons.

Departmentalisation is the process of grouping together people and jobs into work units.

A **divisional structure** groups together people working on the same product, in the same area, with similar customers, or involved in the same processes.

Functional structures group together people with similar skills who perform similar tasks.

Geographical structures group together people and jobs performed in the same location.

The **informal structure** is the set of unofficial relationships among an organisation's members.

A **learning organisation** continuously changes and improves using the lessons of experience.

A **matrix structure** combines functional and divisional approaches to emphasise project or program teams.

Mechanistic designs are centralised with many rules and procedures, a clear-cut division of labour, narrow spans of control and formal coordination.

A **network structure** links networks of outside suppliers and service contractors to a company's core functions.

Organic designs are decentralised with fewer rules and procedures, open divisions of labour, wide spans of control and more personal coordination.

A **organisation chart** describes the arrangement of work positions within an organisation.

Organisational design is the process of creating structures that best serve a company's mission and objectives.

In the **organisational life cycle** an organisation passes through different stages from birth to maturity.

Organisational structure is a system of tasks, workflows, reporting relationships and communication links.

Organising is the process of assigning tasks, allocating resources and arranging activities to implement plans.

Process structures group together jobs and activities that are part of the same processes.

Product structures group together jobs and people working on a single product or service.

Project teams are convened for a particular task or project and disbanded once it is completed.

Span of control refers to the number of subordinates directly reporting to a manager.

Subsystems are smaller components of a larger system.

The **upside-down pyramid** puts customers at the top; served by workers whose managers support them.

Virtual organisations are shifting networks of strategic alliances linked by technology, with very little physical infrastructure, that are engaged as needed.

APPLIED ACTIVITIES

1. What is the difference between a functional structure and a geographical or area divisional structure?
2. What is a virtual organisation structure? Explain the concept by providing an example.
3. What positive and negative results might be expected when levels of management are reduced and the chain of command is shortened in an organisation?
4. What factors are reshaping the design of organisations in the global economy?
5. What difference do the environment and technology make in organisational design?
6. What is the relationship between differentiation, integration and globalisation as issues in subsystems design?
7. As a member of a major management consultancy firm, you have been asked to design a management structure for the next Olympic Games. Using your knowledge of management theory and design, outline a structure for developing the infrastructure, sporting venues and participants' accommodation for this special event.

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CHAPTER 11

Controlling

LEARNING OBJECTIVES

11.1 What does control mean in an organisational context and what are the steps in the control process?
11.2 What are the broad types of controls that managers can utilise?
11.3 What control systems are used in organisations?

Relying on quality to bring control

In 2009, *Fortune* magazine praised Japanese conglomerate Toyota as the world's third most admired company. By 2011 it had slipped to thirty-third.[1] What had caused this considerable decline in the reputation of the world's favourite automobile manufacturer? One contributing factor were accidents involving their vehicles, which had been reported by the media. In one notable case, a Californian family were all killed in 2009 when the accelerator in the Lexus they had on loan from a dealership stuck. The engine propelled them into a 200 kilometre/hour crash.[2] A number of other crashes contradicted the company's marketing slogan of 'safety first'. In 2013 Toyota settled a class action for US$1.6 billion. In 2014 US authorities imposed a US$1.2 billion penalty, with the Federal Bureau of Investigation judgement that 'Toyota put sales over safety, and profits over principle'.[3] The issues were not about quality control but from trying to hide the problems. Denials of responsibility were followed by apologies, but repeated promises to remedy the lack of quality control were never implemented. A culture of a hierarchical organisation can encourage a safety orientation but can also inhibit employees' from speaking up about control failures if they fear retribution for challenging their bosses.

The problems so evident in Toyota are not limited to just this one carmaker. In 2015, General Motors was fined US$900 million for failing to act on ignition problems that directly claimed 124 lives. In 2014, Hyundai-Kia was fined US$300 million for misstating fuel-economy figures. In 2015, Volkswagen CEO Martin Winterkorn resigned due to the giant scandal that erupted when it became public news that the respected German firm had deliberately falsified engine emissions data by 'fixing' computer software in reporting procedures to deceive US regulators, resulting in a drop of €26 billion to the company's value.[4] Part of the problem may be that car manufacturers are faced with a competitive market of continually rising standards for economy and emissions, and are struggling to introduce more efficient engine technology at acceptable costs and thus prices to demanding customers not yet ready to embrace a trade-off with reduced performance in their cars.

All of this prompts the question: can good management implement controls that militate against bad management behaviour to deliver on the needed promises?

Some of the controls that need to be implemented are internal controls. The culture of profit over principle for which Toyota was criticised in 2014 is obviously damaging. Honesty and integrity are corporate values in need of re-emphasis. VW's infamous cheating by tampering with its own software has alerted everyone to the insidious corruption of which even great companies are capable. Tighter procedural controls in monitoring and reporting internally are obviously required.

Other controls relate to external regulations. The Environmental Protection Agency in the United States is contemplating imposing a vehicle emissions standard similar to the European standard of 95 grams of CO_2 kilometre (due to be phased in from 2020). Unsurprisingly, the industry is resisting such initiatives.[5] The hope has been that improvements in diesel engines and their generation of more power per litre of fuel burned (but with more emissions than petrol engines) would appeal even to markets where the use of frugal diesel engines is not yet common, such as in the United States. Diesel engines power about half the vehicles sold in Europe but less than 1 per cent of US cars. Questions relating to globalisation and sustainability loom large.

However, the concerns of environmentalists about diesel engines' higher output of nitrous oxides and other particulates are potentially bringing forward an industry shift from internal combustion technology and diesel engines to electric vehicles, as battery technology improves and governments in countries such as India and China move to limit pollution caused by carbon emissions. In a world market worth US$2 trillion, it is expected that cashed-up non-car manufacturers like Apple and Google will be scanning for opportunities. Even the difference between the 40 per cent gross profit margin that Apple currently makes and the 20 per cent that BMW makes might not be large enough to inhibit Apple's market entry.[6] We have yet to see if we can control the apparently out-of-control car in our lives, and if so, how we are to attempt to do so. The question of control as a function of management is likely to be with us for some time to come, and perhaps permanently.

QUESTION

The cases referred to above indicate the importance of the management of quality in manufacturing as an example of the control function in management. How could the same relationship between quality and control be demonstrated in other sectors, such as tourism or healthcare?

Introduction

The management function of control refers to all processes that keep the manager up to date with what is happening in key areas of the organisation's operations, and which facilitate any necessary organisational changes being made. This is often more complex than it may seem at first glance. If this function is not attended to properly, chaos rapidly ensues. The phrase 'out of control' signals management failure. How the management function of control works varies from one organisation to another but, at the very least, it always requires knowledge of what is happening.

As such, a speedometer is part of a vehicle's control system and provides feedback to the driver about the vehicle's speed (and thus allows the driver to make a better executive decisions about whether to accelerate or brake). This is part of the bigger considerations of direction, destination and expected time of arrival. Put this metaphor into management thinking. How often have we seen managers defend their failure to make good decisions by saying they did not know that certain things were or were not happening in their organisations? Such poor managerial decision-making has led to organisations losing their way, and managers failing to report accurately to the market on their performance. The consequences of poor managerial decision-making can be serious. It all comes down to establishing and maintaining appropriate control.

11.1 Organisational control

LEARNING OBJECTIVE 11.1 What does control mean in an organisational context and what are the steps in the control process?

All organisations require some form of control to ensure that their planning objectives are achieved and the consequent benefits realised. If there is agreement in the organisation about its aims and objectives, and the means to achieve them, then control is less likely to be a contentious issue. If there is dissension surrounding these objectives then individuals or groups of stakeholders may disrupt the planned objectives through resisting or boycotting the control mechanisms that are designed to facilitate goal compliance and organisational performance. This is why the word 'control' often has negative connotations, almost inviting automatic rebellion and resistance from those who do not understand its value in the management of an organisation. Of course, if the actual control mechanisms are perceived to be too demanding, nonsensical or inconsequential, and alienating for staff, then there is likely to be collective resistance. The *scientific management* approach to organisational control, pioneered by Frederick Taylor in the United States, is widely viewed in a negative light for its dehumanising attitude towards work control.[7] This approach caused a great deal of industrial conflict between management and labour in companies such as Ford, General Motors, Alcoa and BHP from the 1930s to the 1980s. It has since been largely replaced by more humanistic concepts of management. Control can therefore take a variety of different forms and is likely to change form as social values shift. Broadly speaking, **controlling** is the process of measuring performance and taking action to ensure the planned outcomes are achieved.

Rationale for controlling

Control is aimed at ensuring that plans are fulfilled and that performance targets are met. Control can be important not only for guaranteeing that the performance level is met but also for ensuring that performance is consistent. Carefully controlling the performance levels of an organisation requires accurate and timely flows of information on the key operational variables and outcomes. There is a need for control mechanisms that can quickly detect and correct unlawful and corrupt behaviour at all levels within an organisation.

Figure 11.1 illustrates the role of controlling in the overall management process. Planning sets the directions and allocates resources. Organising brings people and material resources together in working combinations. Leading inspires people to best use these resources. Controlling sees to it that the right things happen, in the right way, and at the right time. It helps ensure that the performance contributions of individuals and groups are consistent with organisational plans. It helps ensure that performance accomplishments throughout an organisation are consistent with one another in a means–ends fashion. And it helps ensure that people comply with organisational policies and procedures.

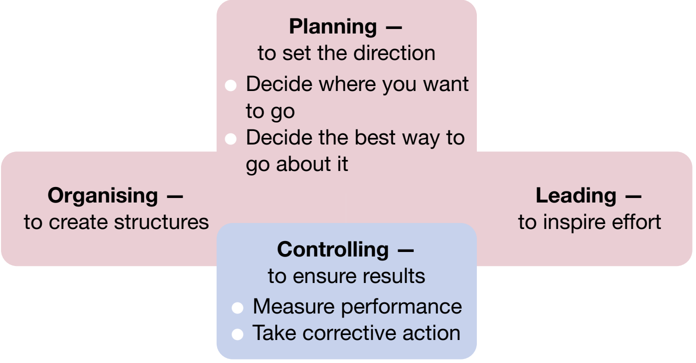

FIGURE 11.1 The role of the controlling function in the management process

Steps in the control process

The classic example of the control process operating in its purest form is the thermostat on an air-conditioner. The thermostat is set to a desired temperature. When the room gets too cold or hot, the thermostat senses the deviation and takes corrective action by heating or cooling. Once the desired temperature is achieved, the heating system or air-conditioner is automatically turned off. This illustrates a **cybernetic control system** — one that is self-contained in its performance-monitoring and correction capabilities. The control process as practised in organisations is not cybernetic, but it does follow similar principles.

As shown in figure 11.2, the management control process involves four steps.

1. Establish objectives and standards.
2. Measure actual performance.
3. Compare results with objectives and standards.
4. Take corrective action as needed.

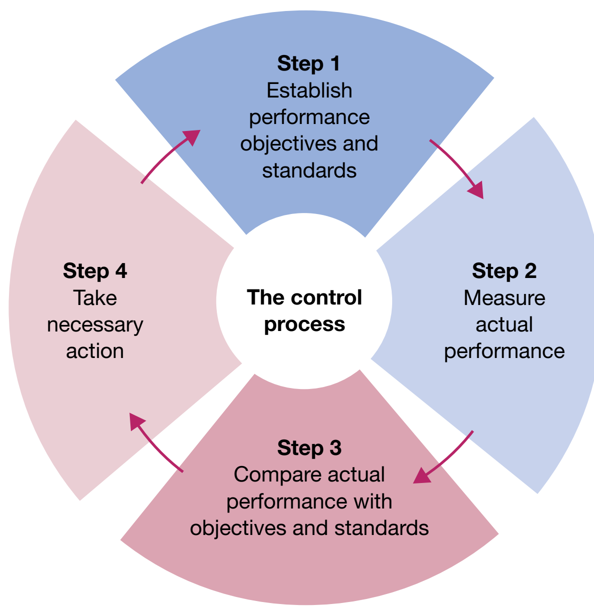

FIGURE 11.2 Four steps in management control

While essential to management, the control process and its implications apply equally well to personal career planning. Think about it. Without career objectives, how do you know where you really want to go? How can you allocate your time and other resources to take best advantage of available opportunities? Without measurement standards, how can you assess any progress being made? How can you adjust current behaviour to improve the prospects for future results?

Step 1: Establish objectives and standards

The control process starts with planning, when performance objectives and standards for measuring them are set. It can't begin without them. Performance objectives, furthermore, should represent key results to be achieved. The focus in planning should be on describing 'critical' or 'essential' results that will make a substantial difference in the success of the organisation. The standards are important, too, and they must also be considered right from the beginning. As key results are identified, the standards or specific measures that will be taken to indicate success or failure in their accomplishment must also be specified. For example, an oral health service in a large Australian public hospital gets its specialist dentists together regularly to review patient feedback and treatment results. The dentists review the feedback and results of their work in relation to demand and the resources available, as well as in relation to their knowledge of developments in their professional field of public health dentistry. They then decide on how they need to allocate and prioritise their work and what changes they need to make in their service provision, to get maximum value for the resources expended.

Two types of standards are common to the organisational control process. **Output standards** measure performance results in terms of outcomes like quantity, quality, cost or time taken to accomplish work. Examples of output standards include percentage error rate, dollar deviation from budgeted expenditures, and the number of units produced or customers served in a time period. **Input standards**, on the other hand, measure effort in terms of the amount of work expended in task performance. They are used in situations where outputs are difficult or expensive to measure. Examples of input standards include conformance to rules and procedures, efficiency in the use of resources, and work attendance or punctuality.

Step 2: Measure actual performance

The second step of the control process is to measure actual performance. The goal here is to accurately measure the performance results (output standards) and/or the performance efforts (input standards). In both cases, the measurement must be accurate enough to spot significant differences between what is really taking place and what was originally planned. A common management failure in this regard is an unwillingness or inability to measure the performance of people at work. Yet without measurement, effective control is not possible.

Increasingly, managers are required to assess organisational performance. This means measuring actual outcomes. It can be achieved through analysing statistical/quantitative data collected by employees, supervisors or managers, or by an external organisation, and typically presented in the form of spreadsheets. Alternatively, managers can use qualitative techniques such as observing employees at work. This is often referred to as 'management by wandering around' (MBWA).[8]

Step 3: Compare results with objectives and standards

The third step in the control process is to compare measured performance with objectives and standards to establish the need for action. This step can be expressed as the following *control equation*:

$$\text{Need for action} = \text{Desired performance} - \text{Actual performance}$$

There are different ways of comparing desired and actual performance. A *historical comparison* uses past performance as a benchmark for evaluating current performance. A *relative comparison* uses the performance achievements of other people, work units or organisations as the evaluation standard. An *engineering comparison* uses engineered standards that are set scientifically through such methods as time and motion studies. For instance, the delivery routines of drivers for a courier company are carefully measured in terms of the expected time taken to make a delivery on various routes.

In an earlier chapter, the concept of benchmarking was formally introduced as a planning approach. Its importance to the control process is also clear. Benchmarking gained popularity as a means of identifying best practices, with emphasis always on the question: what can I or we do better? Without rigorous and regular measurement comparisons — be they historical, relative or engineering driven — answers to this question are difficult to get. In Australia, one major bank is so convinced of the benefits of benchmarking that it provides internet access to benchmarking tools: an industry analysis to allow a business to compare itself against others in the same industry, a break-even analysis to help businesses calculate break-even points, and financial ratio calculators for managers to track key performance indicators (such as debt ratios, profitability ratios and liquidity ratios).[9]

Step 4: Take corrective action

The control equation indicates that the greater the measured difference between desired and actual performance, the greater the need for action. The final step in the control process, accordingly, is taking any action necessary to correct or improve things. This allows for a judicious use of **management by exception** — the practice of giving priority attention to situations that show the greatest need for action. This approach can save valuable time, energy and other resources, while allowing all efforts to be concentrated on the areas of greatest need.

Two types of exceptions may be encountered. The first is a *problem situation* in which actual performance is below the standard. The reasons for this performance deficiency must be understood. Corrective action is required to restore performance to the desired level. The second exception is an *opportunity situation* in which actual performance is above the standard. The reasons for this extraordinary performance must also be understood. Action should then be taken to continue this higher level of accomplishment in the future. The original plan, objectives and standards can also be reviewed to determine whether they should be updated.

Measurement is certainly an important key to the control process. But so too is the willingness to confront the implications of the measurements, to learn from experience, and to actively plan to improve future performance. The healthcare facility that monitors the results of surgical procedures in terms of resources expended and benefits achieved is using **after-action review** processes to inform its decision-making. These are structured reviews of problems encountered, lessons learned and actual outcomes achieved on completed projects or special events. Staff members may be asked to respond to questions about the stated objectives of the project, the actual outcomes, the lessons learned and how future projects or service provision might best be managed Many organisations use team-based structures, and such reviews may also consider how the team can be more effective. However, improving team performance may require upgrading the knowledge base and job skills of individuals. The after-action review is an integral part of an organisation's continuous improvement process because it makes review a part of the organisational culture and it encourages the people involved to take responsibility for their performance and accomplishments.

Questions typically asked in such a session are as follows.

- What did we say we were going to do?
- What did we do?
- How are what we said we would do and what we actually did different?
- What did we learn from this?
- Who can we tell so the organisation as a whole will benefit?
- What changes do we now recommend, and what are their expected benefits if the recommendations were to be implemented?
- What new resources need to be introduced and what needs to be removed from our practices or assets to enable these changes to proceed and benefits to be realised?
- What does the organisation as a whole need to 'unlearn'?

CRITICAL ANALYSIS

1. Given that controls are essential to any organisation's operational success, should progress be reported to top management against internal objectives or external benchmarks? Justify your answer.
2. What is the link between management controls and organisational planning? Should controls be built into the planning process?

11.2 Types of controls

LEARNING OBJECTIVE 11.2 What are the broad types of controls that managers can utilise?

There are three major types of managerial controls — feedforward, concurrent and feedback controls, as shown in figure 11.3.[10] Each is relevant to a different phase of the organisation's input–throughput–output cycle of activities. Each offers significant opportunities for actions to be taken that advance organisational productivity and high performance. And, importantly, each offers the opportunity for performance-oriented organisational and personal learning through systematic assessment of actions and results.

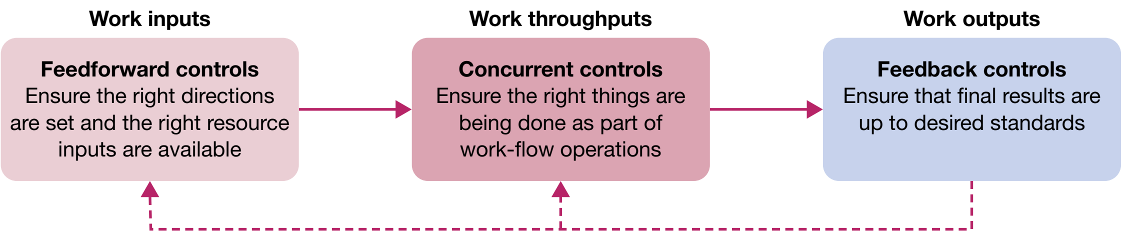

FIGURE 11.3 Feedforward, concurrent and feedback controls in the management process

Feedforward controls

Feedforward controls, also called *preliminary controls*, are accomplished before a work activity begins. They ensure that objectives are clear, that proper directions are established, and that the right resources are available to accomplish them. By making sure that the stage is properly set for high performance, feedforward controls are preventive in nature. They are designed to eliminate the potential for problems later on in the process by asking an important but often-neglected question: what needs to be done before we begin? This is a forward-thinking and active approach to control rather than a reactive and defensive one.

The quality of resources is a key concern of feedforward controls. At McDonald's, for example, preliminary control of food ingredients plays an important role in the organisation's quality program. The company requires that suppliers of its hamburger buns produce them to exact specifications, covering everything from texture to uniformity of colour. Internationally, the organisation works hard to develop local suppliers that can offer dependable quality.[11]

Concurrent controls

Concurrent controls focus on what happens during the work process. Sometimes called *steering controls*, they monitor ongoing operations and activities to make sure things are being done according to plan. Ideally, concurrent controls allow corrective actions to be taken before a task is completed. The key question is: What can we do to improve things before we finish? Here, the focus is on quality of activities during the work process. This approach to control can reduce waste in the form of unacceptable finished products or services.

Taking McDonald's again as an example, shift leaders provide concurrent control through direct supervision. They constantly observe what is taking place even while helping out with the work. They are trained to intervene immediately when something is not done in the right way and to correct things on the spot. Detailed instruction manuals also 'steer' workers in the right directions as their jobs are performed.

SOCIAL RESPONSIBILITY

Organisation structure as a form of control in emerging markets

Emerging markets in Asia pose special challenges to managers along with the opportunity of vast numbers of customers. The favoured organisational structure is the diversified conglomerate, such as the Tata Group in India, that accounts for 6 per cent of the country's GDP. With subsidiaries in carmaking, agricultural chemicals, food production, hotels and telecommunications, it has the ability to shift its emphasis across many market sectors, depending on changing conditions such as rising and falling talent shortages. Indeed, emerging markets are leading the way in many sectors through their application of familiar management theories such as lean production, paring away non-essential features down to 'frugal production', to compete on productivity and not just on cost. Innovative management models are using mass-production techniques to supply sophisticated services in markets once thought to be too fragmented and geographically constrained.

An Indian company redesigned mobile phone base stations to run on a solar-powered battery — not only helping people in remote areas who have little or erratic access to electricity, but creating a new green technology. The emerging markets of the developing world are implementing business models that see these regions enjoying growth rates that are proving sustainable.

Adaptability is the key. For example, the business model of Indian high-end leather goods manufacturer Hidesign relies on quality control in production. Another structure in emerging markets is the hybrid design, where private and government ownership is used to bring the advantages of both to balance the disadvantages of either. Instead of merely scaling up to gain economies of scale by reducing costs through long production runs of standardised items, hybrid structure organisations scale *out* rather than up, to involve a wider circle of people where large populations are scattered — thereby avoiding transport costs and the expense of layers of bureaucracy in centralised structures.

Some see the hybrid business model as temporary, and likely to disappear as local stockmarkets and investors assume control and the risk management. Hybrid organisations are inherently confusing, responsible to both the state and the market. While the path to privatisation is long, the flexibilities that hybrids offer make them viable structures for many emerging markets such as China and India.

These are examples of how the organisation structure serves as a form of management control. It is a matter of balance and relevance. Too tight or coupled a structure, and adaptability to changing circumstances is impaired. Too loose or uncoupled, and the benefits of controls are unrealised: information, coordination and performance, along with compliance and efficiency.[12]

QUESTION

Recall an organisation known to you, and think out how it uses its structure to facilitate the control function.

It seems clear that with the right organisational structure, companies can use various methods to manage the control function. Having discussed feedforward and concurrent controls, we now turn our attention to feedback controls.

Feedback controls

Feedback controls, also called *postaction controls*, take place after work is completed. They focus on the quality of end results rather than on inputs and activities. They ask the question: Now that we are finished, how well did we do? Restaurants, for example, ask how you liked a meal — after it is eaten;

a final exam mark tells you how well you performed — after the course is over; a budget summary informs managers of any cost overruns — after a project is completed. In these and other circumstances the feedback provided by the control process is useful information for improving things in the future. It also provides formal documentation of accomplishments that may be used for allocating performance-based rewards.

Employees at a McDonald's restaurant never know when a corporate evaluator may stop in to sample the food and the service. When this happens, however, the evaluator provides feedback with the goal of improving future operations.

Internal and external control

Managers have two broad options with respect to control. They can rely on people to exercise self-control over their own behaviour. This strategy of **internal control** allows motivated individuals and groups to exercise self-discipline in fulfilling job expectations. Alternatively, managers can take direct action to control the behaviour of others. This is a strategy of **external control** that occurs through personal supervision and formal administrative systems. Organisations with effective control typically use both strategies to good advantage. However, the trend today is to increase the emphasis on internal control, or self-control. This is consistent with the renewed emphasis on participation, empowerment and involvement in the workplace.

Internal control is exercised by people who are motivated to take charge of their own behaviour on the job, and who are given the chance to do so. Douglas McGregor's Theory Y perspective, introduced in the chapter on the historical foundations of management, recognises the willingness of people to exercise self-control in their work.[13] Of course, McGregor also recognised that people are most likely to do this when they participate in setting performance objectives and standards. Reliance on an internal control strategy also requires a high degree of trust. When people are expected to work on their own and exercise self-control, managers must give them a chance to meet performance expectations.

The potential for self-control is increased when capable people have a clear sense of organisational mission, know their performance objectives, and have the resources necessary to do their jobs well. It is also enhanced by participative organisational cultures, in which people are expected to treat each other with respect and consideration, are allowed to exercise personal initiative, and are given ample opportunities to experience satisfaction through job performance.

Bureaucratic control

A classic form of external control is **bureaucratic control**. It uses authority, policies, procedures, job descriptions, budgets, and day-to-day supervision to make sure that people's behaviour is consistent with organisational interests. This form of control flows through the organisation's hierarchy of authority. Organisations typically have policies and procedures regarding sexual harassment, for example, with the goal being to make sure that members behave toward one another respectfully and in ways that offer no suggestion of sexual pressures or improprieties. Organisations also use budgets for staff, equipment, travel expenses, and the like to keep behaviour targeted within set limits. Another level of bureaucratic control comes from the organisation's external environment. Here, laws and regulations govern behaviour of organisations. For example, with detailed reporting requirements of financial management, companies in the Western world are under continuous scrutiny by stock exchanges and regulators to provide maximum certainty for the business community and investors in general.

Clan control

Whereas bureaucratic control emphasises hierarchy and authority, **clan control** influences behaviour through norms and expectations set by the organisational culture. This is the power of collective identity, where persons who share values and identify strongly with one another tend to behave in ways that are consistent with one another's expectations. Just look around your university classroom and campus.

You'll see clan control reflected in dress, language and behaviour as students tend to act consistent with the expectations of peers and groups they identify with. The same holds true in organisations, where clan control influences employees and members to display common behaviour patterns.

Market control

Market control is essentially the influence of market competition on the behaviour of organisations and their members. Businesses show the influence of market control in the way that they adjust products, pricing, promotions, and other practices in response to customer feedback and what competitors are doing. A good example is the growing emphasis on 'green' products and sustainable practices. For example, when an organisation receives positive publicity from a commitment to increasing its use of renewable energy sources, the effect is likely to be felt by its competitors, who may have to adjust their practices in order to avoid giving up the public relations advantage to their environmentally conscious competitor. In this sense, the time-worn phrase 'keeping up with the competition' is really another way of expressing the dynamics of market controls in action.

CRITICAL ANALYSIS

1. Describe how organisational culture is a form of control in an organisation known to you.
2. Explain how the concepts of internal and external control relate to Douglas McGregor's Theory X and Theory Y managerial assumptions of employees (outlined in the chapter on the historical foundations of management).

11.3 Organisational control systems

LEARNING OBJECTIVE 11.3 What control systems are used in organisations?

Each component in an organisation's control systems should contribute to maintaining predictably high levels of performance. Internal control should be encouraged and supported; external control should be appropriate and rigorous. The management process provides for a certain amount of control when planning, organising and leading are well done. Additional and comprehensive control is provided by appropriate systems such as those dealing with remuneration and benefits, employee discipline, financial information and operations management.

Remuneration and benefits

Base remuneration plays an important role in attracting a highly qualified workforce to the organisation. If remuneration is attractive and competitive in the prevailing labour markets, it can make the organisation highly desirable as a place of employment. If employers get the right people into jobs, costs are reduced and productivity is boosted over the long term. Generally, more capable people exercise a higher level of self-control. When the wage and salary structure of an organisation is unattractive and uncompetitive, however, it will be difficult to attract and retain highly competent workers. The less capable the workforce, the greater the burden on external controls to ensure that desired levels of performance are achieved and maintained.

The use of incentive remuneration systems also helps. When properly implemented, 'pay-for-performance', 'performance-related pay' and 'merit pay' plans serve as control systems. They can be strong influences on individual and group behaviour. The logic typically used is quite straightforward, as described this way by a corporate executive: 'Pay very poorly for poor performance; pay poorly for average performance; pay well for above-average performance; pay obscenely well for outstanding performance.'[14] However, the global financial crisis brought widespread cynicism about senior bank executives rewarding themselves with millions of dollars in bonuses while they brought the global financial system to its knees. There is trenchant criticism in business publications of executives being paid

20–30 times the wages of their employees.[15] A recent change in thinking about remuneration is advocating the logic of 'pay enough to get money off the negotiating table, and reward people with jobs that offer autonomy and mastery'.[16]

Pay-for-performance systems have been more widely adopted in countries with a strong emphasis on individualism, such as Australia, the United Kingdom and the United States, rather than on collectivism, such as in Scandinavia. In addition, non-unionised, private sector firms are more likely to implement these systems than unionised or public sector organisations.[17] Despite these moves in Australia, in many cases more men than women are benefiting from pay-for-performance systems at an executive level, and in the UK a national survey showed that a persistent and large gender gap continues to exist in the boardroom, with salaries and careers favouring males.[18] Government equal opportunity agencies are reporting that women still hold a low percentage of senior management positions in Australia. Despite having had such female role models as the prime minister, governor-general, along with judges and senior officers in defence and the public service, CEO and senior management positions in many Australian organisations are still more likely to be male than female. The percentage of Australian companies with female board members is growing, but only slowly.

Because of the growing importance of a worker's total remuneration package, fringe benefits also have control implications. Their attractiveness can also affect an organisation's ability to recruit and retain a qualified workforce. In today's environment of rising costs and workforce diversity, fringe benefits — from increased superannuation contributions to company cars — can be very expensive. Many employers are now trying to provide individuals with more choice in selecting benefits that suit their diverse needs. At the same time, employers are seeking ways to reduce expenditures by asking employees to pay more of the fringe benefits' cost — an unpopular move with employees and trade unions alike.

Employee discipline systems

Absenteeism, tardiness, sloppy work — the list of undesirable conduct can go on to even more extreme actions: falsifying records, sexual harassment, embezzlement. All are examples of behaviours that can and should be formally tackled in employee discipline systems. **Discipline** is the act of influencing behaviour through reprimand. Ideally, this form of managerial control is handled in a fair, consistent and systematic way.

Progressive discipline ties reprimands to the severity and frequency of the employee's infractions. Under such a system, penalties vary according to how significant a disruptive behaviour is and how often it occurs. For example, the progressive discipline guidelines of one university state: 'The level of disciplinary action shall increase with the level of severity of behaviour engaged in and based on whether the conduct is of a repetitive nature.' In this particular case, the ultimate penalty of 'discharge' is reserved for the most severe behaviours (e.g. any criminal act) or for continual infractions of a less severe nature (e.g. being continually late for work and failing to respond to a series of written reprimands and/or suspensions).

The goal of a progressive discipline system is to achieve compliance with organisational expectations through the least extreme reprimand possible. But even this type of control can have unpleasant consequences. Sometimes the relationships between managers and disciplined workers take on an adversarial character. Sometimes managers wait too long and fail to take disciplinary action until a problem is very severe. Sometimes poor attitudes form among people who can't seem to change and so keep receiving ever harsher punishments.[19]

One way to develop a consistent personal approach to disciplinary situations is to remember the analogy of the 'hot stove rules' of discipline. They begin with a simple rule: 'When a stove is hot, don't touch it.' We also know that when this rule is violated, you get burned — immediately, consistently, but usually not beyond the possibility of repair. Six 'hot stove rules' for using reprimands in disciplinary action are described in Manager's notepad 11.1.[20]

MANAGER'S NOTEPAD 11.1

'Hot stove rules' of employee discipline

- A reprimand should be immediate; a hot stove burns the first time you touch it.
- A reprimand should be directed towards someone's actions, not the individual's personality; a hot stove doesn't hold grudges, doesn't try to humiliate people and doesn't accept excuses.
- A reprimand should be consistently applied; a hot stove burns anyone who touches it, and it does so every time.
- A reprimand should be informative; a hot stove lets a person know what to do to avoid getting burned in the future — 'Don't touch'.
- A reprimand should occur in a supportive setting; a hot stove conveys warmth but with an inflexible rule — 'Don't touch'.
- A reprimand should support realistic rules; the don't-touch-a-hot-stove rule isn't a power play, a whim or an emotion of the moment; it is a necessary rule of reason.

Information and financial controls

The pressure is ever present today for all organisations to use their resources well and to perform with maximum efficiency. The use of information in financial analysis of organisational performance is vital to managerial control. At a minimum, managers should be able to understand and assess for control purposes the following important financial aspects of organisational performance: *liquidity* — ability to generate cash to pay bills; *leverage* — ability to earn more in returns than the cost of debt; *asset management* — ability to use resources efficiently and operate at minimum cost; and *profitability* — ability to earn revenues greater than costs.

These financial performance indicators can be assessed using a variety of financial ratios, including those shown in Manager's notepad 11.2. Such ratios provide a framework for historical comparisons within the organisation and external benchmarking relative to industry performance. They can also be used to set financial targets or goals to be shared with employees and tracked to indicate success or failure in their accomplishment. For example, global eyewear manufacturer Luxottica is based in Milan and has businesses in 38 markets — including a family of companies in Australasia. Its manufacturing business supplies products to its 800 retail stores and its licensed operations have strong market share, with most of the world's best known brands in its product portfolio. Its extraordinary success has been built on many corporate acquisitions, but especially on quality and customer orientation. Staff are closely involved in design and development, and managers meet regularly to discuss goals (including financial goals) and to provide feedback to employees about quarterly and annual key financial performance and technological information. The company believes that providing a financial scorecard to staff has numerous benefits. It informs them of the company's current position, helps them focus on how they can work more effectively and strengthens personal commitments to improving corporate profitability. This sharing of information is coupled with profit sharing and performance-related pay systems.

MANAGER'S NOTEPAD 11.2

Popular financial ratios with preferred directions ↑ or ↓

Liquidity ratios:
- [↑] Current ratio = Current assets/Current liabilities
- [↑] Acid test = (Current assets − Inventory)/Current liabilities

Leverage ratios:
- [↓] Debt ratio = Total debts/Total assets
- [↑] Times interest earned = Profit before interest and tax/Total interest

Asset management ratios:
- [↑] Inventory turnover = Sales/Average inventory
  [↑] Total asset turnover = Sales/Total assets

Profitability ratios:
- [↑] Net margin = Profit after tax/Sales
- [↑] Return on investment (ROI) = Profit after tax/Total assets.

Budgets are also widely used as both a planning and a control mechanism in organisations. As outlined in the chapter on planning, a budget is a single-use plan that commits resources to activities, projects or programs. For example, organisations may set weekly, monthly, quarterly and yearly budgets for revenues and expenses. In terms of the controlling function, it is important that performance against these budgets is monitored on a regular basis, and corrective action is taken if necessary.[21]

Operations management and control

Control is integral to operations management, where the emphasis is always on using people, resources and technology to best advantage. The areas of purchasing control, inventory control and statistical quality control are all receiving current managerial attention.

Purchasing control

Rising costs of materials are a fact of life in today's economy. Controlling these costs through efficient purchasing management is an important productivity tool. Like an individual, a thrifty organisation must be concerned about how much it pays for what it buys. To leverage buying power, more organisations are centralising purchasing to allow buying in volume. They are committing to a small number of suppliers with whom they can negotiate special contracts, gain quality assurances and get preferred service. They are also finding ways to work together in supplier–purchaser partnerships so they can operate in ways that allow each partner to better contain its costs. It is now more common, for example, that parts suppliers keep warehouses in their customers' facilities. The supplier maintains inventory and stocks it in accordance with forecast demand. The customer provides the space; the supplier does the rest. The benefits to the customer are lower purchasing costs and preferred service; the supplier gains an exclusive customer contract and more sales volume.

Inventory control

Inventory is the amount of raw materials or products held by an organisation that it has purchased or manufactured with the intention of selling them as part of its business model. Organisations maintain inventories of raw materials, and works in process and/or finished goods. The goal of inventory control is to make sure that an inventory is just the right size to meet performance needs, subject to considerations of risk, thus minimising the carrying costs. Carrying costs also depend on factors such as interest rates (if money must be borrowed to finance procurement) and factors such as whether the items require secure or air-conditioned storage. The economic order quantity (EOQ) is the order quantity that minimises the total variable costs associated with changing order quantities. Inventory carrying costs vary with order quantity and with order costs. The higher the demand and the cost per order, the higher the EOQ. Also, the higher the carrying costs and the variable costs per unit of inventory, the lower the EOQ. The EOQ is the square root of twice the cost per order and the period demand (usually annual) divided by the period carrying cost (expressed as a percentage of the item cost) multiplied by the variable cost per unit inventory.

The **reorder point method** of inventory control involves ordering a replacement stock when each time an inventory level falls to a predetermined point. When this point is reached, a decision is automatically made (typically by computer) to place a standard order to replenish the stock. Order sizes are mathematically calculated (using the EOQ equation) to minimise the costs of holding inventory. The best example is the local supermarket, where daily orders are routinely made on this basis. Typically, the reorder instruction is triggered automatically by the sales of an item recorded by the inventory management system on information from the check-out computer showing that the stock of that item has been reduced by sales to a predetermined level. The size of the reorder is ideally the EOQ.

Another approach to inventory control is **just-in-time (JIT) scheduling**. Made popular by the productivity of Japanese industry, JIT systems try to reduce costs and improve workflow by scheduling materials to arrive at a workstation or facility 'just in time' to be used. This minimises carrying costs since almost no inventories are maintained — materials are ordered or components produced only as needed. The just-in-time approach is an important productivity-enhancing management innovation. The system allows production and purchasing to be done in small quantities and no earlier than necessary for use.

Quality control

Consistent with the total quality management theme in today's workplace, the practice of **quality control** involves checking processes, materials, products and services to ensure that they meet high standards. This responsibility applies to all aspects of operations, from the selection of raw materials and supplies right down to the last task performed to deliver the finished good or service. This process may be supported by rigorous statistical analysis. Typically this means taking samples of work, measuring quality in the samples, and then determining the acceptability of results. Unacceptable results in a sample call attention to the need for investigation and corrective action to bring operations back up to standard. The power of statistics allows the sampling to be efficiently used as the basis for decision making. At General Electric, for example, a Six Sigma program drives the quest for competitive advantage. This means that statistically the firm's quality performance will tolerate no more than 3.4 defects per million — a perfection rate of 99.9997 per cent! As tough as it sounds, 'Six Sigma' is a common quality standard for contemporary, highly automated manufacturing environments.

COUNTERPOINT

The Chinese perception of quality

Research by Cheng, Li and Luo (2014) provides an important contribution to our view of quality — the fact that it is dynamic and may be determined by context. They suggest that the evaluation of quality in China can only partly take into consideration existing mature quality evaluation models traditionally accepted by Western economies (particularly the methods of evaluating customer satisfaction) because there are conditions that are unique to China, including the conditions it has experienced during its economic transition.

While there is a general perception, both nationally and internationally that, overall, product quality is poor in China (with widespread media attention on the outbreak of serious product safety incidents such as milk powder and infant formula containing melamine), there is less recognition of quality indicators — such as that China is now the largest commodity exporter in the world, particularly to countries with strict quality standards such as the United States and European countries.

Using four measures of quality: consumer satisfaction with quality; product safety; government regulations on quality; and citizens' concept of quality, Cheng, Ki and Luo suggest that the overall evaluation of quality in China is summarised as having just reached a general standard. What is most revealing about the study is that they find that while product safety remains steady as a whole, government quality regulations are ineffective because it is Chinese citizens' perceptions about the concept of quality that are actually poor. Supporting this are their findings of a positive relationship between the effectiveness of government regulation on quality and Chinese citizens' concept of quality, consumer satisfaction with quality and product safety. This shows it is not enough to simply have controls in place, it is also important to communicate them. This perspective adds a twist to our traditional notions of continuous improvement, with the authors calling not only for an emphasis on product safety during quality evaluation and quality improvement systems, but also for the constant enhancement of quality regulation effects on Chinese citizens' concept of quality, as the means to drive quality development.[22]

QUESTION

Why is it important to communicate quality control measures to customers?

Project management and control

Projects are tasks with multiple components that have to happen in a certain sequence. They must be completed by a specified date; usually within a specified budget and to a particular quality standard. Project management is the responsibility for overall planning, supervision and control of projects. A project manager's job is to ensure that a project is well planned and then completed according to plan — on time, within budget, and consistent with objectives. Two useful techniques for project management and control are Gantt charts and CPM/PERT.

Gantt charts

A **Gantt chart**, such as the one depicted in figure 11.4, graphically displays the scheduling of tasks required to complete a project. This approach was developed in the early 20th century by Henry Gantt, an industrial engineer, and it has become a mainstay of project management ever since. In the figure, the left column lists major activities required to complete a new mobile phone prototype. The bars extending from the right indicate the time required to complete each activity.

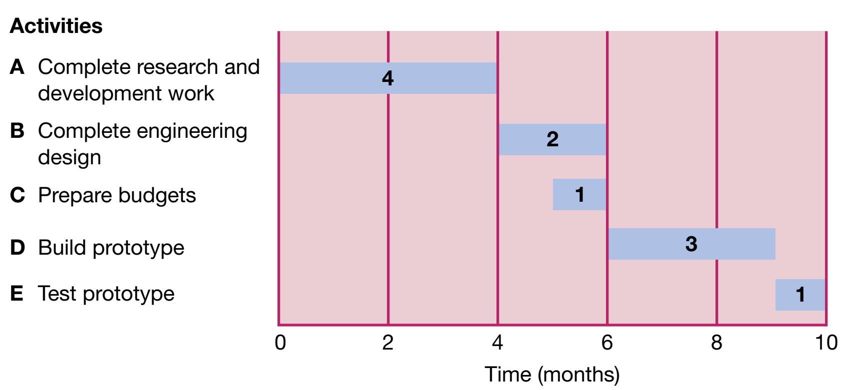

FIGURE 11.4 Simplified Gantt chart for the development of a new mobile phone prototype

The Gantt chart provides a visual overview of what needs to be done on the project. This facilitates control by allowing progress checks to be made at different time intervals. It also assists with event or activity sequencing, making sure that things get accomplished in time for later work to build upon them. One of the biggest problems with projects, for example, is when delays in early activities create problems for later ones. A project manager can actively use Gantt charts in an attempt to avoid such difficulties, or to plan contingencies. Obviously, the chart in the figure is oversimplified; an actual project to develop a new mobile phone — even a product modification such as an updated version of a smartphone — would be a lot more complicated. However, with contemporary computer assistance, Gantt charts can play a useful role in helping project managers track and control progress — even through high levels of complexity.

CPM/PERT techniques

A companion to the Gantt chart is **CPM/PERT**, a combination of the critical path method and the program evaluation and review technique. Project planning based on CPM/PERT uses a network chart like the one shown in figure 11.5. Such charts are developed by breaking a project into a series of small subactivities that each have clear beginning and end points. These points become 'nodes' in the charts, and the arrows between nodes indicate the order in which things must be completed. The full diagram shows all the interrelationships that must be coordinated during the entire project.

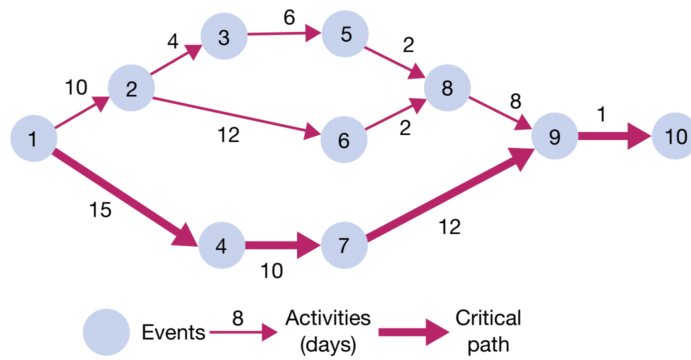

FIGURE 11.5 Sample CPM/PERT network activity-on-node diagram

Use of CPM/PERT techniques helps project managers track and control activities, and make sure they happen in the right sequences — and on time. The activities can be listed on the arrows for tracking purposes, known as the activity-on-arrows (AOA) diagram; they can also be listed on the nodes, resulting in activity-on-nodes (AON) diagrams. The network in figure 11.5 is an AON diagram. If you look at it again, you should notice that the time required for each activity can be easily computed and tracked. The pathway with the longest completion time from start to finish is called the **critical path**. It represents the shortest possible time in which the entire project can be completed, assuming everything goes according to plan. In the example, you will find that the critical path is 38 days.

Balanced scorecards

If 'what gets measured happens', then managers should, consequently, take advantage of 'scorecards' to record and track performance results. For example, if a lecturer takes class attendance and assigns marks based on it (in itself an educationally dubious practice, of course), students tend to come to class; if an employer tracks the number of customers each employee serves per day, employees tend to serve more customers. Do the same principles hold for organisations? Strategic management consultants Robert S. Kaplan and David P. Norton believe they do, and advocate using the **balanced scorecard** for management control.[23] It gives top managers, as they say, 'a fast, but comprehensive view of the business'. The basic principle is that to do well and to win, you have to keep score. Developing a balanced scorecard for any organisation begins with a clarification of the organisation's mission and vision — what it wants to be, and how it wants to be perceived by its key stakeholders. The following questions are used to develop specific scorecard goals and measures.

- *Financial performance*. To improve financially, how should we appear to our shareholders? Sample goals: survive, succeed and prosper. Sample measures: cash flow, sales growth and operating income, increased market share and return on equity.
- *Customer satisfaction*. To achieve our vision, how should we appear to our customers? Sample goals: new products and responsive supply. Sample measures: percentage sales from new products and percentage on-time deliveries.
- *Internal process improvement*. To satisfy our customers and shareholders, at what internal business processes should we excel? Sample goals: manufacturing excellence, design productivity and new product introduction. Sample measures: cycle times, engineering efficiency and new product time.
- *Innovation and learning*. To achieve our vision, how will we sustain our ability to change and improve? Sample goals: technology leadership and time to market. Sample measures: time to develop new technologies and new product introduction time versus competition.

MBO: integrated planning and controlling

Planning and controlling must work together. A useful technique for integrating them in day-to-day practice is **management by objectives (MBO)**, which was outlined in the chapter on planning. This is a structured process of regular communication in which a supervisor or team leader and a subordinate or team member jointly set performance objectives and review results accomplished.[24]

Although many managers may describe what they are doing by different names, it will often have a common thread that is consistent with the MBO concept. If you want high performance from individual contributors, you must hire the best people, work with them to set challenging performance objectives, give them the best possible support and hold them accountable for results.

Many of Australasia's large and medium-sized corporations use some form of MBO system. However, like a number of European and Asian companies, they have increasingly used the concept for teams rather than individuals. As more companies set group- or team-based tasks they have fine-tuned the control system to reflect a collective responsibility for outcomes. And countries and cultures that take a collective rather than an individualistic approach to decision-making and accountability, such as the Asian, Scandinavian and Germanic countries, have extensively modified MBO systems to reflect a group or team perspective.

The disadvantages of MBO as both a planning and control mechanism can be both generic and culturally specific. In terms of the controlling aspect, the exact quantification of objectives can be difficult in some industries, particularly those involving a large 'service' component in the final 'product'. Also, the benefits of an employee's actions and behaviour may not be realised until a considerable time later. This is particularly true with training and teaching where ideas and concepts discussed in the classroom or workplace may not be fully appreciated at the time of delivery, when trainee or student feedback is measured. The real benefits may not be realised until months or even years later, and this may not be captured in formal feedback measures.

Culturally specific disadvantages relate mainly to the appropriateness of focusing on the individual. Although this may seem acceptable in individualistic societies such as Australia, North America and Britain, it is considered inappropriate in more collective societies. Even within Australia, MBO would be considered culturally unacceptable in Indigenous organisations where there is a strong 'collective culture'.

CRITICAL ANALYSIS

1. How can an organisation attempt to ensure that its remuneration and benefits program actually increases organisational control?
2. What might be potential sources of resistance to MBO and the balanced scorecard approaches?

SUMMARY

11.1 What does control mean in an organisational context and what are the steps in the control process?

- Controlling is the process of monitoring performance and taking corrective action as needed.
- The four steps in the control process are: establish performance objectives, measure actual performance, compare results with objectives, and take necessary action to resolve problems or explore opportunities.

11.2 What are the broad types of controls that managers can utilise?

- Feedforward controls are accomplished before a work activity begins; they ensure that directions are clear and that the right resources are available to accomplish objectives.
- Concurrent controls monitor ongoing operations and activities to make sure that things are being done correctly; they allow corrective action to be taken while the work is being done.
- Feedback controls take place after an action is completed and focus on end results; they answer the question 'Now that we are finished, how well did we do and what did we learn for the future?'
- External control is accomplished through personal supervision and the use of formal administrative systems.
- Internal control is self-control and occurs as people exercise self-management and take personal responsibility for their work.

11.3 What control systems are used in organisations?

- An appropriate remuneration and benefits system assists in organisational control by helping to attract and retain a high-quality workforce.
- Discipline, the process of influencing behaviour through reprimand, must be handled in a fair and systematic way.
- Use of financial information and the analysis of financial ratios, such as those dealing with liquidity, assets and profitability, are important aspects of organisational control systems.
- Operations management contributes to the control process with a focus on efficiencies in such areas as purchasing and inventory control, as well as in the use of statistical approaches to quality control.
- A project manager's job is to ensure that a project is well planned and then completed according to plan — on time, within budget, and consistent with objectives. Two useful techniques for project management and control are Gantt charts and CPM/PERT.
- Management by objectives (MBO) is a process through which supervisors work with their subordinates to 'jointly' set performance objectives and review performance results.

KEY TERMS

An **after-action review** formally examines results to identify lessons learned in a completed project or special operation. Such a process ought to be part of the organisation's knowledge management process.

A **balanced scorecard** tallies organisational performance in financial, customer service, internal process, and innovation and learning areas.

Bureaucratic control influences behaviour through authority, policies, procedures, job descriptions, budgets and day-to-day supervision.

Clan control influences behaviour through norms and expectations set by the organisational culture.

Concurrent controls focus on what happens during the work process.

Controlling is the process of measuring performance and taking action to ensure desired results.

CPM/PERT is a combination of the critical path method and the program evaluation and review technique.

A **critical path** is the shortest possible time in which an entire project can be completed if all project tasks go according to plan. It is the path 'with no slack'.

A **cybernetic control system** is one that is self-contained in its performance-monitoring and correction capabilities.

Discipline is the act of influencing behaviour through reprimand.

External control occurs through direct supervision or administrative systems such as rules and procedures.

Feedback controls take place after an action is completed.

Feedforward controls ensure that directions and resources are right before the work begins.

A **Gantt chart** graphically displays the scheduling of tasks required to complete a project.

Input standards measure work efforts that go into a performance task.

Internal control occurs through self-discipline and self-control.

Just-in-time (JIT) scheduling minimises inventory by routing materials to workstations 'just in time' to be used.

Management by exception focuses managerial attention on substantial differences between actual and desired performance.

Management by objectives, or **MBO,** is a process of joint objective-setting between a manager and a staff member.

Market control is essentially the influence of market competition on the behaviour of organisations and their members.

Output standards measure performance results in terms of quantity, quality, cost or time.

Progressive discipline is the process of tying reprimands to the severity and frequency of misbehaviour.

Quality control checks processes, materials, products and services to ensure that they meet high standards.

Inventory control by **reorder point method** orders replacements whenever inventory level falls to a predetermined point.

APPLIED ACTIVITIES

1. In your own words, briefly outline the steps in the controlling process.
2. Explain the difference between feedforward, concurrent and feedback controls, providing your own examples for each.
3. Outline the potential benefits of organisational control systems.
4. Explain how MBO can be utilised by managers to facilitate both their planning and controlling functions.
5. Choose an organisation with which you are relatively familiar, either as a customer or employee. Outline how that organisation makes effective use (or potentially could make use) of two of the organisational control systems that are outlined in this chapter.

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CHAPTER 12

Human resource management

LEARNING OBJECTIVES

12.1 Why do people make the difference in an organisation?
12.2 What is strategic human resource management?
12.3 How do organisations attract a quality workforce?
12.4 How do organisations develop a quality workforce?
12.5 How do organisations maintain a quality workforce?

Others can learn from the ways tech firms find and keep staff[1]

Tech businesses are among the most innovative organisations because they have to be — they face a fast-changing industry of rapidly advancing technology, evolving consumer needs and competitors emerging from all corners of the world. They need to be adaptable.

Tech firms are knowledge intensive: they are significantly more dependent on knowledge than other industries. This also means they depend on their employees for knowledge and new ideas and on the ability to transfer and use that information within the organisation. It is vital that they attract and retain smart, dynamic employees with the key knowledge and skills they need.

Such expertise tends to be widely dispersed across the workforce, so tech firms, compared to other more traditional industries, must also be able to motivate their employees to learn, share and collaborate in generating new ideas.

Ways of managing

In this context, management styles tend to be more participative. The term 'management by walking around' was coined to describe the style of Dave Packard, co-founder of electronics giant Hewlett Packard, who would drop in on staff to get a sense of staff morale and progress. Tech businesses also pioneered the 'flat' hierarchy, eliminating hierarchy and status distinctions as barriers to the flow of knowledge between staff.

The challenge for managers and those designing people management systems, is to ensure knowledge flows quickly and easily. The need for speed (and responsiveness) places a premium on horizontal knowledge flows among experts as much as vertically up and down a corporate hierarchy.

Communication and culture

It is much easier to share knowledge and learn where there is a common understanding among colleagues. On one level this means understanding the jobs that others do — which can present difficulties of its own, if you imagine marketing, engineering and finance trying to communicate. On another level it is an understanding of the organisation, its informal rules, culture and strategy.

It is this need for talent, knowledge sharing and common understanding that is significantly affected by management style. So it's no surprise that technology firms often buck the trend in how they go about it. Recent examples are music streaming service Spotify and hotel booking site Laterooms, which emphasise the importance of culture and that the candidate's values fit those of the company.

Google has also shifted its approach from its infamous 'brainteaser' interview questions (such as 'How many golf balls fit in a school bus?') to one that attempts to measure how the candidate's experience will suit the company.

Some may think that salary is very important, but arguably it is not the top priority for employees in the intellectually stimulating environments provided by leading technology businesses. Pay packages in leading tech firms are not always as stratospheric as one might imagine, coming in second behind the intrinsic benefits of working with other smart people, designing world-class products and creating things that make the world better.

Treating each other well reaps benefits

It's important for firms to hire people that fit, but also to retain them even in hard times. Historically some of the world's most long-lived and successful businesses emphasise a long-term relationship with their people. This creates the trust and confidence required to encourage employees to give their all for the business, in good times and in bad. Avoiding cutting staff is often difficult and costly.

IBM has recently undertaken a programme to retrain employees, while asking them to take a temporary pay cut. This allows IBM to balance the cost of retaining employees with outdated skill sets, with the value created when the company signals to employees: 'We can be trusted to care for you'. Employers that keep the social contract with their employees will reap the benefits of commitment, trust and greater effort from employees reciprocating that care.

Tech firms are more likely to show creative approaches for attracting and keeping staff. They are more likely to organise work in collaborative teams, empower employees with greater autonomy, invest in training hard and soft skills and to commit to their long-term job security. These kinds of practices are commonly found in knowledge-intensive industries and will bring significantly greater benefits to them than to more traditional industries.

A quick thought experiment reveals the wisdom of this view: how many high-tech firms do you hear about using a factory metaphor, versus using a campus metaphor?

Source: James Hayton (University of Warwick), originally published on *The Conversation*.

QUESTION

Do you think a creative approach to attracting and keeping staff would work outside of the technology industry? Consider the culture of your past and present workplaces. Would a flat hierarchy promote higher productivity?

Introduction

The case to support better HRM has grown dramatically in the last twenty years. Three areas have affected this; globalisation, outsourcing and de-regulation in the labour market have all strengthened the case for accountable HR practices.[2] Today, perhaps more than ever before, the pressures of global competition and social change are influencing not just the organisations in which we work but the very nature of employment itself. Governments have shifted from regulator to facilitator, which allows organisations to compete on new levels. The attraction and retention of employees often reflects the brand recognition and the practices that organisations employ. Some organisations attract simply because they have sound equity paths, just internal democracy and ethical perspectives as seen externally. Others retain employees because these practices are supported internally by management. Societal demands have an impact on organisations in the way they do business. No longer is a decision made in the boardroom private. Decisions in particular that affect the working relationship are scrutinised and discussed and, in some cases, reversed by public opinion. The watchwords and buzzwords of changing times are all around: work–life balance, emotional labour, psychological contracts, diversity, off-shoring, talent retention, benchmarking, process re-engineering and virtual work. Each and everyone of these has an impact on you as a worker, a manager and a leader.

The choices and possibilities in the new economy are already bringing about fundamental changes in the employer–employee relationship. Reich, for example, points to a shift away from a system in which people work loyally as traditional 'employees' for 'employers' who provide them with career-long job and employment security. He sees a shift towards a system where people become sellers of their services (talents) to those buyers (employers) who are willing to pay for them. Those who do 'buy' are looking for the very best people, whose capabilities and motivations match the demands of high-performance organisations. At Cisco Systems, chief executive officer (CEO) John Chambers says:

> We realized early on that a world-class engineer with 5 peers can out-produce 200 regular engineers . . . So your success is dependent on your ability to attract the very best talent and then get out of the way and empower them.[3]

A study of the best companies to work for in Australia found that they shared four characteristics. Firstly, they were strong on 'people leadership'. They contained leaders who could effectively and enthusiastically communicate with their people. Next, they provided a 'compelling employment offer'. They were competitive in terms of remuneration, benefits and the promise of rewards for high achievement. Thirdly, they provided accelerated career development and training. Finally, the companies possessed an appropriate culture, balancing the need for high performance with the need for celebration, recognition and fun.[4] Clearly, all four characteristics indicate that people management is a vital management skill. Recruiting, developing and retaining the best people is crucial for the success of organisations in every sector.

A decade later, Branson states:

> Good people are crucial to business success. Finding them, managing them, inspiring them and then holding onto them are among the most important challenges a good business leader faces. How you deal with these matters often determines the long-term success and growth of your business.[5]

This chapter aims to give you an overview of these crucial tasks, and to demonstrate just how important human resource management (HRM) is to the knowledge-driven organisations of the 21st century.

12.1 Diversity and the importance of people

LEARNING OBJECTIVE 12.1 Why do people make the difference in an organisation?

With flattening structures within organisations proving to be more effective than the traditional hierarchical structures, the use of teams has grown. Whether this incorporates the concepts of self-directed teams, traditional teams or cross-functional teams, the ability to work in teams is essential. Many employers look for this ability in their recruiting process, and at university teamwork is used to prepare students for the inevitable success and failure of the team environment. The focus on strategic achievement means that the image of HR needs to move from a cost centre to an investment centre. Accountability through scorecard targets is the norm in most organisations, with emphasis on ensuring that employees are well trained, skilled and engaged to deliver the highest productivity. Many organisations have seen devolution of HR processes to line managers, with the productivity improvement within the teams. This is where the policies meet reality, and HR needs to ensure this targeted group is fully supported. This means that HR policies must be in place to ensure that there is no detraction from the highest possible productivity through negative influences such as bullying, discrimination or the lack of value for diversity in the workplace.

Why people make the difference

Human resource (HR) development has to be a top priority in any organisation with high performance aspirations. Testimonials from organisations in the past appear to support this view, if not all in spirit. '*People* are our most important asset'; 'It's *people* who make the difference'; 'It's the *people* who work for us who . . . determine whether our company thrives or languishes'.[6] Found on websites, in annual reports and in executive speeches, they communicate a very specific understanding. Even with the guidance of the best strategies and supported by the best designs, an organisation must be well staffed with capable and committed people if it is to fully achieve its objectives.

There is ample research available to support this viewpoint. In an *Academy of Management Executive* article entitled 'Putting People First for Organizational Success', Jeffrey Pfeffer and John F. Veiga state: 'There is a substantial and rapidly expanding body of evidence . . . that speaks to the strong connection between how firms manage their people and the economic results achieved'.[7] They forcefully argue that organisations perform better when they treat their members better. The management practices associated with successful organisations are employment security, decentralisation, use of teams, good remuneration, extensive training and information sharing. However, Pfeffer also points out that too many organisations fail to operate in this manner, and calls them 'toxic workplaces' that treat their employees poorly.[8]

Additional backup for the primacy of people is offered by James Baron and David Kreps in their book *Strategic Human Resources: Frameworks for General Managers*.[9] They summarise empirical research showing a positive relationship between HR policies and organisational performance, stating: 'human resources are key to organizational success or failure.'[10] A study of 170 organisations in the high-technology sector shows that the founders' initial decisions on HR policies and practices had long-term impact on company performance. Those start-ups whose founders showed strong and early commitments to a positive HR philosophy were able to operate in the future with fewer managers and with greater reliance on self-management by their employees.

Australian companies increasingly seem to be accepting the view that a focus on people is good for business. Organisational policies that link employee remuneration with individual and organisational performance are on the rise, as are policies that provide flexibility in working hours and the design of jobs. Performance management systems have also grown in popularity, with 96 per cent of Australian organisations now reporting their use. Around 90 per cent of organisations use performance appraisals to evaluate past performance and to determine the training and development needs of their employees, while 75 per cent use appraisals to align individual and corporate objectives.[11]

A study of 1600 companies in the United Kingdom, Europe and the Asia–Pacific region found that organisations that reported the use of high-quality HR practices experienced a 107 per cent increase in their share price over five years. This compares with a return of negative 3 per cent among organisations reporting poor HR practices.[12]

McKinsey's Michael Rennie says of a people-focused management style implemented at Australia's Woodside Petroleum: 'We get up to an 800 per cent difference between the highest performing group and the average.'[13] According to DDI Asia-Pacific chief executive David Tessman-Keys, HRM is taking on higher significance because of the effects of the ageing population, the shrinking executive talent pool and the steady fall in the retirement age for many in the workforce. Companies are increasingly looking for the best staff at the same time that the pool of top-quality people shrinks due to these kinds of factors.[14]

The diversity advantage

Throughout this book diversity has been linked with competitive advantage. It brings to problem-solving and strategy formulation an array of talents, perspectives, experiences and world views that broaden any organisation's repertoire of skills and capabilities. That's one side of the diversity story — finding the best talent available. The other side of the story is tapping it — finding ways to allow diversity to work its advantages to help create high-performing organisations. To do this, the diversity advantage not only must be recognised, it must be fully unlocked.

Job-relevant talent is not restricted because of anyone's race, gender, religion, marital or parental status, sexual orientation, ethnicity or other diversity characteristics. If an organisation lets these characteristics interfere with finding, hiring and developing the best job talents available, the loss will be someone else's gain. The best employers and the best managers know that. They know that to succeed in building high-performing organisations with a sustainable competitive advantage, they must place a primacy on people with the talent and desire to do good work. While cultural and gender diversity have received significant attention in the literature, little attention has been paid to the impact of age diversity on HRM practices. The Commonwealth Bank says that with an ageing population:

> . . . age diversity is becoming more and more relevant; older generations are more active than ever before, are living longer and are continuing to work well into what was once standard retirement time. Economic changes and talent shortages are also motivating people to lengthen their working years.[15]

The bank says that it is building a 'workforce that reflects our customers, shareholders and community and we need to ensure that we continue to support our people, whatever age, while offering the work–life balance they need'.[16]

DIVERSITY

Business must show the lead on intergenerational employment[17]

We all understand the population is ageing, and while comments that the first person to live to 150 may have already been born tend to attract some derision, it should come as no surprise. What is less easy to understand is the curious paradox that, as the workforce ages, the age at which workers are being labelled by organisations and recruiters as 'old' is getting younger.

The way that many organisations and those recruiting for organisations construct old age is very different to the way that the authors of the 2015 Intergenerational Report are likely to construct older age. Our research into the management of age in organisations has found overwhelmingly that employees over the age of 45 self-identify as older. Further, there is a general sense among organisational decision-makers that if you haven't 'made it' by the age of 40 you aren't going to 'make it' at all.

Declaring that you must have made it by 40 not only ignores the huge potential of people in their 50s, 60s and 70s, it also doesn't account for the fact that many women and men are ready to hit their stride in their 50s. Relieved of the heavy lifting responsibilities of parenting, they are able to devote themselves to their careers and to their employers.

Some companies have managed to see this potential and are beginning to think creatively about what having an older workforce profile means and how they can leverage its opportunities for increased productivity and innovation.

The advent of the corporation in the early and mid-twentieth century created a prototypical career/life cycle in which youth meant education, adulthood meant work and old age meant retirement. This may have served bureaucratic corporations of the past because it provided order and calculability to those who passed through it.

However, it is an out-dated way of thinking for the modern corporation. Much of the discourse in the lead-up to the release of the Intergenerational Report pitted old against young. Older people are constructed as an economic burden and younger people as resentful and angry. Yet research into intergenerational relations in organisations found high levels of respect between younger and older people.

In particular, the research found that younger employees greatly respected the knowledge and resilience that their older co-workers brought to their work. As the workforce ages and people stay in work longer, there is a huge opportunity to capitalise on the diversity of ideas, customer segments and product markets that an intergenerational workforce can open up to an organisation. Research with a global engineering firm showed that the most innovative divisions were the ones in which teams were configured to include a broad range of ages, from new graduates to experienced workers over the age of 65. Respondents reporting learning from one another, and the shared experience flowed both ways. In these teams, the notion of experience wasn't limited to time served, nor was it seen to expire once people had reached a certain age.

Words do matter. The way that we talk about age in organisations affects both internal employee engagement and also recruitment strategies. Those older and younger than the magic age of 35 to 45 often receive an unintended but powerful message that they have less to contribute to the organisation, and report lower levels of workplace engagement as a result. The language organisations use in their general marketing and specifically in their recruitment can send unintended signals that those over 45 need not apply.

One organisation we worked with wanted to recruit people 45 and older but was having trouble attracting candidates. We could show them that the wording of their job advertisements, 'join a vibrant team that works hard and plays hard' and 'working space is fresh and funky' was unintentionally signalling that older candidates were not welcome. We encouraged them to highlight aspects of the job that are most important to older workers: recognition of skills, work and life experience; the culture and values of the organisation; and the opportunity to learn new things. This last one is important because it is perhaps the most pervasive yet blatantly false stereotype about ageing. We don't stop wanting to learn new things as we age.

If the fourth Intergenerational Report is to have the impact that the government, policymakers and employees of all ages are hoping it will, then it is business that needs to take the lead in re-imagining careers, shifting to an age-inclusive culture and establishing the organisational structures whereby employees of all generations can work with, for and alongside one another. Our prosperity and productivity as a nation relies on it.

Source: Leanne Cutcher (University of Sydney), originally published on *The Conversation*.

QUESTION

Imagine you are the hiring manager for a boutique marketing company based in Melbourne. What strategies would you put in place to ensure you undertake a fair and ethical hiring process?

CRITICAL ANALYSIS

1. Is diversity always a good thing? Won't employees who have personal and demographic similarities to each other work together more easily and experience less conflict?
2. Many executives speak of people being their greatest asset; however, many companies downsized during the economic downturn. What alternatives are available to companies when business is threatened as in the GFC?

12.2 HRM

LEARNING OBJECTIVE 12.2 What is strategic human resource management?

The process of **human resource management (HRM)** involves attracting, developing and maintaining a talented and energetic workforce to support the organisation's mission, objectives and strategies. In order for strategies to be well implemented, workers with relevant skills and enthusiasm are needed. A key task of HRM is to make them available.

Employment discrimination

Discrimination involves 'making a distinction between individuals or groups so as to advantage some and disadvantage others'.[18] Employers specifically and managers generally must take care in their HRM practices not to discriminate between people on the basis of characteristics such as age, disability, marital status, ethnicity, family responsibilities, social origin or sexual preference. Recent census and survey data in Australia and New Zealand reveal that diversity in race and ethnic background and sexual preference is increasing. There are far greater numbers of Asians, Pacific Islanders and gays and lesbians in mainstream businesses and public services in Sydney, Melbourne and Auckland than there were in the early 1990s.[19] What might be behind this trend?

In sum, employers must provide **equal employment opportunity (EEO)**, wherever this is reasonable, for all. Further, as shown in table 12.1, both direct and more subtle, indirect forms of discrimination must be avoided.[20]

TABLE 12.1 Direct discrimination versus indirect discrimination

	Direct discrimination	Indirect discrimination
Definition	Treating a person or group less favourably than another person or group in similar circumstances.	A practice that appears inoffensive but that results in a person or group being unreasonably disadvantaged.
Example	An employer dismisses a female purely on the basis of her gender.	A company makes promotion dependent on five years continuous service. This disadvantages women who need to take time off to have children.
Remedy	Damages — pecuniary loss, hurt, loss of career prospects, stress, humiliation.	Damages — pecuniary loss, hurt, loss of career prospects, stress, humiliation.

Source: Based on information in Raymond J. Stone, *Human Resource Management*, 7th edn (Brisbane: John Wiley & Sons, 2010), table 4.1.

Anti-discrimination measures are incorporated into a number of Australian laws, including the *Racial Discrimination Act 1975* (Cwlth), the *Sex Discrimination Act 1984* (Cwlth), the *Human Rights and Equal Opportunity Commission Act 1986* (Cwlth), the *Disability Discrimination Act 1992* (Cwlth), the *Equal Opportunity for Women in the Workplace Act 1999* (Cwlth) and the *Age Discrimination Act 2004* (Cwlth). In New Zealand, an example of such legislation is the *Human Rights Act 1993* (which replaced the *Race Relations Act 1971*), and **sexual harassment** is dealt with in the *Employment Relations Act 2000*.[21]

Discrimination may occur in any part of the HRM process, from recruitment and selection to promotion and appraisal. For instance, in one New Zealand case a service station owner advertised for a 'keen Christian person aged 16–18 who is not afraid of work'. The Equal Opportunity Tribunal found that it was unlawful for the employer to discriminate for this position on the basis of religious beliefs.[22]

Discrimination is permitted, however, where it can be demonstrated that certain characteristics are essential in the performance of a job. For instance, ministers of religion and teachers at religious schools can be selected for their observance of particular religious beliefs, whereas jobs demanding bilingual or multilingual capabilities can discriminate among applicants on the presence or absence of such skills.[23]

Employers must also consider other relevant discrimination-related legislation, such as **affirmative action** (AA) legislation. The *Equal Opportunity for Women in the Workplace Act 1999* (EOWW Act) applies to all organisations employing 100 or more workers and demands that employers develop policies and practices that respond to the existence of historical and structural workplace discrimination. The Act requires that employers report annually to the federal government on their progress on AA. It aims to encourage employers to consider whether any of their current or historical practices diminish the likelihood of women taking on roles long dominated by men. For instance, an employer may see that requesting five years continuous employment in order to be considered for promotion can work against women who may take time off for family responsibilities and then return to the workplace. A positive response to this inequity may involve adjusting promotion criteria to reflect the different, but not necessarily less valuable, career decisions taken by women.[24]

The leading economies in Asia have very few women in senior positions. A recent McInsey and Company report issued in July 2012 says that companies are missing out on the pool of talent required to support the region's growth.[25] Almost 750 firms covering 10 major stock markets in the Asia–Pacific region found that only 6 per cent of board seats were occupied by women, compared to 17 per cent in

Europe and 15 per cent in the US. Only 8 per cent of executive committee seats are held by women in the Asian firms, 10 per cent in Europe and 14 per cent in the US. The report states that this is a huge waste of talent, as half of Asian graduates are female.

Of the countries with female presence in the boardroom, Australia, Hong Kong and China topped the list (13, 9 and 8 per cent, respectively). At the other end of the scale, South Korea (1 per cent), Japan (2 per cent) and India (5 per cent) were the most disappointing. Culture is blamed for this result, with gender diversity not on the strategic agenda for most Asian companies. Malaysia and South Korea have set quotas for public jobs and offer incentives for firms, and the report encourages other governments to follow suit.[26]

Recognising organisations that prioritise **diversity management** and recognise the value of an inclusive workplace for individuals and the organisation, AHRI awarded the inclusive Workplace of the Year for 2012 to Deloitte. Deloitte is seen as being committed to creating an environment where every individual has the opportunity to achieve. The management say they recognise the benefits to be gained from a diverse workforce that allows for differing skills, varied perspectives and a wide range of experiences from individuals. This can lead to more innovative, efficient and effective business practices supporting client offerings. Deloitte focuses strategy on human rights, health and wellbeing, innovation, leadership and culture, impact and outcomes, sustainability, and measurement. Deloitte has a current strategic focus on gender diversity (the Inspiring Women program) and cultural diversity (the IDentity program).[27]

COUNTERPOINT

Discrimination at work in Asia

A persistent form of discrimination in South Asia has been caste-based discrimination. For example, this form confines Dalits to occupations often involving the most menial tasks, such as 'manual scavenging' or the removal of dead animals. Dalits are generally not accepted for any work involving contact with water or food for non-Dalits or entering a non-Dalit residence. They are thus excluded from a wide range of work opportunities in the areas of production, the processing or sale of food items, domestic work and the provision of certain services in the private and public sectors (e.g. office helpers).

Limited access to education, training and resources, such as land or credit, further impair their equal opportunities for access to non-caste-based occupations and decent work. The deprivation stemming from discrimination in all areas of their life leads to higher levels of poverty among Dalits compared to non-Dalits. Equally serious and pervasive is discrimination confronting indigenous peoples in the region, as in other regions. These peoples account for over 15 per cent of the world's poor, although they make up 5 per cent of the world's population.

In Nepal, the indigenous peoples from the hill areas, the Hill Janajatis, lacking opportunities at home, make up the largest share of migrants working abroad (29 per cent) in countries other than India, and have the highest average remittance income (almost 35 per cent of annual household income). The growing numbers of migrant workers in the region face new forms of discrimination. Racial discrimination, xenophobia and intolerance are all reflected in low wages, long and exhausting working hours and violence.

In Japan, the United Nations Special Rapporteur on contemporary forms of racism, racial discrimination, xenophobia and related intolerance expressed concern in a 2006 report about discrimination against descendants of former Japanese colonies. Trade unions have taken important steps to address this; for example, Rengo, the largest union in Japan, has created a union for Chinese workers.

In Malaysia, the Malaysian Trade Union Congress (MTUC) have put in place mechanisms to ensure better protection of the 1.5 million documented migrant workers living in the country. In Pakistan, official statistics show a growth since 2004 in the numbers of workers migrating from the tribal areas in search of jobs, mainly in the construction sector in the Gulf countries. Because of their limited access to official channels of migration and official travel documents, indigenous and tribal peoples appear to be more likely than other groups to become undocumented migrant workers. Indigenous women are especially vulnerable to falling prey to trafficking.

In China, the situation is slightly different, where a swell of rural migrants — an estimated 150 million — are labouring in the coastal cities but are finding it difficult to obtain permits largely due to the constraints of the hukou system. Owing to their social status, rural migrants suffer from institutionalised discrimination. In some cities, authorities deny them access to better jobs so they end up working in informal, low-paid, menial jobs that urban workers refuse. Since rural migrant workers currently represent 40 per cent of the urban workforce, this will remain an important social and economic concern for China. In recent years, the Chinese government has taken important steps to help disadvantaged rural migrant workers, such as ensuring a guaranteed minimum wage, the enforcement of a labour contract system, as well as access to employment services and job training.

QUESTION

Imagine you were working for an organisation that supports these attitudes. Will the local beliefs be stronger than your sense of justice and diversity?

Sadly racism is common in Australia too. Prominent examples in recent years include Indigenous Elder and opera singer Delmae Barton, who lay semi-conscious at a university bus stop in Brisbane for more than five hours before she received help;[28] and a group of young leaders from Yuendumu in the Northern Territory, who were ejected from an Alice Springs hostel because tourists complained that they were ‘afraid of Aborigines’.[29]

Occupational health and safety

A total of 146 Australian workers lost their lives at worksites in a recent 12-month period. A further 16 bystanders lost their lives in the same period.[30] The major causes of work-related deaths include mechanical failure, being hit by a moving object, contamination by chemicals and other substances, and falls, trips and slips.[31] In New Zealand, it is estimated that around 100 workplace deaths occur each year, as well as 200 000 occupational injuries.[32]

The statistics for workplace injuries present a bleak picture, with approximately 650 000 Australians on average being injured at work each year, with the annual losses to the economy from poor workplace safety said to be more than $34 billion.[33] According to Stone:

> Poor occupational health and safety (OHS) performance equates with poor human resource management, and poor ethical, legal and social responsibility. It represents a management failure to realise that safe organisations are more effective organisations.[34]

The benefits of sound OHS are obvious. Organisations can enjoy lower workers compensation costs and absenteeism, and employees can be more productive knowing that they can operate in a safe working environment. On the other hand, sick leave benefits are open to abuse. A study of 2200 Australian employees found that almost half admitted to faking sick leave in order to care for sick children or to take advantage of generous sick leave entitlements at their workplace.[35]

Companies like Wesfarmers and Orica demonstrate that good safety management is good business. Wesfarmers ties executive incentive rewards to safety performance. Orica Australia reduced injuries by more than 50 per cent within five years — from 20 per million working hours to less than 9 per million working hours — for a total saving of around $3 million.[36]

The Australian government sets national workplace occupational health and safety standards through Safe Work Australia. State governments have generally set state-wide occupational health and safety laws consistent with the standards established by Safe Work Australia. In Victoria, for instance, the *Occupational Health and Safety Act 1985* establishes the responsibilities of employers and employees for the maintenance of safe workplaces. Employer responsibilities include providing and maintaining safe plant and systems of work, and providing adequate welfare facilities such as change rooms, dining areas and lockers. The Act encourages employers and employees to work together in the pursuit of workplace safety via the establishment of health and safety representatives and committees.[37]

Safety standards vary around the Asia–Pacific region. Australia's coalmining industry has one of the world's best safety records, but in China, where government regulations have yet to take effect and mining practices remain poorly controlled, the death rate from accidents is some 500 to 1000 times that experienced in Australian mines. In 2007, 3786 Chinese miners died in mining accidents.[38] In recent years, that number has fallen, with 931 deaths in 2014. However, Chinese officials believe there is still a way to go, and safety conditions remain 'grim'.[39]

ETHICS

Corporate scandals

A number of corporate scandals have been exposed around the globe in recent times, affecting several industries. German car manufacturer Volkswagen was shamed for deliberately installing 'defeat devices', software that altered the running of diesel engines and ensured it passed emissions tests. Eleven million cars were equipped with the software over a period of seven years. German public prosecutors and United States attorneys are undertaking criminal investigations. The company's CEO, Martin Winterkorn, resigned as a result of the revelations but could still face criminal charges if implicated in the program.[40]

Predatory pricing was exposed when Turing Pharmaceuticals acquired the drug Daraprim and quickly raised the price from $13.50 to $750 per tablet. The medication is used to treat infections that can cause complications in people with weakened immune systems, including HIV and AIDS patients. The move was met with widespread public vilification. The company attempted to win back some respect by lowering the price by up to 50 per cent for hospitals and ensuring outpatients with health insurance are only out-of-pocket $10 per prescription. The company's chief executive officer, Martin Shrekli, has since resigned after being arrested on unrelated fraud charges.[41]

Closer to home, a joint investigation by Fairfax and ABC's *Four Corners* into convenience store chain 7-Eleven shocked the nation, with evidence of exploitative practices within the company's stores. Franchisees paid many of their staff as little as $10 an hour before tax, less than half the legal minimum wage of $24 an hour — not including penalty rates for working nights, weekends or public holidays. Young, foreign workers on restricted visas were especially targeted. Forced to work longer hours to earn enough money to survive, if workers complained about their salary or conditions, managers threated to tell authorities that they were working in breach of their visa entitlements. The scandal saw the resignations of chairman, Russ Withers, and chief executive officer, Warren Wilmot.[42]

The ethical issues outlined above relate to cheating, lying, deception, lawbreaking, exploitation and merciless profiteering. As far as any common understanding of ethics is concerned, these things are on the far side of the thick and grey line that separates right from wrong. What do the cases have in common? Each suggests there was an ethos in place that held that 'bad ethics is good business'.

Seven years of highly orchestrated cheating at VW meant increased sales — in 2009 VW became the world's biggest car manufacturer. Institutionalised wage fraud and labour exploitation at 7-Eleven kept store costs down, increasing profits for franchisees and the parent company. 7-Eleven has twice been named Australia's 'franchisor of the year'. Price gouging at Turing meant a drug listed on the World Health Organization's essential medicines list could bolster the company's profits by exploiting the sick and vulnerable.

QUESTIONS

1. Many victims of the 7-Eleven fraud were university students. What would you have done if a victim confided in you about their situation?
2. Do you think these companies can regain public support and rebuild their brand?

Industrial relations in the Asia–Pacific region

Australia and New Zealand have broadly similar industrial relations systems. **Industrial relations** (sometimes called workplace relations) is the process of negotiation and bargaining between employers and employees. Though there are several players in the Australian industrial relations system, individual employers and employees tend to have the most significant roles in the contemporary workplace. Overall, the proportion of employees who are members of **unions** has declined in the long term. Union membership was around 60 per cent in the 1950s, but today unions directly represent only about 20 per cent of the workforce, with around 14 per cent of private sector employees holding union membership compared to close to 80 per cent of government employees.[43]

In total, Australia has around 1.8 million union members. Interestingly, the long-term declining trend of union membership was reversed in 2008, with membership increasing by 3 per cent. This may have been because of the focus on industrial relations that occurred during the 2007 federal election campaign, as well as the growth in employment in highly unionised sectors such as mining and government services.[44] **Business associations** that represent a number of employers in the same industry, such as the Metal Trades Industry Association, remain common, but are also considerably less influential than in the days when employers were required to band together to negotiate with unions under the system of compulsory arbitration.[45]

Industrial relations legislation has been the focus of much debate in Australia in recent decades, and especially so in recent years. To effectively gain a broad appreciation of these developments and how the industrial relations landscape has evolved over this time, it is necessary to look at some significant events and legislation. The Howard government extended the reform process of the Labor government of the 1980s and early 1990s by enacting the *Workplace Relations Act 1996* (Cwlth). The provisions of this Act encouraged direct negotiations between employers and employees without the involvement of third parties, such as industrial courts and unions. The Act also encouraged individuals to negotiate Australian workplace agreements (AWAs) directly with their employer.

The Howard government sought to make the nation's industrial relations system more flexible and less subject to the influence of unions through this legislation. The power of unions to visit worksites, warehouses and factories was significantly weakened as the government hoped to encourage an industrial relations system focused more on individual negotiation at the workplace level.[46]

The Labor Party made industrial relations a key issue in the 2007 federal election campaign. Under the banner of 'Your Rights at Work', the party and the trade union movement organised a massive publicity campaign to highlight what they saw as unfairness inherent in the Coalition's industrial relations philosophy. Accordingly, following the election of the Labor Party under the leadership of then–Prime Minister Kevin Rudd, legislation was enacted to abolish many of the Howard government's reforms and to reinstate a more centralised industrial relations system.

The Labor government's Fair Work Bill was passed on 20 March 2009 and was implemented progressively from 1 July 2009. Key components of the *Fair Work Act 2009* (Cwlth) include the abolition of AWAs and the establishment of a new No Disadvantage Test covering ten minimum conditions for all workplace agreements. These included maximum weekly hours of work, parental leave, minimum annual leave, community service leave, the right to request flexible working arrangements, and provisions for termination and redundancy pay. In addition, the capacity of employees to pursue unfair dismissal claims against employers was substantially restored, apart from some concessions for small businesses.

A new industrial relations tribunal, Fair Work Australia, was created by the federal government to establish minimum wages for all employees except those still covered by AWAs, to progressively modernise awards as they become due for renewal, and to review awards at least once every four years to ensure they meet the needs of the community and those employees who work under them.[47] On the introduction of the changes on 1 July 2009, then–Minister for Employment and Workplace Relations Julia Gillard stated:

> What [this] will mean for Australian workers is that there will be a safety net that they can rely on that no one can strip away. There will be a fair, enterprise based bargaining system, where employees and their employers and their representatives have to treat each other in good faith. There will be an ability for

> good workers to complain if they are unfairly dismissed. And there will be this new industrial umpire at the heart of the system able to provide advice and assist parties, employers, and employees, if they need that assistance.[48]

In 2010, the federal government also announced the introduction of 18 weeks of paid parental leave at the federal minimum wage, for families whose primary carer (usually the mother) earns less than $150 000 per year. The government payment is in addition to any parental leave payment the person may receive from their employer.[49]

In 2012, the federal government launched a review into the Fair Work Act. The panel consisted of a labour academic, a federal court judge, an economist and Reserve Bank of Australia board member, who made number of key recommendations, including:

- including a minimum model flexibility template in individual flexibility agreements
- limiting the number of public holidays that attract penalty rates to 11
- changing the name of the FWA
- leaving unfair dismissal laws unchanged
- leaving union rights of entry unchanged
- removing the 'strike first, bargain later'
- leaving allowable matters content unchanged
- disallowing individual agreements
- subjecting employees who transfer to a related company to the terms and conditions of the new employer.[50]

Note that many employees in Australia are covered by state-based industrial relations laws. This includes employees in professions such as nursing, teaching and policing, as well as state government employees in areas such as transport and housing.[51] Similar industrial relations processes occur in New Zealand. Employers and unions involved in collective bargaining must use their best endeavours to agree to an effective bargaining process, meet and consider and respond to proposals made by each other, respect the role of the other's representative by not seeking to bargain directly with those for whom the representative acts, and not do anything to undermine the bargaining process or the authority of the other's representative.

Industrial relations and HRM processes are quite different in some countries of the Asia–Pacific region, such as China. According to Stone, specific challenges facing the industrial relations or HR manager in China include the fact that nothing is ever black and white — everything is negotiable. He cites the popular saying that 'nothing is illegal in China, but at the same time, nothing is legal either'.[52] In addition, politics affects all HRM activities, so that the State has some influence over virtually all HR issues.

Since 2005, many large Chinese workplaces have become unionised. While the country's ten industrial unions, grouped together as the All China Federation of Trade Unions, remain state-controlled, unions have won the right to be consulted whenever significant changes are proposed in the workplace. While unions are charged with the challenging and dualistic role of protecting the interests of both the state and employees, one practical result of these changes has been a change in the role of managers generally and HR managers in particular. Formerly given a free hand to make changes, managers at unionised organisations such as Wal-Mart (40 000 employees in China) and McDonald's (50 000 employees) are now compelled to consult with unions or employee representatives whenever changes to HR policies are being considered.[53]

Labour laws often differ substantially between Chinese provinces, and remuneration usually involves complex legal arrangements and an array of benefits unique to the country. In contrast, company-based unions are very common in Japan and the objectives of the unions will usually be similar to those of management. The emphasis of the Japanese industrial relations and HRM systems is on maintaining harmonious relations within the organisation, so that individually based pay-for-performance systems are less common than having base pay, a twice-yearly company bonus, and allowances based on position, merit, housing requirements and special skills. It is mainly through the allowance system that individuals receive greater or lesser rewards than others.[54]

Partha Bhattacharyya, former chairman of Coal India, says that good industrial relations are very important. Having led the mining company to a successful initial public offering, despite opposition from trade unions, he says that usually HR is about improving managerial competence. However, the welfare of workers must be considered and the communication must be transparent. Bhattacharyya says that industrial relations needs to get the most attention.[55]

Plant management, line management and HR need to be equally responsible for managing relations with employees. In Australia, we have been very successful in devolving HR roles to line managers — OH&S, performance management, training and development. This must be backed by strong HR support and training, and the accountability still stays with HR.

International HRM

HRM practices generally need to become more sophisticated and culturally sensitive when an organisation operates in the international context. For instance, when supporting staff leave their home country to work in an international office, the HR manager's responsibilities must be expanded to ensure the employee is appropriately relocated, oriented to the new context, satisfied in the work and retained following the assignment.

When relocating staff, issues such as immigration and travel details, housing, shopping, medical care, recreation, and schooling for children must be considered. The expatriate will no doubt be subject to a different taxation regime, so salaries and benefits must be adjusted to ensure that the employee is no worse off by taking an international assignment. The costs associated with inconvenience and the selling or renting of the employee's home should also be considered. A number of other issues also arise, particularly if the language and culture of the new country differ from that of the employee's home country. Translation options, cross-cultural awareness and communication training, and ethical differences need to be investigated, discussed and resolved.[56] Recent research identifies weaknesses in Australian and Asian firms in providing pre-departure training.[57]

HR managers involved in supporting international employees need to take a broader perspective than do HR personnel looking after local employees. They must incorporate national and regional differences into the development of equitable and attractive international HR policies. They will generally assume a greater degree of involvement in the lives of international employees, frequently being called on to assist employees in managing the detail of their lives, from banking to visits home. International HR managers should be familiar with the government structures and business systems of the countries in which international staff are located, and contingency plans should be developed in case unrest, terrorism or natural disasters affect the security of the international employees in their care.

Some interesting research was undertaken by Nick Forster of the University of Western Australia on the experiences of UK-based women managers who had taken international assignments. Although the rate of expatriate failure (around 3 per cent) was significantly lower than that for men (8 per cent), many of the companies tended to send women for more junior management positions than would occur in their local operations. Not surprisingly, a number of the women reported that adaptation was quite difficult in East Asian cultures such as China and Japan. This was as a result of differences in culture between Asia and the United Kingdom in relation to the general acceptance of women managers.[58]

The significance of cultural differences in the implementation of industrial relations and HRM systems in Asia should not be underestimated. As is discussed throughout this text, the challenges of international management are immense, and perhaps most challenging of all in the HRM domain. A recent book by Hugh Bucknall and Reiji Ohtaki describes a number of these challenges. They note that Asia remains characterised by a multiplicity of networks, often encompassing an array of business and government influences and participants. Asia's national cultures continue to be fluid and dynamic as Western and other external influences are absorbed. Beyond this, whether HRM strategies succeed or fail will depend on the culture of the local organisation, a culture that may differ markedly from one organisation to another. In China, for instance, state-owned enterprises (SOEs) may have quite different cultures from former SOEs. The culture of a business driven by a local entrepreneur will tend to reflect the values and approach of its founder. International businesses that establish operations in Asia will have cultures that reflect that of the home country and parent corporation. When they partner with a local organisation, the culture may reflect the influence of the dominant partner or evolve to become a hybrid or mix of the partner companies. What is of crucial importance across these differing contexts, however, is that HRM strategies and programs appear to be most successful when local staff are directly involved in their creation and subsequent implementation.[59]

The HRM process

The HRM process involves attracting, developing and maintaining a quality workforce. The first responsibility of *attracting a quality workforce* includes HR planning, recruitment and selection. The second responsibility of *developing a quality workforce* includes employee orientation, training and development, and career planning and development. The third responsibility of *maintaining a quality workforce* includes management of employee retention and turnover, performance appraisal and remuneration and benefits.

HR specialists often help line managers fulfil these three responsibilities. A HR department appears on many organisation charts and is often headed by a senior executive reporting directly to the chief executive officer. It is also increasingly common to find organisations outsourcing various technical aspects of the HRM process. There are a growing number of career opportunities with consulting firms that provide such specialised services as recruiting, remuneration planning, outplacement and the like. In a dynamic environment complicated by legal issues, labour shortages, economic turmoil, changing corporate strategies, new organisation and job designs, high technology, and changing personal values and expectations, HR specialists become ever more important. Many belong to the Australian Human Resources Institute (AHRI), a professional organisation dedicated to keeping its membership up to date in all aspects of HRM and its complex legal environment.

Strategic HRM

Any organisation should at all times have the right people available to do the work required to achieve and sustain competitive advantage. **Strategic HRM** applies the HRM process to ensure the effective accomplishment of the organisation's mission.[60] Strategic HRM mobilises human resources to implement strategies and sustain competitive advantage. This requires a top-level commitment to **HR planning**, a process of analysing staffing needs and planning how to satisfy these needs in a way that best serves the organisation's mission, objectives and strategies.[61]

The major elements in strategic human resource planning are shown in figure 12.1. The process begins with a review of the organisation's mission, objectives and strategies. This establishes a frame of reference for forecasting HR needs and labour supplies, both within and outside the organisation. Ultimately, the planning process should help managers identify staffing requirements, assess the existing workforce, and determine what additions and/or replacements are required to meet future needs. It is no secret, for example, that high-tech workers are in great demand today and many organisations are experiencing or expecting difficulty in meeting their staffing needs. At GE Medical Systems, a multigenerational staffing plan is used to help resolve the problem. Every new product plan has a HR plan associated with it — a plan that covers all generations of the product's expected life.

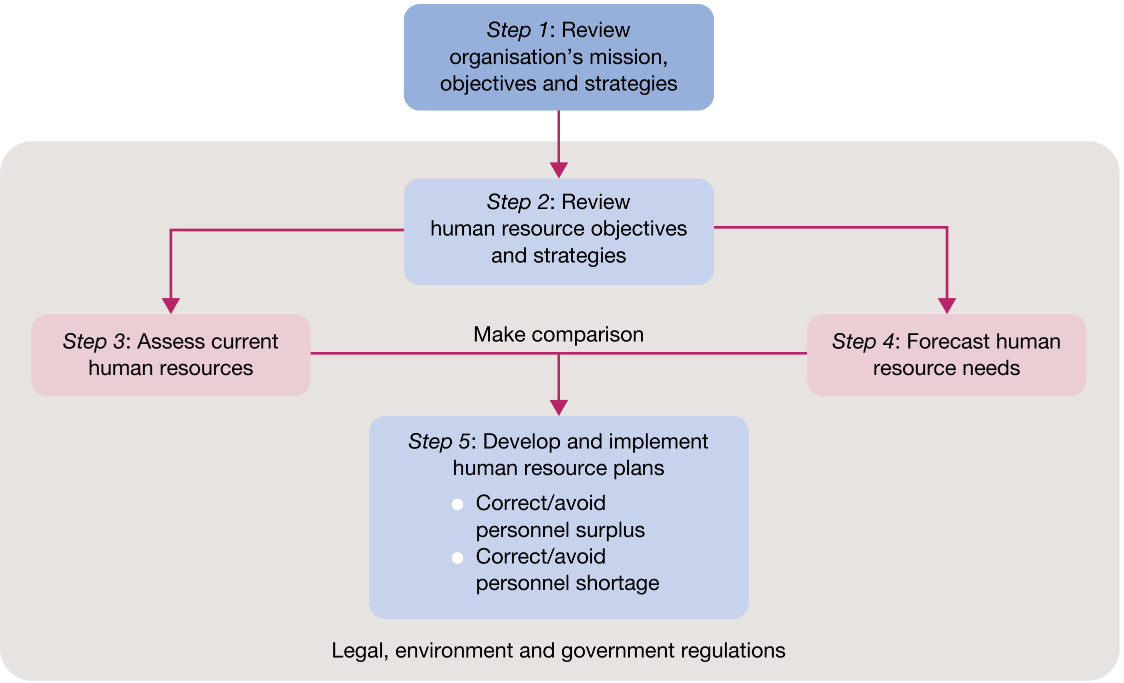

FIGURE 12.1 Steps in strategic HR planning

To plan successfully to meet strategic HR requirements, managers must understand not only the mission and strategies but also the jobs that need to be done. The foundations for HR planning are set by **job analysis** — the orderly study of job facts to determine just what is done, when, where, how, why, and by whom in existing or potential new jobs.[62] The job analysis provides useful information that can then be used to write and/or update a **job description**. This is a written statement of job duties and responsibilities. The information in a job analysis can also be used to create a **job specification** that lists the qualifications — such as education, previous experience and skill requirements — needed by any person hired for or placed in a given job.

CRITICAL ANALYSIS

1. In strategic HRM, HR managers are meant to serve both the needs of employers as 'strategic partners' and those of employees as 'employee champions'. To what extent is this possible?
2. It may be argued that undertaking the steps in the strategic HR planning process is only possible when the economy is growing at predictable levels. In economically volatile times, how should managers view this process?

12.3 Attracting a quality workforce

LEARNING OBJECTIVE 12.3 How do organisations attract a quality workforce?

With a HR plan prepared, the process of attracting a quality workforce begins. An advertisement once run by the Motorola Corporation identified the goal this way: 'Productivity is learning how to hire the person who is right for the job'. To attract the right people to its workforce, an organisation must first know exactly what it is looking for — it must have a clear understanding of the jobs to be done and the talents required to do them well. Then it must have the systems in place to excel at employee recruitment and selection.

The recruiting process

Recruitment is a set of activities designed to attract a *qualified* pool of job applicants to an organisation. Emphasis on the word 'qualified' is important. Effective recruiting should bring employment opportunities to the attention of people whose abilities and skills meet job specifications. The three steps in a typical recruitment process are advertising a job vacancy, preliminary contact with potential job candidates and initial screening to create a pool of qualified applicants.

In university recruiting, for example, advertising is done by the company posting short job descriptions in print or online through a careers resource or campus placement centre and/or in the student newspaper. Preliminary contact is made after candidates register for interviews with company recruiters on campus. This typically involves a short 20- to 30-minute interview, during which the candidate presents a written résumé and briefly explains his or her job qualifications. As part of the initial screening, the recruiter shares interview results and résumés from the campus visits with appropriate line managers. Decisions are then made about who to include in the final pool of candidates to be invited for further interviews during a formal visit to the organisation.

Given that both the shortage of skilled people in some sectors and an ageing workforce are creating greater competition for the best people, recruiting has become a crucial HRM process for organisations seeking to retain or build their competitive advantage. In Australia, for instance, significant skill shortages have persistently existed in a number of industries for several years, including within the medical, nursing, teaching, accounting and engineering professions, as well as among people with trade skills.[63] Skill shortages may occur both at senior levels and at relatively more junior levels of an organisation. A survey of job prospects in Australia has found that there will continue to be significant demand for tradespeople, childcare workers, waiters and retail assistants. Managers seeking to employ workers in these areas may find it difficult to obtain solid employees at the right price, so it is essential to plan for future job openings in their organisations.

Companies such as David Jones, Colorado and McDonald's work hard to train and develop staff so that the best people can be promoted from within the organisation, bringing with them an intimate knowledge of customers and the company culture. Dynamic Property Services (Dynamic) was the top-ranked small and medium enterprise in the 2009 BRW Great Places to Work survey. Dynamic executives like Karen Belcher and Jodie Gardener have gladly remained with the firm for more than a decade. Belcher has received constant mentoring from Dynamic co-founder Pamela Pearce, as well as leadership training in the United States, while Gardener takes advantage of Dynamic's flexible workplace policies to combine property management with looking after her two young children.

Dynamic also provides its employees with travel passes, social activities, a fully stocked kitchen and opportunities to move through the organisation via more challenging and responsible roles. The company's positive and engaging culture brings a reciprocal commitment from its staff. When a building in Sydney's eastern suburbs was evacuated following a gas explosion that destroyed its penthouses, Dynamic staff worked through the Easter break to support and assist the building's tenants. As a strata management company, Dynamic is responsible for responding to the problems of tenants in its buildings. Some staff worked 14 days straight, on this occasion, to help the affected residents. Other staff travelled for long periods to provide consistent service during a time of great stress for the building residents.[64]

External and internal recruitment

The university recruiting already mentioned earlier in the chapter is an example of *external recruitment*, in which job candidates are sought from outside the hiring organisation. Specialist websites such as Seek (www.seek.com), newspapers, employment agencies, universities, personal contacts, walk-ins, employee referrals and even people in competing organisations are all sources of external recruits. Competition is especially tough in the very tight labour markets characteristic of the contemporary economy. When Nokia, the Finnish mobile-phone maker, needed high-tech talent it went global with its recruiting process. Nokia posted all job openings on a website and received thousands of résumés from all over the world. In just two years, the percentage of non-Finns in the company workforce rose by some 10 per cent. The head of Nokia's recruiting strategy says: 'There are no geographical boundaries anymore'.[65] *Internal recruitment* seeks applicants from inside the organisation. Most organisations have a procedure for announcing vacancies through newsletters, electronic bulletin boards and the like. They also rely on managers to recommend subordinates as candidates for advancement. Internal recruitment creates opportunities for long-term career paths.

Both recruitment strategies offer potential advantages and disadvantages. External recruiting brings in outsiders with fresh perspectives. It also provides access to specialised expertise or work experience not otherwise available from insiders. Internal recruitment is usually less expensive. It also deals with people whose performance records are well established. A history of serious internal recruitment can also be encouraging to employees. It builds loyalty and motivation, showing that you can advance in the organisation by working hard and achieving high performance at each point of responsibility. Kim Sutton, HR manager at the Sofitel Hotel on Queensland's Gold Coast, first advertises all positions internally via the company's intranet, only moving to a strategy of external recruitment if the internal strategy fails to yield appropriate recruits.[66]

A rather innovative recruitment strategy is worth considering. First, financial services companies such as Deloitte, KPMG and Ernst & Young have created Facebook groups for their employees as well as for those considering a career in financial services. According to KPMG director Malcolm Alder, organisations need to support the kinds of networking tools that their employees are increasingly using to build and maintain relationships inside and outside the workplace. In addition, companies who rely on such innovations to brand their organisations as great places to work simultaneously demonstrate that they understand and share the values of their generation Y recruits.[67]

Realistic job previews

There is another important recruitment issue that must be considered — honesty and full information. In what may be called *traditional recruitment*, the emphasis is on selling the organisation to job applicants. In this case, only the most positive features of the job and organisation are communicated to potential candidates. Bias may even be introduced as these features are exaggerated while negative features are concealed. This form of recruitment is designed to attract as many candidates as possible. The problem is that it may create unrealistic expectations that result in costly turnover when new employees leave prematurely. Often the job descriptions are outdated. They do not reflect all the additional tasks taken on over the years or the diluted focus of the job. Sometimes employers state a degree as essential, and when recruits start to work they realise very quickly that their degree is not required. The individual suffers a career disruption, and the employer suffers lost productivity and the additional recruiting costs of finding another candidate.

The alternative is to provide **realistic job previews** that give the candidate *all* pertinent information about the job and organisation without distortion and before the job is accepted.[68] Instead of 'selling' only positive features of a job, this approach tries to be realistic and balanced in the information provided. It tries to be fair in depicting actual job and organisational features, both favourable and unfavourable. The interviewer providing a realistic job preview to a job candidate, for example, might be overheard to use phrases such as these: 'Of course, there are some downsides . . .', 'Things don't always go the way we hope . . .', 'Something that you will want to be prepared for is . . .', 'We have found that some new employees had difficulty with . . .'

When engaged in this type of conversation about the job and organisation, the candidate gets a more complete and balanced view of the future employment possibility. This helps to establish more 'realistic' job expectations when starting work as a new employee. With expectations more realistic, the individual is better prepared to handle the 'ups and downs' of a new job. A better perspective on the employment relationship, higher levels of early job satisfaction, and less inclination to quit prematurely are among the benefits of this interview approach.

In recruiting the best staff, providing realistic job previews may provide a competitive edge. A study of job seekers in New Zealand found that most organisations could do far more to provide potential recruits with answers to their questions. Rather than having questions about the future direction of the organisation, many job seekers are far more interested in finding out about the colleagues with whom they will work, the culture of the company, and even the location of the desk at which they will work.[69]

In a competitive job market, like that for the best accounting graduates, providing realistic job previews can be a key means of attracting the best people and minimising any concerns they may have before starting a job. According to an HR manager at Brisbane accounting firm BDO Kendalls, which hires 20 new graduates a year, the best graduates may receive offers from six large accounting firms. For this reason, BDO Kendalls works hard to become the employer of choice, staying in regular contact with potential recruits and inviting them to office social functions. In addition, the firm promotes itself as an attractive employer, emphasising its positive work environment and opportunities for graduates to grow with their roles.[70]

When the economy contracts, however, as has recently been true for most nations, employers obtain the advantages that arise when the number of jobs shrinks. In this environment, graduates are encouraged to adapt their expectations to new realities. For some, this may mean accepting a lower-level and less desirable position, or accepting work in a different industry to that which may have been preferred.[71]

Making selection decisions

The process of **selection** involves choosing from a pool of applicants the person or persons who offer the greatest performance potential. Steps in a typical selection process are shown in figure 12.2. They are completion of a formal application form, interviewing, testing, reference checks, physical examination and final analysis and decision to hire or reject. As with all aspects of the HRM process, the best employers exercise extreme care in making selection decisions.

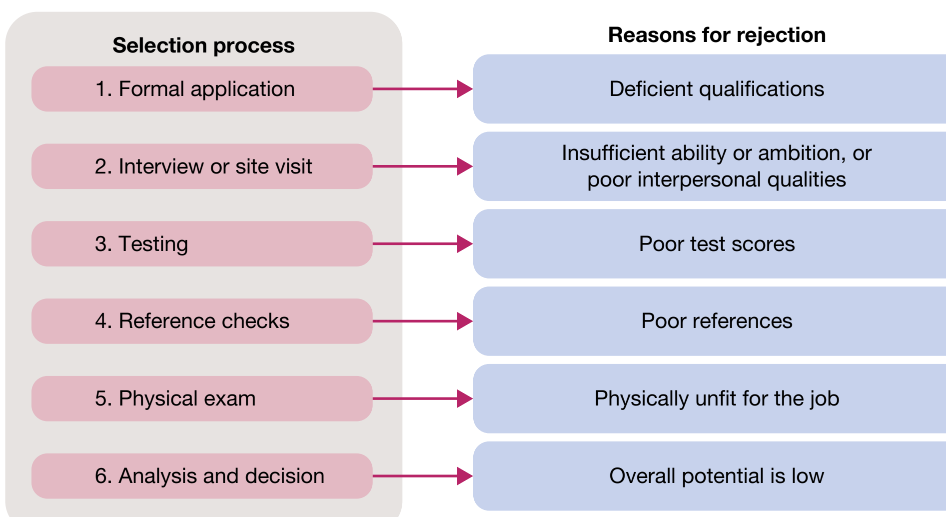

FIGURE 12.2 Steps in the selection process: the case of a rejected job applicant

In using any selection devices, including such testing, it is important to know that they meet the important criteria of reliability and validity. Reliability means that the device is consistent in measurement; it returns the same results time after time. Validity means that there is a demonstrable relationship between a person's score or rating on a selection device and eventual job performance. In simple terms, validity means that a good score really does predict good performance. Many university students, for example, question the validity of employers using their grades as predictors of future job performance when screening job applicants. Are they just making excuses for not using their time well in university, or do they have a legitimate point?

Application forms

The application form declares the individual to be a formal candidate for a job. It documents the applicant's personal history and qualifications. The personal résumé is often included with the job application. This important document should accurately summarise an applicant's special qualifications. As a job applicant, you should exercise great care in preparing your résumés for job searches. As a recruiter, you should also learn how to screen applications and résumés for insights that can help you make good selection decisions. Importantly, the application should request only information that is directly relevant to the job and the applicant's potential job success.

Interviews

Interviews are extremely important in the selection process because of the information exchange they allow. It is a time when both the job applicant and potential employer can learn a lot about one another. However, interviews are also recognised as potential stumbling blocks in the selection process. Sometimes interviewers ask the wrong things, sometimes they talk too much, sometimes the wrong people do the interviewing. Other times, the interviewer falls prey to personal biases and makes a judgement that fails to fully consider the applicant's capabilities.

Behavioural interview questions are becoming increasingly popular in many job interviews. Through such questions, applicants are invited to reflect on their own previous work and life experiences. Candidates might be asked to cite a time when they performed well under pressure or dealt effectively with a difficult customer or colleague, for example. Among the recommendations for how to interview a job applicant are those shown in Manager's notepad 12.1.

MANAGER'S NOTEPAD 12.1

How to conduct job interviews

- *Plan ahead*. Review the job specifications and job description as well as the candidate's application; allow sufficient time for a complete interview.
- *Create a good interview climate*. Allow sufficient time; choose a quiet place; be friendly and show interest; give the candidate your full attention.
- *Conduct a goal-oriented interview*. Know what information you need and get it; look for creativity, independence and a high energy level.
- *Avoid questions that may imply discrimination*. Focus all questioning on the job applied for and the candidate's true qualifications for it.
- *Answer the questions asked of you*, *and others that may not be asked*. Do your part to create a realistic job preview.
- *Take notes*. Document details and impressions for later deliberation and decision-making.
- *Keep your notes and records*. In case of future litigation, keep your records in a safe location.

Employment tests

Testing is often used in the screening of job applicants. Some common employment tests are designed to identify intelligence, aptitudes, personality and interests; others ask the applicant to indicate how he or she would respond to a series of job-relevant situations. Australian corporations using psychological tests include ANZ, Lion Nathan, Qantas, Macquarie Bank and Boral.[72] Whatever test is used, however, the goal should be to gather information that will help predict the applicant's eventual performance success. An employment test should meet the criteria of *reliability* and *validity* described earlier, and should be legally defensible on the grounds that it actually measures an ability required to perform the job. A New South Wales-based trade union, the Rail, Tram and Bus Union, has called for an end to psychological testing, arguing that it may only serve to over-categorise people and limit the potential for acceptable applicants to obtain a suitable job.[73]

New developments in testing extend the process into actual demonstrations of job-relevant skills and personal characteristics. An **assessment centre** evaluates a person's potential by observing his or her performance in activities designed to simulate daily work, such as interviews, group discussions, in-basket exercises, psychological tests and business games. Although popular in the United States and the United Kingdom, assessment centres have proven less popular in the Asia–Pacific region. Organisations that use assessment centres for internal selection (promotion) and employee development include BHP Billiton, Cathay Pacific and the New South Wales Government.[74]

COUNTERPOINT

Is psych testing a great tool or a great disappointment?

Different types of screening methods are used by employers to make smart hiring decisions — including tests that measure cognitive ability, physical ability, aptitude, personality traits and honesty. There are various considerations that must be taken into account when implementing and managing a pre-employment testing program, and to avoid legal challenges, the reliability and validity of a selection test must be established.

Psychological testing need not only be for recruitment and selection. The tests available today include a range of personality tests, as well as ability, aptitude and reasoning tests for use in development, team-building, coaching and individual career development. These tests, however, are usually too expensive to use on an everyday basis.

Some recruitment agencies can use personality profiling, such as MBTI or DISC, to help companies recruit specifically to suit culture or to fit with an existing team. This is a relatively cheap process, and can provide great insight for the recruiter and manager.

QUESTIONS

1. Have you experienced any psychological testing for a position? What form did it take?
2. How would you determine behavioural issues when recruiting?

Reference and background checks

Reference checks are inquiries to previous employers, academic advisers, co-workers and/or acquaintances regarding the qualifications, experience and past work records of a job applicant. Although they may be biased if friends are prearranged 'to say the right things if called', reference checks can be helpful in revealing important information not discovered elsewhere in the selection process. According to Steve Van Aperen of the Melbourne-based training company SVA Training, around 45 per cent of all job candidates lie during job interviews. Lying is particularly common when candidates talk about their hobbies, past salaries or skills.[75]

References given by a job applicant can also add credibility to an application if they include a legitimate and even prestigious list of persons. An organisation that does not disclose negative information about ex-employees may be held responsible for economic losses suffered by another organisation that relied on this information when employing a new staff member.[76] For this reason, references are becoming a less reliable source of information about potential employees as increasing numbers of employers provide only the bare minimum of information about departing staff. Some companies outsource reference checking to specialised providers in order to ensure that the most value is extracted from this process. Reference Check is Australia's largest provider of this service, conducting around 10 000 thorough and impartial reference checks each year.[77]

Physical examinations

Many organisations ask job applicants to take a physical examination. This health check helps ensure that the person is physically capable of fulfilling job requirements. It may also be used as a basis for enrolling the applicant in health-related fringe benefits such as life, health and disability insurance programs. A recent and controversial development in this area is the emerging use of drug testing. This has become part of pre-employment health screening and a basis for continued employment at some organisations. This is viewed as particularly important given the reality that alcohol and drugs are estimated to cause 11 per cent of workplace injuries and death and cost around $2 billion in lost productivity each year.[78] At a minimum, care must be exercised that any required test is job relevant and does not discriminate in any way against the applicant.

Final decisions to hire or reject

The best selection decisions are most likely to be those involving extensive consultation among the manager or team leader, potential co-workers and HR staff. Importantly, the emphasis in selection must always be comprehensive and focus on all aspects of the person's capacity to perform in a given job. After all, the selection decision poses major consequences for organisational performance and for the internal environment or work climate. Just as a 'good fit' can produce long-term advantage, a 'bad fit' can be the source of many (and perhaps long-term) problems. Sometimes the people who know this lesson best are those who run small businesses. Says one store owner who knew the importance of customer service in retail sales: 'If applicants have a good attitude, we can do the rest . . . but if they have a bad attitude to start with, everything we do seems to fail.'[79]

CRITICAL ANALYSIS

1. How realistic can a job preview be during this era of constantly changing job roles and responsibilities? Is this a problem?
2. The outcomes of job interviews usually reflect the biases and preferences of those conducting the interview. How can such bias be minimised?

12.4 Developing a quality workforce

LEARNING OBJECTIVE 12.4 How do organisations develop a quality workforce?

When people join an organisation, they must 'learn the ropes' and become familiar with the way things are done. It is important that newcomers are helped to fit into the work environment in a way that furthers their development and performance potential. **Socialisation** is the process of influencing the expectations, behaviour and attitudes of a new employee in a way considered desirable by the organisation.[80] The intent of socialisation in HRM is to help achieve the best possible fit between the individual, the job and the organisation.

Employee orientation

Socialisation of newcomers begins with **orientation** — a set of activities designed to familiarise new employees with their jobs, co-workers and key aspects of the organisation as a whole. This includes clarifying the mission and culture, explaining operating objectives and job expectations, communicating policies and procedures, and identifying key personnel.

The first six months of employment are often crucial in determining how well someone will perform over the long term. It is a time when the original expectations are tested, and patterns are set for future relationships between an individual and employer. Unfortunately, orientation is sometimes neglected and newcomers are often left to fend for themselves. They may learn job and organisational routines on their own or through casual interactions with co-workers, and they may acquire job attitudes the same way.[81] The result is that otherwise well-intentioned and capable persons may learn inappropriate attitudes and/or behaviours. Good orientation, on the other hand, enhances a person's understanding of the organisation and adds purpose to his or her daily job activities. Increased performance, greater job satisfaction and greater work commitment are the desired results. Orientation is particularly important for employees being sent on international assignments.

Training and development

Training is a set of activities that provide the opportunity to acquire and improve job-related skills. This applies both to the initial training of an employee and to upgrading or improving someone's skills to meet changing job requirements. A major concern of US employers is the lack of educational preparation of some workers for jobs, often high technology jobs, in the new workplace. These concerns even extend to the basic skills of reading, writing and arithmetic, as well as to computer skills. Progressive organisations offer extensive training programs to ensure that their workers always have the skills and computer literacy needed to perform well.

A survey of the training practices of the Western Australian hospitality sector found that over 90 per cent of companies offered their employees internal and external training programs. The majority identified improved employee productivity and commitment and almost 90 per cent reported reduced staff turnover as a result of training their people.[82] Similarly, a study of training programs in the healthcare fields in the United States and New Zealand found that employees who feel that they have appropriate access to training are more likely to have a greater degree of commitment towards their organisations.[83]

An innovative and successful training program is used by Bendigo Bank to assist its staff to build better relationships with customers. Based on the Herrmann Brain Dominance Instrument, staff complete a 120-question diagnostic survey to determine their dominant thinking style. The results divide people into one of four dominant styles, each known via a colour. Blue thinkers are logical and critical, and favour analysis and quantification. As a bank customer, they will be particularly concerned with interest rates, account and loan rules, and how Bendigo Bank's products compare with its competitors. A red thinker is empathetic, supportive, social, and sensitive, and may be more concerned with the company's environmental policies and community activities. As customer service officers determine the key style of their customers, they are able to tailor their messages and product offerings accordingly. Thousands of Bendigo Bank staff have undergone training in the model, either via seminars or two-day training programs. The results are impressive, with Bendigo Bank consistently beating its competitors in customer service surveys.[84] Bendigo Bank has been named Business Bank of the Year (2011) at Roy Morgan Research's inaugural Customer Satisfaction Awards. The accolade follows the bank recording the highest business customer satisfaction score in a survey, with a rating of 75.4 per cent. This was almost six points ahead of its nearest competitor.[85]

On-the-job training

On-the-job training takes place in the work setting while someone is doing a job. A common approach is job rotation that allows people to spend time working in different jobs to expand the range of their job capabilities. Another is **coaching**, in which an experienced person provides performance advice to someone else. One form of coaching is **mentoring**, in which employees at the early stages of their careers are formally assigned as protégés of senior people. The mentoring relationship gives them regular access to advice on developing skills and getting a good start in their careers. An informal type of coaching involves **modelling**. This occurs when someone demonstrates through day-to-day personal behaviour what is expected of others. One way to learn managerial skills, for example, is to observe and practise the techniques displayed by good managers. Modelling is a very important influence on behaviour in organisations. A good example is how the behaviour of senior managers helps set the ethical culture and standards for other employees.

Off-the-job training

Off-the-job training is accomplished outside the work setting. It may be done within the organisation at a separate training room or facility or at an offsite location. Examples of the latter include attendance at special training programs sponsored by universities, trade or professional associations, or consultants. The willingness of organisations to invest in training is a good indicator of their commitment to the people they hire. Intel, for example, allocates a percentage of its annual payroll to spend on training through its in-house university.[86]

An important form of off-the-job training involves **management development**, designed to improve a person's knowledge and skill in the fundamentals of management. For example, *beginning managers* often benefit from training that emphasises delegating duties; *middle managers* may benefit from training to better understand multifunctional viewpoints; *top managers* may benefit from advanced management training to sharpen their decision-making and negotiating skills and to expand their awareness of corporate strategy and direction. Moves to blend different types of training are becoming increasingly popular. Because individuals have different learning styles and approaches, it makes sense to provide employees with a range of training options to meet their needs. E-learning, for instance, uses the internet to encourage less pressured, more reflective, self-paced learning. It can be used to supplement other methods such as outdoor experiences or face-to-face discussions.[87]

Performance management systems

Performance has to be measured. The rule holds whether you are talking about a hospital's contribution to the community, a business's quarterly financial results, a work team's project accomplishment or an individual's job performance. With measurement comes the opportunity not only to document results but also to take steps towards their future improvement. Part of the HRM responsibility is design and implementation of a successful **performance management system**. This is a system that ensures that performance standards and objectives are set, that performance is regularly assessed for accomplishments, and that actions are taken to improve performance potential in the future. Unfortunately, many managers believe that the appraisal is the beginning and end of **performance management**. It is only one aspect of ongoing feedback and development, and a continuous process of setting goals and objectives, watching performance, and then giving and receiving feedback and ongoing coaching. Managers must ensure through performance management that all activities and outputs are aligned with strategic goals — thus ensuring the company can achieve competitive advantage through well-trained and developed people. Performance management provides a direct link between 'employee performance and organizational goals and makes the employee's contribution "explicit"'.[88]

Purpose of performance appraisal

Usually performance appraisal is a once-a-year contribution to feedback. It does not provide the ongoing coaching that allows for improvement, but instead measures the strengths and weaknesses of the employee. An appraisal is an important part of a performance management, because performance management is much more than performance appraisal. The process of formally assessing someone's work accomplishments and providing feedback is **performance appraisal**. It serves two basic purposes in the maintenance of a quality workforce: evaluation and development. The *evaluation purpose* is intended to let people know where they stand relative to performance objectives and standards. The *development purpose* is intended to assist in their training and continued personal development.[89]

The evaluation purpose of performance appraisal focuses on past performance and measures results against standards. Performance is documented for the record and to establish a basis for allocating rewards. The manager acts in a *judgemental role* in which he or she gives a direct evaluation of another person's accomplishments. The development purpose of performance appraisal, on the other hand, focuses on future performance and the clarification of success standards. It is a way of discovering performance obstacles and identifying training and development opportunities. Here the manager acts in a *counselling role*, focusing on a subordinate's developmental needs.

Like employment tests, any performance appraisal method can fulfil these purposes only when the criteria of *reliability* and *validity* are met. To be reliable, the method should consistently yield the same result over time and/or for different raters; to be valid, it should be unbiased and measure only factors directly relevant to job performance. Both these criteria are especially important in today's complex legal environment. A manager who hires, fires or promotes someone is increasingly called on to defend such actions — sometimes in specific response to lawsuits alleging that the actions were discriminatory. At a minimum, written documentation of performance appraisals and a record of consistent past actions will be required to back up any contested evaluations.

Performance appraisal methods

Organisations use a variety of performance appraisal methods. One of the simplest is a **graphic rating scale**, such as the example in figure 12.3. Such scales offer the appraisers checklists of traits or characteristics thought to be related to high-performance outcomes in a given job. A manager rates the individual on each trait using a numerical score. The main appeal of graphic rating scales is that they are relatively quick and easy to complete. Their reliability and validity are questionable, however, because the categories and scores are subject to varying interpretations.

Name: Leslie Whiteson
Job title: Financial Analyst
Supervisor: Anthony Chang
Date: 1 July

Rating factors	Rating
Quantity of work: amount of work normally accomplished	3
Quality of work: accuracy and quality of work normally accomplished	2
Job knowledge: understanding of job requirements and task demands	3
Cooperation: willingness to accept assignments and work with others	1
Dependability: conscientiousness in attendance and in completion of work	2
Enthusiasm: initiative in offering ideas and seeking increased responsibilities	2

Ratings:
3 = Outstanding
2 = Satisfactory
1 = Unsatisfactory

FIGURE 12.3 Sample graphic rating scale for performance appraisal

A more advanced approach is the **behaviourally anchored rating scale** (BARS), which offers an appraiser rating scales for actual behaviours that exemplify various levels of performance achievement in a job. Look at the case of a customer service representative illustrated in figure 12.4. Unsatisfactory performance is clearly defined as rude or disrespectful treatment of a customer. Because performance assessments are anchored to specific descriptions of work behaviour, a BARS is more reliable and valid than the graphic rating scale. The behavioural anchors can also be helpful in training people to master job skills of demonstrated performance importance.

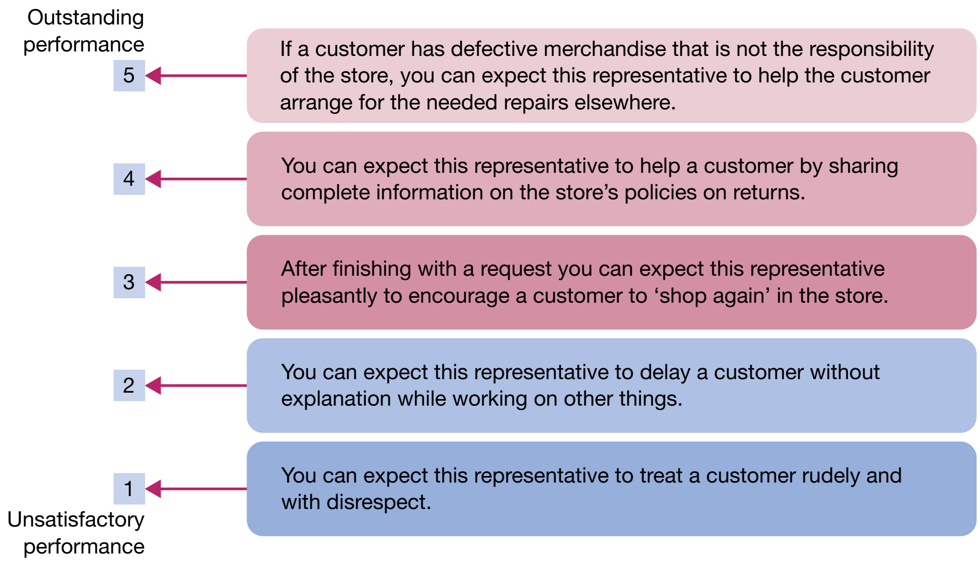

FIGURE 12.4 Sample behaviourally anchored rating scale for performance appraisal

The **critical-incident technique** involves keeping a running log or inventory of effective and ineffective job behaviours. By creating a written record of positive and negative performance examples, this method documents success or failure patterns that can be specifically discussed with the individual. Using the case of the customer service representative again, a critical-incidents log might contain the following types of entries: *positive example* — 'Took extraordinary care of a customer who had purchased a defective item from a company store in another city'; *negative example* — 'Acted rudely in dismissing the complaint of a customer who felt that a sale item was wrongly advertised'.

Some performance management systems use **multiperson comparisons**, which formally compare one person's performance with that of one or more others. Such comparisons can be used on their own or in combination with some other method. They can also be done in different ways. In *rank ordering*, all people being rated are arranged in order of performance achievement. The best performer goes at the top of the list, the worst performer at the bottom; no ties are allowed. In *paired comparisons*, each person is compared with every other person and rated as either the superior or the weaker member of the pair. After all paired comparisons are made, each person is assigned a summary ranking based on the number of superior scores achieved. In *forced distribution*, each person is placed into a frequency distribution that requires that a certain percentage fall into specific performance classifications, such as top 10 per cent, next 40 per cent, next 40 per cent and bottom 10 per cent.

Not all performance appraisals are completed only by an employee's immediate boss. It is increasingly popular today to expand the role of a job's stakeholders in the appraisal process. The new workplace often involves use of *peer appraisal*, including in the process others who work regularly and directly with a job holder, and *upward appraisal*, including in the process subordinates reporting to the job holder. An even broader stakeholder approach is known as **360° feedback**, where superiors, subordinates, peers and even internal and external customers are involved in the appraisal of a job holder's performance.[90]

It is estimated that around 20 per cent of Australian companies use some kind of ratings system. Whereas the head of human resources at a leading Australian bank views ratings systems as a way of promoting communication and understanding between employers and employees, Griffith University lecturer Campbell Fraser argues that an employee's ratings are often a reflection of their 'likeability' and personality rather than an objective measure of performance — 'it becomes a popularity vote'.[91]

Research suggests that performance appraisals are often undertaken poorly or inappropriately, and that many appraisals are actually a waste of an organisation's time and resources. An Australian study by Bradley and Ashkanasy found that the effectiveness of performance appraisals related directly to the effectiveness of employee support and supervision at other times of the year. That is, when supervisors did not provide appropriate support and feedback at other times, the appraisals were not seen as particularly useful. Interestingly, when consistent and regular feedback and support were provided throughout the year, appraisals were viewed as somewhat of a 'waste of time' since the appraisal was occurring in other ways on an ongoing basis.[92]

CRITICAL ANALYSIS

1. The results of performance appraisals can be strongly influenced by the state of the economy. During prosperous times, virtually everyone will potentially look like a strong performer. Do you agree?
2. How would you ensure that the performance management system in your organisation is achieving competitive advantage?

12.5 Engagement: maintaining a quality workforce

LEARNING OBJECTIVE 12.5 How do organisations maintain a quality workforce?

> AtlantiCare, a large New Jersey-based health provider, enjoys a sterling reputation. Loyalty among its 5100 employees ranks among the highest in the industry. Nurse turnover is far below the local norm. Customers also are pleased. Patient volume is up, and revenues are climbing faster than at other hospitals in the state.[93]

AtlantiCare was selected for the Malcolm Baldrige National Quality Award, the US's highest honour for innovation and performance excellence. While most organisations appear to be lowering standards in order to maximise profit, this company attributes its enviable result to organisational culture that views quality and high performance as journeys, not destinations. 'Without a framework for continuous improvement, you will have a great deal of difficulty sustaining these results.' HR is a catalyst for developing work processes that result in high levels of employee engagement.

The *2012 Employee Engagement Trends Report* released in early 2012 by Quantum Workplace contained an analysis of ten areas of engagement: teamwork, manager effectiveness, trust in senior leaders, trust with co-workers, retention, alignment with goals, feeling valued, individual contribution, job satisfaction and benefits. Quantum found that the strongest overall engagement levels were associated with:

- feeling valued
- teamwork
- trust in senior leadership.

Quantum concluded that organisations that do very well in these three areas 'will have a very high level of overall engagement'.[94] According to *The Employee Engagement Mindset*, highly engaged employees share six behavioural drivers.

- *Connecting*. They participate in activities that produce a high 'return on connection'.
- *Shaping*. They seize opportunities to customise their professional experience.
- *Learning*. They become self-directed learners at or above the speed of change.
- *Stretching*. They move out of their comfort zone and move towards their outer limits.
- *Achieving*. They regenerate through the intrinsic rewards of meaningful achievement.
- *Contributing*. They direct their effort beyond themselves to create growth in others and value in the organisation.[95]

Aon Hewitt states 'each disengaged employee costs your organisation an average of $10 000 in profit annually', and identifies programs most likely to have a positive impact on engagement, based on research. These include career opportunities, recognition, organisational reputation and communication.[96]

The company says that there are clear links between employee engagement, discretionary effort and productivity, as Aon Hewitt Best Employers deliver 9 per cent more profit on average per employee, with double the revenue growth of other organisations. However, only 31 per cent of Australian and New Zealand organisations are improving employee engagement levels, despite an increasingly competitive global market.[97]

Aon Hewitt announced its 2012 Best Employers in Australia and New Zealand (ANZ) survey, with Microsoft being named the 'Best of the best' for 2012. Fourteen organisations received the Aon Hewitt Best Employer accreditation in 2012, including Chorus New Zealand Limited, Express Data, FedEx Express (Australia), FedEx Express (New Zealand), Frucor Beverages Australia, Hilti Australia, Janssen Australia and New Zealand, Microsoft Australia Pty Ltd, Peoplebank Australia Limited, SEEK Limited, Shire Australia Pty Ltd, Starlight Children's Foundation, Trilby Misso Lawyers, and Wood & Grieve Engineers Limited.[98]

The 2012 study identified five distinguishable characteristics of a Best Employer:

- *unwavering commitment from senior leaders* to the importance of developing highly engaged and productive employees
- *clear performance expectations* that align people to the organisation's goals and values, and bring meaning to their work
- *people managers* who create the conditions for their people to excel
- *reward and recognition practices* that encourage employees to contribute discretionary effort
- *clear communication* on what employees can expect that in turn helps the organisation to be more competitive in attracting and retaining in a tight labour market.

You cannot establish engagement strategies and then expect them to work. Getting employees engaged is like planting a tree — if you walk away from it, it's unlikely to grow. These companies work consistently to ensure quality through sound human resource strategies that are continually addressed and improved.

Career development

The money spent on career development in the past is no longer available. Employees expect training and development to be able to do their job, while their focus is on ensuring they are developing skills for the next career move. So, is there any point in developing employees who will probably leave your organisation?

Capelli believes we should recruit and train our employees on a 'just in time' approach.[99] Historically, there has been a push strategy in place, where 70 per cent of firms used succession planning to ensure that management positions could be filled when required. This has seen a complete turnaround, with 63 per cent of firms now having no succession planning. Capelli sees this as a move to a pull strategy, which would bring HR into line with current business strategies. He sees much of the downsizing of the 1980s and '90s as a deliberate strategy to shed employees who were a result of mismatched recruiting strategies of earlier times. This approach saw a change in attitude where whatever was needed could be sourced in the markets.

From an employee perspective, the career of choice appears to be protean — tending or able to change frequently or easily and able to do many different things. This means that the employee determines when they will progress, not the organisation, and this can be determined as the person or the environment change. (The term 'protean' means readily taking on various shapes or forms; it is derived from the Greek god Proteus, who could change shape at will.) The decision, according to Capelli, is whether we develop or wait and buy talent developed by other organisations. This depends on certainty. If you are working in a certain environment you can afford to develop talent, which is the cheaper option. If, however, we are in an uncertain age (as in post-GFC era), then our option is to buy talent when needed and reduce our uncertainty. If the plan shows additional employees will be needed in the future, then recruit and train. If there is uncertainty as to what talent will be required, wait and buy from the market 'just in time'. Recruiting externally can dilute current culture. This can be positive or negative depending on the organisational history. External recruitment can also bring new knowledge into the organisation, which, again, can contribute positively to the organisation. Capelli believes that HR can be run in the same way as a production line. You forecast and buy when required, and, just like inventory, do not carry costs that are not needed.

Although employees obviously have a role to play in their own career development, the best companies do not leave career development just to individual employees. This argument that we do not develop people because they can be poached by other organisations is not the only perspective on career development strategy. According to Ingham:

> taking advantage of this opportunity is about finding the best people and bringing them into an organisation, knowing that they will create advantage for an organisation (e.g. job sculpting) rather than just plugging them into a particular hole in the organisation.[100]

Many organisations recruit people who fit the core of the business, who support the values of the business, and who will therefore be uninterested in being poached from organisations who do not support the same ethics.

From a different perspective, the *Catalyst* report 'Pay it forward' reveals that high potentials who have received career development are now 'paying it forward' and developing others while also receiving tangible career benefits for investing in the development of future leaders. Findings show that:

- critical career experiences lead talent to pay it forward
- paying it forward pays off in the form of greater advancement and higher compensation
- women do pay it forward to a greater extent than men.[101]

Career planning is the process of systematically matching career goals and individual capabilities with opportunities for their fulfilment. It involves answering such questions as 'Who am I?', 'Where do I want to go?' and 'How do I get there?' Whereas some people suggest that a career should be allowed to progress in a somewhat random but always opportunistic way, others view a career as something to be rationally planned and pursued in a logical step-by-step fashion. In fact, a well-managed career will probably include elements of each. The carefully thought-out plan can point you in a general career direction; an eye for opportunity can fill in the details along the way.

When you think about adult life stages or transitions, you should note that sooner or later most people's careers level off. A **career plateau** is a position from which someone is unlikely to move to a higher level of work responsibility.[102] Three common reasons for career plateaus are personal choice, limited abilities and limited opportunities. For some, the plateau may occur at a point in life when it suits their individual needs; for others, the plateau may be unwanted and frustrating. Perhaps it is because of career plateaus that older employees are far more likely than younger employees to move into self-employment, consulting, community service, retirement or some combination of these choices.[103]

Historically, many employees expected their supervisors or managers to take responsibility for their career development. However, career plateaus seem increasingly likely for those who do not take a high degree of responsibility for their own career development in today's organisations. Even though enlightened companies provide career development policies and opportunities, employees must also regularly reflect on their own careers and make decisions in the broader context of these reflections and their own experiences.

Work–life balance

The Society for Human Resource Management (SHRM) 2006 Job Satisfaction Study found that 58 per cent of employees cite the flexibility to balance work–life issues as a very important aspect of job satisfaction.[104] Perrin states that **work–life balance** was ranked number three out of the top ten attraction drivers for the last two years.[105] Employers interested in maintaining a diverse workforce, retaining ageing baby boomers and attracting new talent cannot afford to overlook the work–life balance concerns of today's workforce. In fact, according to the Families and Work Institute's national study of employers, 92 per cent of organisations offer at least eight work–life balance initiatives, and 47 per cent report implementing such initiatives to recruit and retain employees.[106] Bond says that HR practitioners can affect recruitment and retention by first understanding the importance of work–life balance programs in today's workplace and then championing strategies that maximise the effectiveness of work–life balance initiatives. This issue of work–life balance deals with how people balance the demands of careers and their personal and family needs. 'Family' in this context includes not just children, but also elderly parents and other relatives in need of care. Among progressive employers, HR policies and practices that support a healthy work–life balance are increasingly viewed as positive investments.

Benchmarks are available and they are growing in number. Technology has blurred the lines of work and play. Many employees can be on call or working from home using PDAs, computers, and phones for email and calls traditionally taken in work 'time'. The most available form is flexitime or the nine day fortnight. The Alliance for Work–Life Progress (AWLP) cites 'several innovative programs that organizations are adding to their work–life program portfolios'. These include 'childcare and eldercare resources and referral services, employee assistance programs, concierge and workplace convenience services, and financial planning services.' They also found that 90 per cent believe that work–life issues are everyone's issues, but only 15 per cent believe that they have achieved this balance. The reasons cited are lack of management and supervisory support for such programs and a lack of cultural fit.[107]

Adapted from Bird, there are five elements of effective work–life initiatives. Firstly, you need a culture that promotes work–life balance (e.g. working from home one day a week). Secondly, you need clear and consistent communication, with HRM reinforcing the use of the initiatives. Thirdly, work–life training should be provided that suits both on-the-job and off-the-job learning. Fourthly, organisations need to discover ways to enhance the program. And, finally, organisations need to know that everyone will have different needs and not try provide all staff with the same options.[108] While organisations may have initial difficulty with performance management and supervision and will need to come to terms with mistrust of employees and belief of lost productivity, in the long term the work–life balance programs will enhance recruitment and retention.

In Glassdoor's survey of work–life balance organisations in 2011, Nestle Purina Petcare received the highest rating (4.6 on a 5-point scale) from its employees. Employees appreciate perks like the company store, gym, onsite daycare and credit union, as well as the freedom to bring their pets to work. Plus, employees note the flexible work schedules and management's understanding of the need to fulfil non-company-related obligations.[109] Nestle Purina Petcare CEO W. Patrick McGinnis stated:

> At Nestle Purina, we recognize the importance that work-life balance plays in our associates' satisfaction at work. This is why we have placed such a strong emphasis on providing amenities and resources to help our associates achieve a healthy balance, a factor that we feel contributes to the organization's high-performing culture.

Included among work–life balance concerns are the unique needs of *single parents*, who must balance complete parenting responsibilities with a job, and *dual-career couples*, who must balance the career needs and opportunities of each partner. The special needs of both working mothers and working fathers are also being recognised. An Australian study of male and female managers from dual-career couples found that pursuing a balance between the demands of work and family requires deliberate attention to managing time and priorities so that individual, work and family needs can be met. Imbalances are more likely when employees do not give serious attention to these issues but instead allow external events and factors to control their time and priorities.[110] Many of the examples of successful work–life balance programs appear to be in large organisations. Australia has a high percentage of small business, and there needs to be more research into what is possible in this arena. The talent strategies of large organisations focus heavily on the work–life balance attractiveness.

SOCIAL RESPONSIBILITY

From chief executive to philanthropist: a personal story

Bill Gates, co-founder and chairman of Microsoft, appeared on American TV interview show *Charlie Rose* in July 2012. He spent the bulk of his hour-long interview discussing the work of the charitable Bill and Melinda Gates Foundation in impoverished countries like India. Gates stepped down as chief executive of Microsoft in 2000, and in 2006 began transitioning from full-time duties at the company to spending the bulk of his time with the charitable organisation he founded with his wife six years earlier. Initiatives the Bill and Melinda Gates Foundation have overseen include vaccination programs and the distribution of mosquito nets in malaria-stricken regions.

The Bill and Melinda Gates Foundation has contributed more than $US1 billion to combat disease and poverty in India. The country has now been polio free for over five years. Gates (pictured), who recently visited the country, told Rose that 'health is improving in India as fast as any place in the world'. Asked by Rose to compare China and India in terms of a culture of innovation, Gates said India's leadership in producing software engineers was unparalleled, but, overall, China's engineering and manufacturing sectors were 'much further ahead of India'. Gates also described the reasoning behind his transition from cutthroat businessman to philanthropist.

> I think the world's best companies are built by fanatics, and when you're in your 20s and 30s, being fanatical comes easy, at least it came pretty naturally to me. I didn't feel that bad that that's what I was doing . . . I think now in my 50s, this way of operating, where I'm backing a lot of these great scientists [developing health care programs and technologies] is what is the most natural for me.[111]

QUESTION

What does corporate social responsibility mean to you? Can you provide examples of positive CSR? When does CSR become a marketing tool?

Remuneration and benefits

The chapter on controlling pointed out that good remuneration and benefit systems improve control by attracting qualified people to the organisation and helping the organisation to retain them. **Base remuneration** in the form of salary or hourly wages can make the organisation a desirable place of employment. It can help get the right people into jobs to begin with; by making outside opportunities less attractive it can also help keep them there. Unless an organisation's prevailing wage and salary structure is competitive in the relevant labour markets, it will be difficult to attract and retain a staff of highly competent workers. A basic rule of thumb is to carefully study the labour market and pay at least as much as, and perhaps a bit more than, competitors are offering. The additional area of incentive pay is discussed in detail later in the book.

In Australia, the average remuneration for a national sales manager or director of sales is between $120 000 and $200 000, plus additional bonuses and incentive pay.[112] A company financial controller can expect around $175 000 to $200 000 in base pay and another $15 000 to $25 000 in annual incentives, whereas a product development manager in the manufacturing sector earns around $80 000 to $110 000 in base pay and another $5000 to $10 000 in incentive pay.[113] The typical Australian manager's package is composed of 52 per cent salary, 17 per cent short-term incentives (such as bonuses) and 31 per cent long-term incentives (such as share options). In recent years, the comparatively exorbitant million-dollar salaries of the chief executives of many large companies have come under much media and public scrutiny. Telstra, for example, was forced to fend off criticism of the $13.4 million annual salary package of its CEO, Sol Trujillo, who departed the role in 2009 with a further payout estimated to be around $20 million.[114]

The organisation's employee benefit program also plays a role in attracting and retaining capable workers. **Fringe benefits** are the additional non-wage or non-salary forms of remuneration provided to an organisation's workforce. Among senior executives in Australia, the most popular fringe benefits offered are salary-sacrificed superannuation (offered by 80 per cent of companies); company cars (79 per cent); additional employer-paid superannuation (71 per cent); performance rewards (39 per cent); laptop computers (39 per cent); a second company car (32 per cent); mobile phones (30 per cent); and membership of professional associations (28 per cent).

Interestingly, Mercer Human Resource Consulting has found that there is a gap between the benefits that executives would like to receive and those that are offered by their companies. For instance, 67 per cent of executives would like home loans provided by or through their employer, but only 15 per cent of employers offer such loans. Whereas 56 per cent of managers would like holidays or entertainment to be provided within their package, only 11 per cent of companies offer these. And 57 per cent of executives wish that their employers could help with health insurance, but just 21 per cent of companies provide health insurance to their executives.[115]

An increasingly common approach overall is **flexible benefits**, sometimes known as cafeteria benefits, which let the employee choose a set of benefits within a certain dollar amount. The employee gains when such plans are better able to meet individual needs; the employer gains from being more responsive to a wider range of needs in a diverse workforce. It is crucial that organisations design their reward systems to take account of their employees' individual preferences for different rewards. It is also critical that organisations ensure that they reward performance towards key objectives and goals so that employee behaviour is consistently channelled in this direction. According to Jarek Czechowicz, many reward systems fail, whether they are designed for executives or other employees of the organisation. He states that the main problem with current reward programs is that a minority of people are recognised for outstanding performance, while the rest feel inferior.

> This has a flow-on effect. Customers and others can tell when someone is unhappy or being friendly only because they want a bonus, a commission or a promotion. The intended result of reward systems is to improve behavior; but the real result for many employees is just more stress.[116]

It is essential for rewards and benefits to fit with the strategic objectives of the organisation. Linking rewards and benefits to performance management ensure full understanding of what has to be achieved and what that achievement can offer the employee.

Retention and turnover

The several steps in the HRM process both conclude and recycle with *replacement decisions* — that is, with the management of promotions, transfers, terminations, lay-offs and retirements. Any replacement situation should be approached as an opportunity to review HR plans, update job analyses, rewrite job descriptions and job specifications, and ensure that the best people are selected to perform the required tasks.

Some replacement decisions shift people between positions within the organisation. *Promotion* is movement to a higher level position; transfer is movement to a different job at a similar level of responsibility. Another set of replacement decisions relates to *retirement*, something most people look forward to until it is close at hand. Then the prospect of being retired often raises fears and apprehensions. Many organisations offer special counselling and other forms of support for retiring employees, including advice on company benefits, money management, estate planning and use of leisure time. Downsizing is sometimes accompanied by special offers of early retirement — that is, retirement before formal retirement age but with special financial incentives. Where this is not possible, organisations may provide outplacement services to help laid-off employees find other jobs.

The most extreme replacement decisions involve *termination*, the permanent dismissal of an employee. In some cases the termination is based on performance problems. The person involved is not meeting the requirements of the job or has violated key organisational policy. In other cases the termination may be due to financial conditions of the employer, such as those requiring downsizing or restructuring. The people involved may be performing well, but are being laid off as part of a workforce reduction. In any case, it may be hard for the person being dismissed to accept the decision. Especially in the case of workforce reduction, the termination notice may come by surprise and without the benefit of advance preparation for either the personal or the financial shock. The experts' advice to the employee is to ask at least three tough questions of the ex-boss: Why am I being released? What are my termination benefits? Can I have a good reference? Advice for the manager who must handle a termination is offered in Manager's notepad 12.2.

Employee turnover in places such as Australia and Hong Kong has historically been high, and is viewed as a significant factor hampering the growth of workforce productivity. The costs of turnover can be quite high, with one US study estimating that labour turnover costs a $30 billion company almost $150 million a year in lost productivity and in the costs associated with recruiting, selecting and training new employees.[117] A New Zealand study found that 42 per cent of businesses did not monitor the costs of turnover and absenteeism, indicating significant potential for improvement in HR practices.[118]

MANAGER'S NOTEPAD 12.2

Things to remember when handling a dismissal

- Dismissal can be as personally devastating as a divorce or the death of a loved one.
- Dismissal should always be legally defensible and done in complete compliance with organisational policies.
- Dismissal should not be delayed unnecessarily; it is best done as soon as the inevitability of the dismissal is known.
- Dismissal of good performers should include offers of assistance to help them re-enter the labour market.
- All records associated with dismissal should be kept.

CRITICAL ANALYSIS

1. Work–life balance goes out the window during challenging times since most employees will work whatever hours are required to keep their jobs and maintain their rewards. Do you agree with this statement? Why or why not?
2. How should we respond if faced with a career plateau? If we are managing people on a plateau, in what creative ways might we respond in order to maintain their enthusiasm and productivity?
3. How does the concept of a protean career (discussed) effect the career plateau, and how should this be managed by the employee and the manager?

SUMMARY

12.1 Why do people make the difference in an organisation?

- Even in this age of information, high technology and globalisation, people still drive the system; they make organisations work.
- Organisations with positive HR policies and practices are gaining significant performance advantages in such areas as lower turnover, more sales, higher profits and increased shareholder wealth.
- The commitment to human resources made by founders of start-ups has long-term consequences for organisational performance.
- The challenges of complexity and uncertainty in highly competitive environments are best met by a diverse and talented workforce.
- The diversity advantage is gained only when the talents of all people, regardless of personal characteristics, are unlocked and they are given the opportunity to perform.

12.2 What is strategic human resource management?

- The HRM process is the process of attracting, developing and maintaining a quality workforce.
- A complex legal environment influences HRM, giving special attention to equal employment opportunity.
- HR planning is the process of analysing staffing needs and identifying actions to satisfy these needs over time.
- The purpose of HR planning is to make sure the organisation always has people with the right abilities available to do the required work.

12.3 How do organisations attract a quality workforce?

- Recruitment is the process of attracting qualified job candidates to fill vacant positions.
- Recruitment can be both external and internal to the organisation.
- Recruitment should involve realistic job previews that provide job candidates with accurate information on the job and organisation.
- Managers typically use interviews, employment tests and references to help make selection decisions; the use of assessment centres and work sampling is becoming more common.

12.4 How do organisations develop a quality workforce?

- Orientation is the process of formally introducing new employees to their jobs, performance requirements and the organisation.
- On-the-job training may include job rotation, coaching, apprenticeship, modelling and mentoring.
- Off-the-job training may include a range of formal courses and programs, as well as simulations and other training specifically tailored to job needs.
- Performance management systems focus on the establishment of work standards and the assessment of results through performance appraisal.
- Common performance appraisal methods are graphic rating scales, behaviourally anchored rating scales and multiperson comparisons.

12.5 How do organisations maintain a quality workforce?

- Career planning systematically matches individual career goals and capabilities with opportunities for their fulfilment.
- Programs that tackle work–life balance and the complex demands of job and family responsibilities are increasingly important in HRM.
- Remuneration and benefits packages must be continually updated so the organisation maintains a competitive position in external labour markets.
- Whenever workers must be replaced over time because of promotions, transfers, retirements and terminations, the goal should be to treat everyone fairly while ensuring that jobs are filled with the best personnel available.

KEY TERMS

360° feedback includes in the appraisal process superiors, subordinates, peers and even customers.
Affirmative action commits the organisation to hiring and advancing minority groups and women.
An **assessment centre** examines how job candidates handle simulated work situations.
Base remuneration is a salary or hourly wage paid to an individual.
A **behaviourally anchored rating scale** uses specific descriptions of actual behaviours to rate various levels of performance.
Business associations represent the interests of organisations in an industry or region.
Career planning is the process of systematically matching career goals and individual capabilities with opportunities for their fulfilment.
A **career plateau** is a position from which someone is unlikely to move to a higher level of work responsibility.
Coaching involves an experienced person offering performance advice to a less-experienced person.
The **critical-incident technique** keeps a log of someone's effective and ineffective job behaviours.
Discrimination occurs when someone is denied a job or a job assignment for reasons not job-relevant.
Diversity management involves identifying and managing those employee characteristics likely to have a significant impact on the organisation's ability to achieve its strategic objectives.
Equal employment opportunity (EEO) is the right to employment and advancement without regard to race, sex, religion, colour or national origin.
Flexible benefits programs allow employees to choose from a range of benefit options.
Fringe benefits are additional non-wage or non-salary forms of remuneration.
A **graphic rating scale** uses a checklist of traits or characteristics to evaluate performance.
Human resource management (HRM) comprises a set of policies designed to maximise organisational integration, employee engagement, flexibility and quality of life balance, and improve bottom-line results and competitive advantage.
HR planning analyses staffing needs and identifies actions to fill those needs.
Industrial relations is the process of negotiation and bargaining between employers and employees.
Job analysis studies job requirements and facts that can influence performance.
A **job description** details the duties and responsibilities of a job holder.
A **job specification** lists the qualifications required of a job holder.
Management development is training to improve knowledge and skills in the management process.
Mentoring assigns early-career employees as protégés to more senior ones.
Modelling demonstrates through personal behaviour the job performance expected of others.
Multiperson comparisons compare one person's performance with that of others.
Orientation familiarises new employees with jobs, co-workers and organisational policies and services.
Performance appraisal is the process of formally evaluating performance and providing feedback to a job holder.
Performance management is a continuous process of identifying, measuring, and developing the performance of individuals and teams, through genuine feedback, mentoring and training, and ensuring alignment of every single job in the organisation with the strategic goals of the organisation.
A **performance management system** sets standards, assesses results and plans for performance improvements.
Realistic job previews provide job candidates with all pertinent information about a job and the organisation.
Recruitment is a set of activities designed to attract a qualified pool of job applicants.
Selection is choosing from a pool of the best qualified job applicants.

Sexual harassment occurs as behaviour of a sexual nature that affects a person's employment situation.
Socialisation systematically changes the expectations, behaviour and attitudes of new employees.
Strategic HRM involves attracting, developing and maintaining a quality workforce to implement organisational strategies.
Training provides learning opportunities to acquire and improve job-related skills.
Unions represent the interests of employees in an industry, occupation or organisation.
Work–life balance involves balancing career demands and personal and family needs.

APPLIED ACTIVITIES

1. How do internal recruitment and external recruitment compare in terms of advantages and disadvantages for the employer?
2. Why is orientation an important part of the staffing process?
3. What is the difference between the graphic rating scale and the BARS as performance appraisal methods?
4. How does mentoring work as a form of on-the-job training?
5. Simon Smith is not doing well in his job. The problems began to appear shortly after Simon's job was changed from a manual to a computer-based operation. He has tried but is just not doing well in terms of learning to use the computer and meet the performance expectations. As a 55-year-old employee with over 30 years with the company, Simon is both popular and influential among his work peers. Along with his performance problems you have also noticed the appearance of some negative attitudes — a tendency for Simon to 'badmouth' the company. As Simon's manager, what options would you consider in terms of dealing with the issue of his retention in the job and in the company? What would you do and why?

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CHAPTER 13

Leading

LEARNING OBJECTIVES

13.1 What is the nature of leadership?
13.2 What are the important leadership traits and behaviours?
13.3 What are the contingency theories of leadership?
13.4 What are current issues in leadership development?

Traits of an ethical leader[1]

In recent years we have seen many major business scandals: the emissions-cheating scandal at Volkswagen, the employee exploitation scandal at 7-Eleven and the Turing Pharmaceuticals scandal — where the price of the drug Daraprim was hiked 5000 per cent — to name a few. All pointed to a business culture using the 'end justifies the means' argument to justify unethical if not illegal practices. While hopefully the exception and not the rule, these cases all left the public asking whether getting caught was seen by some leaders as the worst crime of all. What are the qualities of an ethical leader and how might someone with those qualities think and act?

The personality to defy groupthink

Good leaders display certain personality traits that are common across cultures and history; those of intelligence and imagination to create a compelling vision of the future, and bring those who can deliver it with them.

A good leader must also be trustworthy and display unshakeable integrity, be action-oriented, resilient in the face of setbacks while treating people with respect, not as mere units of production. They have rid themselves of delusion and are brutally honest with themselves, know when to take risks and when to play it safe. Leaders are courageous, defy groupthink and accept the backlash against their unorthodox practices.

Outwardly, leadership can be expressed in countless ways, yet if a person embodies these traits, they will be perceived as a leader by those around them.

The ability to set a good example

A defining feature of the ethical leader is that in addition to the foundational qualities mentioned above, they are seen to act from their own well-developed set of ethical principles, setting a consistently good example for others to follow.

The steady force of their attitude over time trickles down and becomes embedded in the culture. They have created a moral matrix that people internalise and operate from day to day. This was as true in ancient China as it is today, nicely summed up by Lao Tzu who observed that 'A leader is best when people barely know he exists, when his work is done, his aim fulfilled, they will say "we did it ourselves"'.

Selflessness

Ethical leaders are strong when it comes to selfless service in the interests of the greater good. They would probably resonate with this quote from Nobel Prize winner George Bernard Shaw:

> This is the true joy in life, the being used for a purpose recognised by yourself as a mighty one; the being thoroughly worn out before you are thrown on the scrap heap; the being a force of Nature instead of a feverish selfish little clod of ailments and grievances complaining that the world will not devote itself to making you happy.

Shaw was not one to mince words.

Their door is always open

With strong leaders, the whole topic of ethics is open for discussion and everyone is encouraged to become part of the ongoing conversation. The moral DNA of the organisation is a work in progress; a living entity that evolves, becomes stronger. It is not enshrined in a framed mission statement, then forgotten about.

They're not afraid to be challenged

Having one's subordinates call you out, disagree with you, challenge your judgement; all of this calls for great understanding and tolerance. Ethical leaders understand that it's part of a culture of continuous improvement. There can be no 'I'm the boss, don't you dare challenge my authority'. It is part of not taking oneself too seriously. Self-deprecating humour is used to good effect.

Ethical leaders do not identify too closely with the position they occupy, such that they will be tempted to overstay their welcome. They cultivate successors and know when to step aside, leaving on a high rather than being pushed. New blood rejuvenates; it's often the best strategy for moving with the times.

They take responsibility for everything

The ethical leader accepts that they are either directly or indirectly responsible for everything that happens in the organisation. They understand that blame shifting and finger pointing is a failure of leadership, as we saw in the VW fiasco when the CEO sought to put the blame on the engineers and technicians. The ethical leader does not resort to the 'plausible deniability' defence.

Ultimately, good ethics is good business. The organisation that does the right thing, and is seen to be doing the right thing is the one that will prosper in today's more connected and accountable world. The community expects moral behaviour from our leaders, and will punish those that transgress through loss of reputation and jail. The old paradigm of win–lose is giving way to win–win.

Volkswagen chief executive Martin Winterkorn resigned after the company was caught deliberately cheating on emissions tests.

Source: David Tuffley (Griffith University) and Amy Antonio (University of Southern Queensland), originally published on *The Conversation*.

QUESTION

Drawing on your own experiences, identify another trait that should be displayed by ethical leaders.

Introduction

Different leadership styles can be successful in different situations; but, equally, different styles could be rejected by members of the organisation or members of the public. Similarly, a leadership style favoured in one organisation may not be favoured in others. Senior managers often find that they cannot match earlier leadership successes when they switch organisations. Why? Because other elements are at play, including the culture of the organisation, the actions of its competitors and the general economic environment. Yet there is little doubt that leaders do make a difference, and many leave a lasting imprint on the organisations they lead.

Leadership can be viewed in different ways. It can be seen as the expression of individual characteristics that leaders bring to their jobs. For example, naturally outgoing people may display an open and friendly approach in the way they seek to lead others. It can be viewed as a flexible, situation-specific response to the particular events confronting leaders at particular times, so that the leader appears more or less outgoing, depending on the situation. Leadership can be seen as most useful when it is simply creating an environment in which others can perform.

This chapter encourages a complex and realistic understanding of leadership, where individual characteristics are important but not entirely fixed. You can work to develop your leadership strengths and respond to your leadership weaknesses. Situations are important, but do not fully determine your effectiveness as a leader. You choose your response to situations. In reading this chapter, we hope that you will begin to understand how organisations identify, develop and evaluate leadership, and that you will reflect on your own potential to lead.

13.1 The nature of leadership

LEARNING OBJECTIVE 13.1 What is the nature of leadership?

A glance at the shelves in your local bookstore will quickly confirm that leadership or **leading** — the process of inspiring others to work hard to accomplish important tasks — is one of the most popular management topics. As shown in figure 13.1, it is also one of the four functions that constitute the management process. Planning sets the direction and objectives; organising brings the resources together to turn plans into action; leading builds the commitments and enthusiasm needed for people to apply their talents fully to help accomplish plans; and controlling makes sure things turn out in the right way.

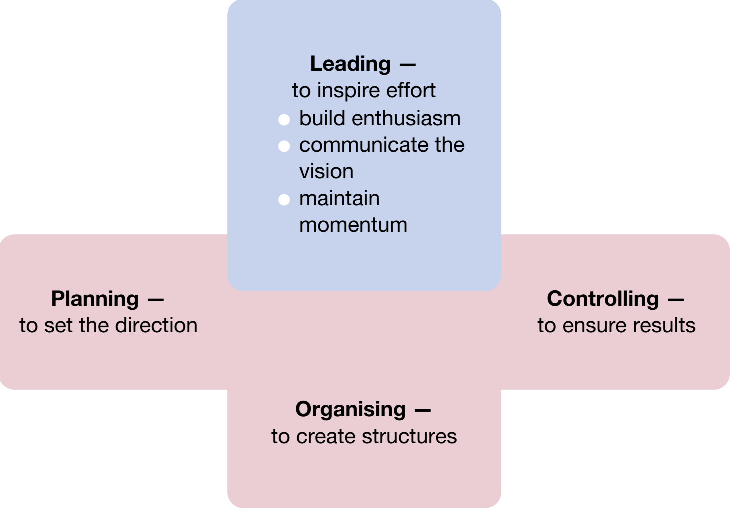

FIGURE 13.1 Leading viewed in relationship to the other management functions

Today's leaders are being challenged in new and demanding ways. The time frames for getting things accomplished are becoming shorter; leaders are expected to get things right the first time, with second chances few and far between; the problems to be resolved through leadership are complex, ambiguous and multidimensional; leaders are expected to be long-term oriented, even while meeting demands for short-term performance results.[2] Anyone aspiring to career success in leadership must rise to these challenges, and more.[3] To succeed as a leader in the new workplace, you must be good at dealing with all aspects of communication, interpersonal relations, motivation, job design, teamwork and change — all topics covered in *Management*.

Leadership and vision

'Great leaders', it is said, 'get extraordinary things done in organisations by inspiring and motivating others toward a common purpose'.[4] Today, leadership is often associated with **vision** — a future that you hope to create or achieve in order to improve on the present state of affairs. The term **visionary leadership** describes a leader who brings to the situation a clear and compelling sense of the future, as well as an understanding of the actions needed to get there successfully.[5] But there is more to it than that — simply having the vision of a desirable future is not enough. Truly great leaders are extraordinarily good at turning their visions into concrete results. Importantly, this involves the essential ability to communicate your vision in such a way that others commit their hard work to its fulfilment. Visionary leaders, simply put, inspire others to take the actions necessary to turn vision into reality.

Manager's notepad 13.1 offers five principles for meeting the challenges of visionary leadership.[6] Recognise that the suggestions go beyond a manager's responsibilities for making long-term plans and drafting budgets, putting structures in place, assigning people to jobs, and making sure that results are consistent with the original plan. Leadership with vision means doing all these things and more — it means beginning with a clear vision, communicating that vision to all concerned, and getting people motivated and inspired to pursue the vision in their daily work. It means bringing meaning to the work that people do — making what they do worthy and valuable. Visionary leadership is a cornerstone of managerial success in dynamic leadership settings around the world.

MANAGER'S NOTEPAD 13.1

Five principles of visionary leadership

- *Challenge the process*. Be a pioneer; encourage innovation and support people who have ideas.
- *Show enthusiasm*. Inspire others through personal enthusiasm to share in a common vision.
- *Help others to act*. Be a team player and support the efforts and talents of others.
- *Set the example*. Provide a consistent role model of how others can and should act.
- *Celebrate achievements*. Bring emotion into the workplace and rally 'hearts' as well as 'minds'.

Power and influence

The foundations of effective leadership lie in the way a manager uses power to influence the behaviour of other people. **Power** is the ability to get someone else to do something you want done. It is the ability to make things happen the way you want them to.[7] Research recognises that a need for power is essential to executive success.[8] But this need for power is not a desire to control for the sake of personal satisfaction; it is a desire to influence and control others for the good of the group or organisation as a whole. This 'positive' face of power is the foundation of effective leadership. Figure 13.2 shows one set of power sources that is based on the position you hold and a second set that is based on your personal qualities.[9]

Position power *Based on things managers can offer to others*	**Personal power** *Based on the ways managers are viewed by others*
Reward — 'If you do what I ask, I'll give you a reward.'	**Expert** — as a source of special knowledge and information
Coercion — 'If you don't do what I ask, I'll punish you.'	**Referent** — as a person with whom others like to identify
Legitimacy — 'Because I am the boss; you *must* do as I ask.'	

FIGURE 13.2 Sources of position power and personal power used by managers

Sources of position power

One important source of power is a manager's official status, or position, in the organisation's hierarchy of authority. Whereas anyone holding a managerial position theoretically has this power, how well it is used will vary from one person to the next. Consequently, leadership success will vary as well. The three bases of *position power* are reward power, coercive power and legitimate power.

Reward power is the ability to influence through rewards. It is the capacity to offer something of value — a positive outcome — as a way of influencing the behaviour of other people. This involves the control of rewards or resources such as pay rises, bonuses, promotions, special assignments and verbal or written compliments. To mobilise reward power, a manager says, in effect, 'If you do what I ask, I'll give you a reward'.

Coercive power is the ability to influence through punishment. It is the capacity to punish or withhold positive outcomes as a way of influencing the behaviour of other people. A manager may try to coerce someone by threatening him or her with verbal reprimands, pay penalties and even termination. To mobilise coercive power, a manager says, in effect, 'If you don't do what I want, I'll punish you'.

Legitimate power is the ability to influence through authority — the right by virtue of organisational position or status to exercise control over people in subordinate positions. To mobilise legitimate power, a manager says, in effect, 'I am the boss and therefore you are supposed to do as I ask'.

Sources of personal power

Another source of power lies in the individual manager and the unique personal qualities that person brings to a leadership situation. Two bases of *personal power* are expert power and referent power.

Expert power is the ability to influence through special expertise. It is the capacity to influence the behaviour of other people because they recognise your knowledge, understanding and skills. Expertise derives from the possession of technical know-how or information pertinent to the issue at hand. This is developed by acquiring relevant skills or competencies or by gaining a central position in relevant information networks. Leaders maintain this power by protecting their credibility and not overstepping the boundaries of their own understanding. When a manager uses expert power, the implied message is, 'You should do what I want because of my special expertise or information'.

Referent power is the ability to influence through identification. It is the capacity to influence the behaviour of other people because they admire you and want to identify positively with you. Reference is a power derived from charisma or interpersonal attractiveness. It is developed and maintained through good interpersonal relations that encourage the admiration and respect of others. When a manager uses referent power, the implied message is, 'You should do what I want in order to maintain a positive self-defined relationship with me'.

Turning power into influence

To succeed at leadership, you must be able to acquire all types of power and appropriately use them to achieve goals and pursue a shared vision.[10] The best leaders and managers understand that different outcomes are associated with use of the various power bases. When a leader relies on rewards and legitimacy to influence others, the likely outcome is temporary compliance. The follower will do what the leader requests, but only so long as the reward continues and/or the legitimacy persists. Inability to continue the reward or attempting to influence outside the range of legitimacy will result in a loss of compliance. When a leader relies on coercion to gain influence, compliance also depends on the continued threat of punishment. In this case, however, the compliance is very temporary and often accompanied by resistance. Use of expert and referent power creates the most enduring influence; they create commitment. Followers respond positively because of internalised understanding or beliefs that create their own long-lasting effects on behaviour.

Position power alone is often insufficient to achieve and sustain needed influence. Personal power and the bases of expert and referent power often make the difference between leadership success and mediocrity. This is particularly true in the ability to influence the behaviour of peers and superiors in the organisation. Four points to keep in mind are: (1) there is no substitute for expertise; (2) likeable personal qualities are very important; (3) effort and hard work breed respect; and (4) personal behaviour must support expressed values.[11]

In organisations, power and influence are also linked to where you fit and how you act in the structures and networks of the workplace. *Centrality* is important. Managers, for example, must establish a broad network of interpersonal contacts and get involved in the important information flows within them. They must avoid becoming isolated. *Support* is important. To gain power, managers must take good care of others who depend on them. They should take care to support them exceptionally well, by doing things that add value to the work setting. *Visibility* is also important. It helps to become known as an influential person in the organisation. Good managers don't hesitate to make formal presentations, participate in key task forces or committees, and pursue special assignments that can display their leadership talents and capabilities.

Ethics and the limits to power

On the issue of ethics and the limits to power, it is always helpful to remember Chester Barnard's *acceptance theory of authority*. He identified four conditions that determine whether a leader's directives will be followed and true influence achieved.

- The other person must truly understand the directive.
- The other person must feel capable of carrying out the directive.
- The other person must believe that the directive is in the organisation's best interests.
- The other person must believe that the directive is consistent with personal values.[12]

When the complexities of ethical dilemmas were discussed in the chapter on ethical behaviour and corporate social responsibility, it was noted that many such dilemmas begin when leaders and managers pressure followers to do questionable things. Using the acceptance theory of authority as a starting point, the ethical question a follower must always be prepared to ask is: 'Where do I (or will I) draw the line; at what point do I (or will I) refuse to comply with requests?' Some day you may face a situation in which you are asked by someone in authority to do something that violates personal ethics and/or even the law. Can you . . . will you . . . when will you say 'no'? After all, as Barnard said, it is 'acceptance' that establishes the limits of managerial power.

Leadership and empowerment

At many points in this book we have talked about **empowerment**, the process through which managers enable others to gain power and achieve influence within the organisation. Effective leaders empower others by providing them with the information, responsibility, authority and trust to make decisions and act independently within their areas of expertise. They know that when people feel empowered to act, they tend to follow through with commitment and high-quality work. They also realise that power in organisations is not a 'zero-sum' quantity. That is, in order for someone to gain power, it isn't necessary for someone else to give it up. Indeed, today's high-performance organisations are masters at mobilising power and commitment to the vision throughout all ranks of employees.

Trust is undeniably a crucial part of effective empowerment. Management consultant Peter Stephenson argues that empowerment can provide people with a sense of responsibility and accountability, which, in turn, can improve service across the organisation. In the case of a hotel chain, for example, he provides a scenario where staff who interact heavily with customers be given budgets to rectify customers' problems, with no need to seek authorisation first. In such a scenario, the employees, in effect, become business leaders.[13]

Manager's notepad 13.2 offers tips on how leaders can empower others.[14] There are many benefits for managers who are successful at doing so. On the one hand, empowerment allows people to act independently and feel more 'adult' in their work activities. On the other hand, a manager who empowers others tends to gain power, too. Having a high-performing work unit certainly helps cement the manager's position. The very act of empowering others may create a positive relationship and build referent power.[15] What better way to demonstrate expertise than to show that your team does a great job?

MANAGER'S NOTEPAD 13.2

How to empower others

- Get others involved in selecting their work assignments and the methods for accomplishing tasks.
- Create an environment of cooperation, information sharing, discussion and shared ownership of goals.
- Encourage others to take the initiative, make decisions and use their knowledge.
- When problems arise, find out what others think and let them help design the solutions.
- Stay out of the way; give others the freedom to put their ideas and solutions into practice.
- Maintain high morale and confidence by recognising successes and encouraging high performance.

CRITICAL ANALYSIS

1. When we think of leadership, we tend to view it through a US lens that emphasises vision, inspiration and charisma. What might this perspective miss?
2. Think of a contemporary leader in any field that you admire and identify their source(s) of power. How do (or could) they empower others?

13.2 Leadership traits and behaviours

LEARNING OBJECTIVE 13.2 What are the important leadership traits and behaviours?

For centuries, people have recognised that some people perform very well as leaders, whereas others do not. The question still debated is 'Why?' Historically, the issue of leadership success has been studied from the perspective of the trait, behavioural and contingency approaches discussed here. Each takes a slightly different tack in trying to both explain leadership effectiveness and identify the pathways to leadership development.

Search for leadership traits

An early direction in leadership research involved the search for universal traits or distinguishing personal characteristics that would separate effective and ineffective leaders.[16] Sometimes called the great person theory, the notion was to identify successful leaders and then determine what made them great. If a listing of definitive universal leadership traits could be made, it would then be easy to select for leadership positions only those people with the requisite characteristics. Those wanting to become leaders or those seeking to improve their leadership success could set personal development goals for acquiring them.

Historically, researchers struggled with their inability to find consistent patterns of leadership traits. More recent research indicates that certain personal traits may be important, but that they must be considered along with other situational factors. Briefly, the results of many years of research in this direction can be summarised as follows. Physical characteristics such as a person's height, weight and physique make no difference in determining leadership success. On the other hand, certain personal traits do seem to differentiate leaders. A study of more than 3400 managers, for example, found that followers rather consistently admired certain things about leaders.[17] The most respected leaders were described by their followers as honest, competent, forward-looking, inspiring and credible. Such positive feelings may enhance a leader's effectiveness, particularly with respect to creating vision and a sense of empowerment. In a comprehensive review of research to date, Shelley Kirkpatrick and Edwin Locke further identify these personal traits as being common among successful leaders.

- *Drive*. Successful leaders have high energy, display initiative and are tenacious.
- *Self-confidence*. Successful leaders trust themselves and have confidence in their abilities.
- *Creativity*. Successful leaders are creative and original in their thinking.
- *Cognitive ability*. Successful leaders have the intelligence to integrate and interpret information.
- *Business knowledge*. Successful leaders know their industry and its technical foundations.
- *Motivation*. Successful leaders enjoy influencing others to achieve shared goals.
- *Flexibility*. Successful leaders adapt to fit the needs of followers and the demands of situations.
- *Honesty and integrity*. Successful leaders are trustworthy; they are honest, predictable and dependable.[18]

An Australian study of senior executives from a range of industries found that these traits continue to be identified as important in determining whether managers progress to senior leadership positions. According to those surveyed, leaders differentiate themselves from their colleagues by possessing a strong need to achieve results, the ability to see the big picture, the ability to exercise initiative, the ability to persuade and influence others, high internal work standards and sound overall business sense. Clearly, interpersonal qualities such as the ability to work both alone and with others and to think strategically are viewed as crucial if leadership roles are to be assumed.[19]

Focus on leadership behaviours

Recognising that the possession of certain traits alone is not a guarantee of leadership success, researchers next turned their attention to examine how leaders behave when working with followers. In effect, this shifted attention from a focus on who leaders are to concern for *what* leaders do. Generally known as *behavioural theories of leadership*, work in this tradition sought to determine which **leadership style** — the recurring pattern of behaviours exhibited by a leader — worked best.[20] If the preferred style could be identified, the implications were straightforward and practical — train leaders to become skilled at using the ideal style to best advantage.

Most research in the leader behaviour tradition focused on two dimensions of leadership style: concern for the task to be accomplished and concern for the people doing the work. The terminology used to describe these dimensions varies among many studies. Concern for task is sometimes called *initiating structure, job-centredness* and *task orientation*; concern for people is sometimes called *consideration, employee-centredness* and *relationship orientation*. Regardless of the terminology, the behaviours characteristic of each dimension are quite clear. *A leader high in concern for task* plans and defines work to be done, assigns task responsibilities, sets clear work standards, urges task completion and monitors performance results. The late Run Run Shaw, who stepped down as chairman of the successful Television Broadcast company in China at the age of 104, exemplified such a leader. Shaw's leadership style was regarded by some people as disciplined and driven; others considered him 'iron-fisted'. In contrast, *a leader high in concern for people* acts in a manner that is warm and supportive towards followers, maintains good social relations with them, respects their feelings, is sensitive to their needs and shows trust in them.

The results of leader behaviour research at first suggested that followers of people oriented leaders were more productive and satisfied than those working for more task oriented leaders.[21] Later results, however, suggested that truly effective leaders were high in both concern for people and concern for task. Figure 13.3 describes one of the popular versions of this conclusion — the Leadership Grid® of Robert Blake and Jane Mouton.[22]

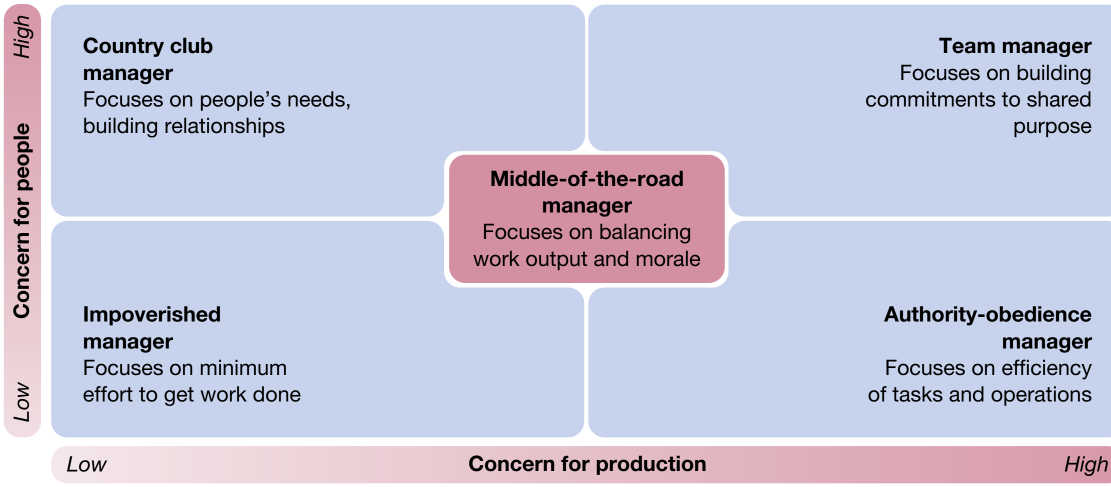

FIGURE 13.3 Managerial styles in Blake and Mouton's Leadership Grid®

This grid is designed not only to describe alternative leadership styles and identify a preferred one, but also to assist in the process of leadership development. The approach uses assessments to first determine where someone falls with respect to people and task concerns. Then a training program is designed to help shift the person's style in the preferred direction of becoming strong on both dimensions. Blake and Mouton called this preferred style *team management*. This leader shares decisions with subordinates, encourages participation and supports the teamwork needed for high levels of task accomplishment. In today's terminology, this could also be a manager who 'empowers' others.

COUNTERPOINT

Why we should fight at work — leadership style[23]

Transformational leaders are known to have high expectations and like to set goals and lead by example. They're also thought to be well-suited to teamwork. Yet, while these leaders can increase motivation to work across occupational boundaries, this focus on cooperation can lead to premature consensus and conformity. When this occurs, it is said that negative mood (reflecting hostility, upset and tension) can provide an effective counter. Negative mood signals to the team that something is wrong, promoting team members to question existing ideas and rely less on assumptions.

In the absence of negative mood, the motivation to work cooperatively reduces effectiveness, but a tension between cooperation and hostility enhances performance. The same tension between positive and negative dynamics enhances other styles of leadership. Inclusive leaders strive to assure team members that their individual voices and unique perspectives will be valued.

But while creating a participative climate allows team members to express their viewpoints, it may not motivate them to do so. The capacity of inclusive leaders to engender innovation is dependent on whether team members perceive a threat to their profession. Feeling threatened drives members to advocate the distinguishing attributes of their profession's position.

It is the tension between feeling included and feeling threatened that motivates teams to find a solution that incorporates diverse and dissenting viewpoints and increases the likelihood of innovation. When teams appear to move towards compromise at the expense of dissent and critical analysis, negative mood and conflict may introduce a useful tension.

But managers should be cautious about engendering such moods, which have also been linked to team failure. One approach with potential for encouraging conflict within safe parameters is through interventions such as devil's advocacy which direct dissent to task-related, rather than personal, issues.

Source: Rebecca Mitchell (University of Newcastle), originally published on *The Conversation.*

QUESTION

Do you agree that employees need to feel threatened in order to be innovative? Can you think of another leadership style that would motivate a team just as well?

An important personal question in leadership development is, of course: Which type of leader are you? Is your style most typically perceived by others as one of team management? Or is it one of the following styles that are considered by Blake and Mouton to be much less effective? *Impoverished management* displays low concern for both people and tasks. Leaders with this style turn most decisions over to the work group and show little interest in the work process or its results. *Authority-obedience management* shows high concern for the task and low concern for people. Leaders with this style make most of the decisions for the work group, give directions and expect their orders to be followed. *Country club management* shows high concern for people and low concern for tasks. Leaders with this style are warm in interpersonal relationships, avoid conflict and seek harmony in decision-making. *Middle-of-the-road management* is noncommittal in emphasising both task and people concerns. This leader puts forth minimum required effort in balancing the task and people needs of the group to maintain adequate but not exemplary performance.

CRITICAL ANALYSIS

1. In Blake and Mouton's Leadership Grid®, the 'middle of the road' style is generally viewed as less effective than the 'team manager'. Arguably, however, it is impossible to be simultaneously fully committed to both people and to production. What do you think?
2. Given that many of the most influential ideas about management and leadership derive from the United States, how should Australian business leaders view such North American ideas?

13.3 Contingency approaches to leadership

LEARNING OBJECTIVE 13.3 What are the contingency theories of leadership?

As leadership research developed, scholars recognised the need to probe still further beyond leader behaviours alone and examine them in relationship to situational attributes. Interest thus turned to yet another question: When and under what circumstances is a particular leadership style preferable to others? Why, for example, would Run Run Shaw's leadership style lead to company success over many years, when his style would generally be regarded as being too authoritarian? This is the essence of the following *contingency approaches*, which share the goal of understanding the conditions for leadership success in widely varying situations.

Fiedler's contingency model

An early contingency leadership model developed by Fred Fiedler was based on the premise that good leadership depends on a match between leadership style and situational demands.[24] Leadership style is measured on what Fiedler calls the *least-preferred co-worker scale*, also known as the LPC scale. According to Fiedler, a person's LPC score describes tendencies to behave either as a task-motivated or relationship-motivated leader. This either/or concept is important. Fiedler believes that leadership style is part of a person's personality; therefore, it is relatively enduring and difficult to change. Instead of trying to train a task-motivated leader to behave in a relationship-motivated manner, or vice versa, Fiedler suggests that the key to leadership success is putting the existing styles to work in situations for which they are the best 'fit'. This is true contingency leadership thinking, with the goal of successfully matching style with situational demands.

Understanding leadership situations

In Fiedler's theory, the amount of control a situation allows the leader is important in determining the correct style–situation fit. Three contingency variables are used to diagnose situational control. The *quality of leader–member relations* (good or poor) measures the degree to which the group supports the leader. The *degree of task structure* (high or low) measures the extent to which task goals, procedures and guidelines are clearly spelt out. The *amount of position power* (strong or weak) measures the degree to which the position gives the leader power to reward and punish subordinates. Figure 13.4 shows eight leadership situations that result from different combinations of these variables. They range from the most favourable situation of high control (good leader–member relations, high task structure, strong position power), to the least favourable situation of low control (poor leader–member relations, low task structure, weak position power).

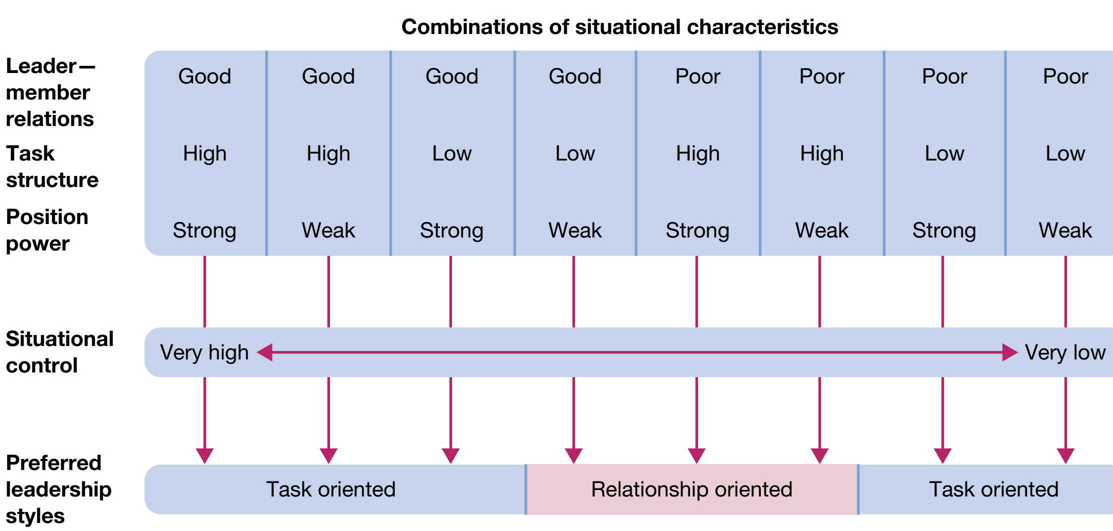

FIGURE 13.4 Matching leadership style and situation: summary predictions from Fiedler's contingency theory

Matching leadership style and situation

Figure 13.4 also summarises Fiedler's extensive research on the contingency relationships between situation control, leadership style and leader effectiveness. Neither the task oriented nor the relationship-oriented leadership style is effective all the time. Instead, each style appears to work best when used in the right situation. The results can be stated as two propositions. *Proposition 1* is that a task-oriented leader will be most successful in either very favourable (high-control) or very unfavourable (low-control) situations. *Proposition 2* is that a relationship-oriented leader will be most successful in situations of moderate control.

Fiedler believes that leadership success depends on a good leader–situation match. This means that prospective leaders should actively seek situations for which their predominant style is most appropriate. Run Run Shaw, for example, produced his movies and television shows using a fairly standard formula. Due to his age and reputation, the production team and actors were highly supportive of him, and their jobs were clearly defined in the production team. Shaw had the authority to evaluate their performance and to make pay and bonus recommendations. This is a high-control situation consisting of good leader–member relations, high task structure and strong position power. Figure 13.4 shows that a task-oriented leader would be most effective in this situation.

Now take another example. Suppose that you are chairperson of a committee asked to improve labour–management relations in a manufacturing plant. Although the goal is clear, no-one can say for sure how to accomplish it. Task structure is low. Because committee members are free to resign any time they want, the chairperson has little position power. Because not all members believe the committee is necessary, poor leader–member relations are apparent. According to figure 13.4, this low-control situation also calls for a task-oriented leader.

Finally, assume that you are the new head of a retail section in a large department store. Because you were selected over one of the popular sales clerks you now supervise, leader–member relations are poor. Task structure is high, since the clerk's job is well defined. Your position power is low because the clerks work under a seniority system and fixed wage schedule. Figure 13.4 shows that this moderate-control situation requires a relationship-oriented leader.

Hersey–Blanchard situational leadership model

The Hersey–Blanchard situational leadership model suggests that successful leaders adjust their styles depending on the *maturity* of followers, indicated by their readiness to perform in a given situation.[25] 'Readiness', in this sense, is based on how able and willing or confident followers are to perform required tasks. As shown in figure 13.5, the possible leadership styles that result from different combinations of task-oriented and relationship-oriented behaviours are as follows:

- *delegating* — allowing the group to make and take responsibility for task decisions; a low-task, low-relationship style
- *participating* — emphasising shared ideas and participatory decisions on task directions; a low-task, high-relationship style
- *selling* — explaining task directions in a supportive and persuasive way; a high-task, high-relationship style
- *telling* — giving specific task directions and closely supervising work; a high-task, low-relationship style.

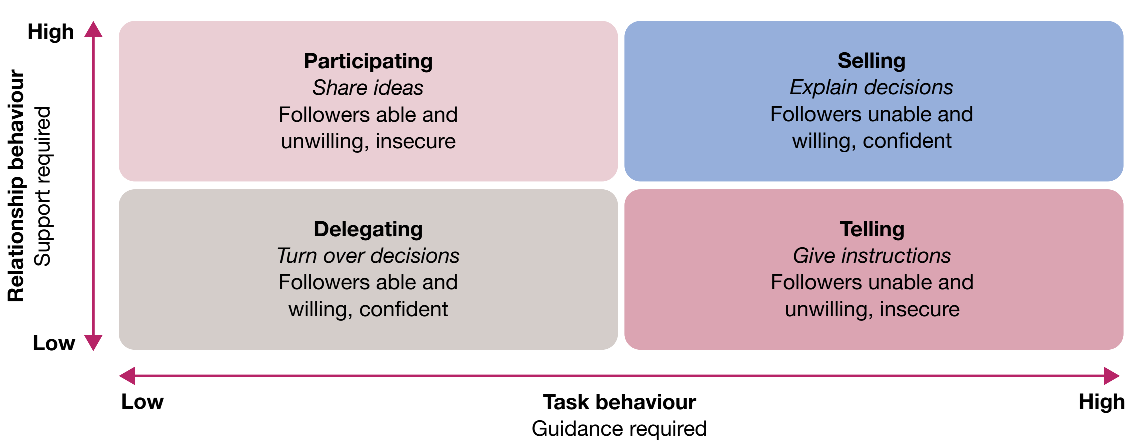

FIGURE 13.5 Leadership implications of the Hersey–Blanchard situational leadership model

Managers using this model must be able to implement the alternative leadership styles as needed. The *delegating style* works best in high-readiness situations of able and willing or confident followers; the *telling style* works best at the other extreme of low readiness, where followers are unable and unwilling or insecure. The *participating style* is recommended for low-to-moderate readiness (followers able but unwilling or insecure) and the *selling style* for moderate-to-high readiness (followers unable but willing or confident). Hersey and Blanchard further believe that leadership styles should be adjusted as followers change over time. This model differs from Fiedler's model in that leaders can adjust their styles; whereas Fiedler argued that a different leader should be appointed in differing circumstances. The Hersey-Blanchard model also implies that if the correct styles are used in lower readiness situations, followers will 'mature' and grow in ability, willingness and confidence. This allows the leader to become less directive as followers mature.[26]

A significant Australian study was undertaken on this model. Gayle Avery of the Macquarie Graduate School of Management found that senior and middle managers preferred using the participating style over the other styles, whereas supervisors and junior managers preferred using the participating and selling styles. Avery argues that this may reflect the traditional Australian value of 'mateship' influencing leadership styles, general trends towards more empowered and democratic workplaces, and leadership 'success' in Australian workplaces relying more strongly on managers relating individually with their subordinates compared with their counterparts in other countries. The study also found that subordinates did not perceive their managers' preferred leadership styles as particularly effective, indicating that Australian managers may actually be overly supportive in their leadership approach.[27]

House's path–goal leadership theory

A third contingency leadership approach is the *path–goal theory* advanced by Robert House.[28] This theory suggests that an effective leader is one who clarifies paths through which followers can achieve both task-related and personal goals. The best leaders help people progress along these paths, remove any barriers that stand in their way, and provide appropriate rewards for task accomplishment. House identifies four leadership styles that may be used in this 'path–goal' sense:

- *directive leadership* — letting subordinates know what is expected; giving directions on what to do and how; scheduling work to be done; maintaining definite standards of performance; clarifying the leader's role in the group
- *supportive leadership* — doing things to make work more pleasant; treating group members as equals; being friendly and approachable; showing concern for the wellbeing of subordinates
- *achievement-oriented leadership* — setting challenging goals; expecting the highest levels of performance; emphasising continuous improvement in performance; displaying confidence in meeting high standards
- *participatory leadership* — involving subordinates in decision-making; consulting with subordinates; asking for suggestions from subordinates; using these suggestions when making a decision.

Path–goal predictions and managerial implications

The path–goal leadership theory is summarised in figure 13.6. It advises a manager to always use leadership styles that complement situational needs. This means that leaders add value by contributing things that are missing from the situation or that need strengthening; they specifically avoid redundant behaviours. For example, when team members are expert and competent at their tasks it is unnecessary for the leader to tell them how to do things. The important contingencies for making good path–goal leadership choices include the personal characteristics of subordinates (ability, experience and locus of control) and the work environment characteristics (task structure, authority system and work group).

In path–goal theory, for example, the match of leader behaviours and situation might take the following forms.[29] When *job assignments* are unclear, directive leadership is appropriate to clarify task objectives and expected rewards. When *worker self-confidence* is low, supportive leadership is appropriate to increase confidence by emphasising individual abilities and offering needed assistance. When *performance* *incentives* are poor, participatory leadership is appropriate to clarify individual needs and identify appropriate rewards. When *task challenge* is insufficient in a job, achievement-oriented leadership is appropriate to set goals and raise performance aspirations. In all these examples, the value added by the choice of leadership style is expected to lead to greater effort by subordinates and improve satisfaction and performance.

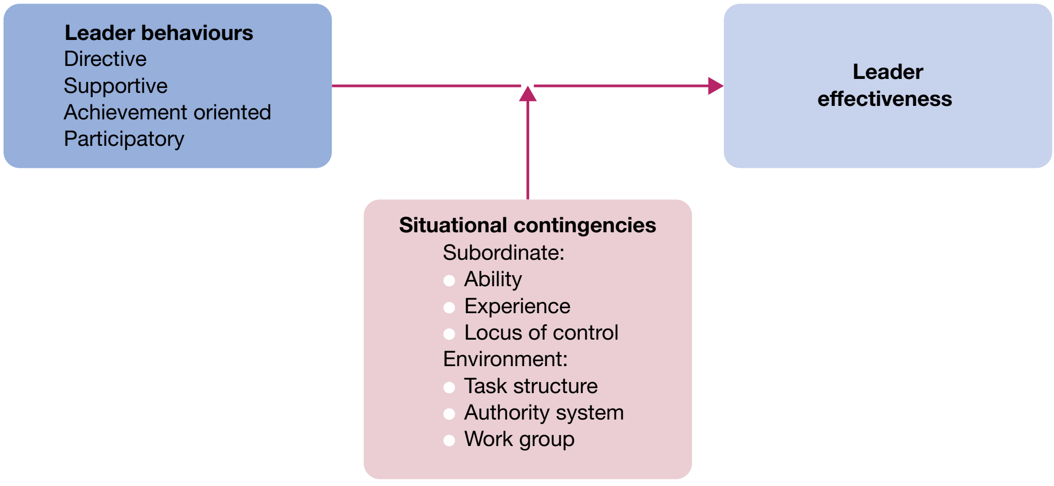

FIGURE 13.6 Contingency relationships in the path–goal leadership theory

Substitutes for leadership

Path–goal theory has also contributed to the recognition of what some theorists call **substitutes for leadership**.[30] These are aspects of the work setting and the people involved that can reduce the need for a leader's personal involvement. In effect, they make leadership from the 'outside' unnecessary because leadership is already built into the situation. Possible substitutes for leadership include *subordinate characteristics* such as ability, experience and independence; *task characteristics* such as routineness and availability of feedback; and *organisational characteristics* such as clarity of plans and formalisation of rules and procedures. When substitutes are present, managers should avoid redundant leadership behaviours and concentrate on things that truly require outside attention.

Vroom–Jago leader-participation model

The Vroom–Jago leader-participation model is designed to help a leader choose the method of decision-making that best fits the nature of the problem being faced. In this approach, an effective leader is someone able to consistently choose and implement the most appropriate decision methods from the following alternatives.[31]

An **authority decision** is one made by the leader and then communicated to the group. Participation is minimised. No input is asked of group members other than to provide specific information on request. A **consultative decision** is made by the leader after asking group members for information, advice or opinions. In some cases, group members are consulted individually; in others, the consultation occurs during a meeting of the group as a whole. In a **group decision**, all members participate in making a decision and work together to achieve a consensus regarding the preferred course of action. This approach to decision-making is a form of empowerment, and it is successful to the extent that each member of the group is ultimately able to accept the logic and feasibility of the final group decision.[32]

For a manager who wants to be successful at leading through participation, the challenge in effectively managing the decision process is twofold. First, the leader must know when each decision method is the preferred approach. Second, the leader must be able to properly implement each when needed.

As shown in figure 13.7, Vroom–Jago's normative model of leadership effectiveness recommends using more group-oriented and participatory decision methods when:

- leaders lack sufficient information to solve a problem by themselves
- the problem is unclear and help is needed to clarify the situation
- acceptance of the decision by others is necessary for implementation
- adequate time is available for true participation.

FIGURE 13.7 Leadership implications of the Vroom-Jago leader-participation model

In true contingency fashion, no one decision method is considered by the Vroom–Jago model as universally superior to any of the others. Rather, leadership success results when the decision method, used correctly, matches the characteristics of the problem to be solved. Each of the three decision methods is appropriate in certain situations, and each has its advantages and disadvantages. The key rules guiding the choice relate to: *decision quality*, which is based on the location of information needed for problem-solving; and *decision acceptance*, which is based on the importance of subordinate acceptance to eventual solution implementation. You may think of these in the context of an equation:

$$\text{Decision effectiveness} = \text{Decision quality} \times \text{Decision acceptance}$$

Use of participatory decision methods offers important benefits to the leader.[33] They help improve decision quality by bringing more information to bear on the problem. The methods help improve decision acceptance as participants gain understanding and become committed to the process. They also contribute to the development of leadership potential in others through the experience of active participation in the problem-solving process. However, there is also a cost to be considered. The greater the participation, the more time required for the decision process. Leaders do not always have sufficient time available; some problems must be resolved immediately. In such cases, the authority decision may be the only option. As shown in figure 13.7, authority-oriented decisions work best when leaders personally have the expertise needed to solve the problem, they are confident and capable of acting alone, others are likely to accept the decision they make, and little or no time is available for discussion.

CRITICAL ANALYSIS

1. Fiedler's contingency model looks like a useful leadership tool. However, can you really imagine leaders thinking through each of the dimensions to arrive at a preferred leadership style? Regardless, what can we still learn from this model?
2. Hersey and Blanchard present a somewhat simpler model, yet still expect leaders to move between each leadership style, depending on the abilities of followers. What might be some potential downsides to this approach?

13.4 Issues in leadership development

LEARNING OBJECTIVE 13.4 What are current issues in leadership development?

As organisations continue to change there is an ongoing challenge for leaders to cope with new challenges. A survey of managers in New Zealand and Australia revealed four key leadership challenges for the future. Leaders will be challenged to build high-performance teams, to achieve an appropriate work–life balance, to flexibly respond to new ideas, and to create and deliver effective organisational change.[34]

Current trends in leadership thinking seek to integrate and extend the insights discussed so far in this chapter.[35] The era of 'superleaders' who, through vision and strength of personality, have a truly inspirational impact on others, seems to be waning.[36] However, although shared leadership is gaining in popularity, the expectations on CEOs as superleaders still exists. Their leadership efforts result in followers not only meeting performance expectations but performing above and beyond them. These are **charismatic leaders** who develop special leader–follower relationships and inspire others in extraordinary ways. The presence of charismatic leadership is reflected in followers who are enthusiastic about the leader and his or her ideas, who work very hard to support them, who remain loyal and devoted, and who seek superior performance accomplishments.[37] Followers are also likely to see their leader as charismatic if the leader's values match with the follower's values.[38] A charismatic leader is also communicative and shares knowledge effectively.[39]

Noting the growing interest in the role of emotions in leadership, Bono and Ilies set out to examine how charismatic leaders 'use emotion to influence followers'. From their studies, they concluded that positive emotions are an important aspect of charismatic leadership. They found that leaders rated high in charisma choose words with more positive emotional content for vision statements and speeches. They also found that the positive emotions of leaders were transferred into positive moods among followers; that is, the positive leader moods were contagious. They also found that followers with positive moods had more positive perceptions of leader effectiveness. One of the limitations of these studies, as pointed out by Bono and Ilies, is that they only focused on positive leader emotions. This leaves open the questions of how leaders use negative emotions and how these emotions affect followers.[40] Nevertheless, many charismatic leaders are able to transform either people or organisations, and this will be discussed in the next section.

Transformational leadership

The term **transformational leadership** describes someone who is truly inspirational as a leader and who arouses others to seek extraordinary performance accomplishments. The late Steve Jobs, mentioned in the technology box in this chapter, exemplifies such a leader. A transformational leader uses charisma and related qualities to raise aspirations and shift people and organisational systems into new high-performance patterns. Scholars differentiate this from **transactional leadership**, which describes someone who is more methodical in keeping others focused on progress towards goal accomplishment. A transactional leader adjusts tasks, rewards and structures to move followers towards accomplishing organisational objectives.[41]

Importantly, these are not mutually exclusive leadership approaches. Transactional leadership is a foundation or building block that helps support transformational leadership. On its own, however, transactional leadership is acknowledged to be insufficient to meet the leadership challenges and demands of today's dynamic work environments. In settings where continuous and often large-scale change is a high priority, the additional inspirational impact of transformational leadership is essential to achieving sustainable high performance results.

The notion of transformational leadership offers a distinct management challenge, with important personal development implications. It is not enough to possess leadership traits, know the leadership behaviours and understand leadership contingencies to act effectively from a transactional perspective. Any manager must also be prepared to lead in an inspirational way and with a compelling personality. The transformational leader provides a strong aura of vision and contagious enthusiasm that substantially raises the confidence, aspirations and commitments of followers to meet high-performance demands. Transformational leadership is also often associated with followers identifying the leader espousing values consistent with corporate social responsibility, such as altruism and universal rights.[42] The special qualities that are often characteristic of such transformational leaders include the following:

- *vision* — having ideas and a clear sense of direction; communicating them to others; developing excitement about accomplishing shared 'dreams'
- *charisma* — arousing others' enthusiasm, faith, loyalty, pride and trust in themselves through the power of personal reference and appeals to emotion
- *symbolism* — identifying 'heroes', offering special rewards and holding spontaneous and planned ceremonies to celebrate excellence and high achievement
- *empowerment* — helping others develop, removing performance obstacles, sharing responsibilities and delegating truly challenging work
- *intellectual stimulation* — gaining the involvement of others by creating awareness of problems and stirring their imagination to create high-quality solutions
- *integrity* — being honest and credible, acting consistently out of personal conviction and following through commitments.[43]

A study of how Australian executives perceive their own leadership styles found that although Australian leaders claimed to possess many of the qualities of transformational leadership, they appeared to be particularly strong in using intellectual stimulation and inspirational motivation (charisma) in their interactions with staff.[44] Another study indicates that transformational leadership behaviours are critically important for team cohesion, team potency, efficacy and leadership effectiveness.[45]

TECHNOLOGY

The death of an innovator

The death of Steve Jobs in 2011 sent the world into mourning for the loss of a great innovator. No longer would the world witness Apple's enthusiastic CEO clad in his characteristic black turtleneck sweater and faded jeans extolling the virtues of a new product at its official launch. However, as United States President Barrack Obama pointed out, millions of people would learn of this sad news through a device designed by his company. This was testimony not just to his eye for innovation, but his ability to bring innovations to market and to turn a profit from these innovations. Indeed, Steve Jobs is remembered more for his presentations on stage rather than his time in a laboratory.

Steve Jobs, therefore, was able to develop unique products that were so innovative they did not need to compete on price. As a leader, he was able to inspire, but many observers of Apple wondered aloud if the company would survive without his inspiration.

In the years since, it has become clear that current leader, Tim Cook, lacks the vision and clout that his predecessor was famous for when it comes to big decisions. Recent product launches have failed to elicit the buzz we have come to expect from an Apple announcement.

'Apple is at a disadvantage [compared to rivals such as Google and Samsung] because its disrupter has gone', says journalist and author Tukari Iwatani Kane.

Sources say Cook likes to delegate, a contrast to Steve Jobs' perfectionist style that saw him focus on every detail of the company's products and marketing. With some recent product releases earning widespread criticism for software flaws, critics wonder if Jobs would have allowed the same mistakes to occur.

Cook also encourages his team to have a work–life balance — employees now take more holidays. Kane believes this is to the detriment of the company saying, 'I think to continue to be the edgy company that drives innovation requires an intensity that's just insane'.[46]

QUESTION

Do you agree that an 'edgy company that drives innovation requires an intensity that's just insane'? Explain why you agree or disagree with this statement.

Emotional intelligence

An area of leadership development currently very popular is **emotional intelligence**, first discussed in chapter 1 as an element of the essential human skills of managers. As popularised by the work of Daniel Goleman, emotional intelligence is defined as 'the ability to manage ourselves and our relationships effectively'.[47] According to his research, a leader's emotional intelligence is an important influence on his or her effectiveness, especially in more senior management positions.

In Goleman's words, 'the higher the rank of the person considered to be a star performer, the more emotional intelligence capabilities showed up as the reason for his or her effectiveness'.[48] This is a strong endorsement, indeed, for consideration of a person's emotional intelligence in a developing portfolio of comprehensive leadership capabilities. Important, too, is Goleman's belief that emotional intelligence skills can be learned at any age — it's never too late.

For purposes of research and training, Goleman breaks emotional intelligence down into five critical components.[49] He argues that each of us should strive to build competencies in each component and thereby maximise our ability to use emotional intelligence and build better relationships with others. The critical components of emotional intelligence are the following.

1. *Self-awareness* is an ability to understand our own moods and emotions, and understand their impact on our work and on others.
2. *Self-regulation* is the ability to think before we act and to control otherwise disruptive impulses.
3. *Motivation* is the ability to work hard with persistence and for reasons other than money and status.
4. *Empathy* is the ability to understand the emotions of others and to use this understanding to better relate to them.
5. *Social skill* is the ability to establish rapport with others and to build good relationships and networks.

According to Goleman, these skills in emotional intelligence are necessary for leadership success. A person lacking in emotional intelligence, might fail to recognise how excessive stress is contributing to bad attitudes and negative behaviour among team members. As a team leader, he or she might push too hard for performance results and further complicate the situation. A leader high in emotional intelligence will be quicker to notice that emotions are running high because of stress and thus take action to help the team members better deal with the stressful conditions. Team performance is likely to improve as a result of this more 'emotionally intelligent' leadership response to a problem situation. Effective leaders use their emotional radar to understand the ways in which emotions are used and displayed in the workplace, and to take subsequent actions to promote more positive emotions and limit more destructive emotions in their organisations.

Gender and leadership

Female executives interviewed for an Australian study noted that they faced the difficult balancing act of needing to appear strong and effective in order to be taken seriously, while also needing to appear feminine so that they would not be perceived as a threat by 'blokey' Australian males. They saw themselves as being less autocratic and directive and more adaptable and flexible than their male counterparts, while still being just as results-focused. This approach is typified in the comments of Gillian Franklin, owner of the cosmetics company, The Heat Group, which distributes Max Factor, Cover Girl and Caboodles cosmetics in Australia, as well as its own brand, Goss. Franklin describes her management style as 'visionary, educational and motivational; tough, but appreciative of the talents of others', noting 'I expect a lot, but I give a lot'.[50]

Like Franklin, former Westpac CEO Gail Kelly, who was once voted as among the world's most influential women by *Forbes* magazine,[51] has a unique leadership style. Appraising her approach to leadership, former Commonwealth Bank CEO David Murray commented: 'She has a nice mix of being very pleasant and being very clear about her agenda. People have to have the right skills to do complex jobs, but ultimately it's the leadership qualities that make the difference'.[52] Kelly, who fronted up to an interview for an executive position with two of her four infant children in tow in 1990 — and got the job — achieved success in Australia after growing up in the unstable political environment created by the apartheid regime in South Africa.[53]

The evidence clearly supports that both women and men can be effective leaders.[54] As suggested by the previous example, however, they may tend towards somewhat different styles.[55] Victor Vroom and his colleagues have investigated gender differences in respect to the leader-participation model discussed earlier.[56] They find women managers to be significantly more participatory than their male counterparts. Although followers in their studies value participation by all leaders, they tend to value participation by female leaders more highly than by male leaders. Women may tend towards a style sometimes referred to as interactive leadership. This style focuses on the building of consensus and good interpersonal relations through communication and involvement. Leaders of this style display behaviours typically considered democratic and participatory — such as showing respect for others, caring for others, and sharing power and information with others. This interactive style also has qualities in common with the transformational leadership just discussed.[57] Men, on the other hand, may tend towards more of a transactional approach to leadership — relying more on directive and assertive behaviours, and using authority in a traditional 'command and control' sense.

Given the emphasis on shared power, communication, cooperation and participation in the new-form organisations of today, these results are provocative. Gender issues aside, the interactive leadership style seems to be an excellent fit with the demands of a diverse workforce and the new workplace. As Harvard professor and consultant Rosabeth Moss Kanter says: 'Women get high ratings on exactly those skills required to succeed in the Global Information Age, where teamwork and partnering are so important'.[58]

Regardless of whether the relevant behaviours are displayed by women or men, it seems clear that future leadership success will rest more often on capacity to lead through positive relationships and empowerment than through aloofness and formal authority. The chapters that follow on leading through motivation, communication, interpersonal relations, group dynamics and teamwork, change leadership, and operations management are highly relevant to this issue.

Drucker's 'old-fashioned' leadership

Peter Drucker offers another very pragmatic approach to leadership in the new workplace. It is based on what he refers to as a 'good old-fashioned' view of the plain hard work it takes to be a successful leader. Consider, for example, Drucker's description of a telephone conversation with a potential consulting client who was the human resources vice-president of a big bank: 'We'd want you to run a seminar for us on how one acquires charisma', she said. Drucker's response was not what she expected. He advised her that there's more to leadership than the popular emphasis on personal qualities that offer a sense of personal 'dash' or charisma. In fact, he said, 'leadership . . . is work'.[59]

Drucker's observations on leadership offer a useful complement to the transformational leadership ideas just discussed. He identifies the following three essentials of leadership. First, Drucker believes that the foundation of effective leadership is *defining and establishing a sense of mission*. A good leader sets the goals, priorities and standards. A good leader keeps them all clear and visible, and maintains them. In Drucker's words, 'The leader's first task is to be the trumpet that sounds a clear sound.' Second, he believes in *accepting leadership as a responsibility rather than a rank*. Good leaders surround themselves with talented people. They are not afraid to develop strong and capable subordinates. And they do not blame others when things go wrong. As Drucker says, 'The buck stops here' is still a good adage to remember. Third, Drucker stresses the importance of *earning and keeping the trust of others*. The key here is the leader's personal integrity. The followers of good leaders trust them. This means that they believe the leader means what he or she says and that his or her actions will be consistent with what is said. In Drucker's words again, 'Effective leadership . . . is not based on being clever; it is based primarily on being consistent'.

Moral leadership

As discussed many times in this book, society expects organisations to be run with **moral leadership**. This is leadership by ethical standards that clearly meet the test of being 'good' and 'correct'.[60] The expectation is that anyone in a leadership position will practise high ethical standards of behaviour, help to build and maintain an ethical organisational culture, and both help and require others to behave ethically in their work. Some leaders in Asia and elsewhere are looking to the teachings of Confucius to guide them in moral leadership.[61] The regional research section of this chapter examines the substance of this trend. Other leaders look to other religious traditions for guidance including Daoism[62] and Islam.[63]

Moral leadership begins with personal **integrity**, a concept fundamental to the notion of transformational leadership. A leader with integrity is honest, credible and consistent in putting values into action. When a leader has integrity, he or she earns the trust of followers. And when followers believe leaders are trustworthy, they try to behave in ways that live up to the leader's expectations. For managers in our high-pressure and competitive work environments, nothing can substitute for leadership strongly anchored in personal integrity. When viewed through the lens of what is truly the right thing to do, even the most difficult decisions become easier.

In his book *Transforming Leadership: A New Pursuit of Happiness*, James MacGregor Burns explains that transformational leadership creates significant, even revolutionary, change in social systems, while still based on integrity. Notably, he eliminates certain historical figures from this definition: Napoleon is out — too much order-and-obey in his style; Hitler is obviously out — no moral foundations; Mao is out, too — no true empowerment of followers. Among Burns's positive role models from history are Gandhi, George Washington and Eleanor Roosevelt. Burns firmly believes that such great leaders follow agendas true to the wishes of their followers. Burns also says that wherever in the world great leadership is found, it will always have a moral anchor point.[64]

The concept of servant leadership is consistent with this thinking.[65] So, too, is the notion of **authentic leadership** advanced by Fred Luthans and Bruce Avolio.[66] An authentic leader has a high level of self-awareness and clearly understands his or her personal values. This leader also acts consistent with those values, being honest and avoiding self-deceptions. Because of this the authentic leader is perceived as genuine, gaining the respect of followers and developing a capacity to positively influence their behaviours. Luthans and his colleagues believe that authentic leadership is activated by the positive psychological states of confidence, hope, optimism and resilience. The result is positive self-regulation that helps authentic leaders clearly frame moral dilemmas, transparently respond to them, and consistently serve as ethical role models.[67] This concept is not unlike the practice of self-regulation in the teachings of Confucius.[68]

DIVERSITY

Why Australian business needs another Gail Kelly[69]

Gail Kelly's departure as Westpac chief executive was a real and symbolic loss for women, many of whom saw her as a role model. Women in Australia now make up just 3 per cent of CEO roles in the top 200 companies. It is unlikely this will change any time soon as the pipeline of women coming up the ranks, in terms of numbers, does not look promising. Kelly is unique as she is seen as a woman who managed to 'have it all'. She was chief executive of one of the Big Four banks while being a mother of four children. This combination is a rarity as a woman's rise to the top often occurs at the expense of having a family.

She is therefore an important role model for many women facing a societal climate that does not value female leadership. A report by Randstad found more than one in four Australian employees believed their employer would choose a male over a female candidate of equal merit, regardless of the gender ratio in their organisation. The findings support the view that people think men make better leaders than women.

Study after study finds organisations do better on both financial and non-financial measures when women are included in executive and board positions. This includes better returns for investors. Yet women are still seen as outsiders for senior leadership roles. Sadly, many women internalise societal discrimination and see themselves as imposters. The imposter syndrome is hard to break when there are so few female role models and female competence is judged by higher, harder and shifting standards. Society all too often waits for a woman in leadership to fail as proof that women are incompetent, inept or uncommitted.

Most women who make it to the top do so by tolerating male-dominated cultures and accommodating the dominant style. This means neither setting the cultural agenda nor radically changing the work environment. For women at the top, family and work remain incongruent. The rhetoric of family-friendly workplaces remains just rhetoric. A landmark study by the Human Rights Commission found 49 per cent of pregnant women and working mothers experienced discrimination both in the corporate world and the public service.

Source: Hannah Piterman (Monash University), originally published on *The Conversation.*

QUESTION

Many suggest that the best way to ensure gender equality in business is to introduce a quota for the number of women on board. Do you agree? List some strengths and limitations of this approach.

CRITICAL ANALYSIS

1. Why might leaders who need to develop greater emotional intelligence be less capable of identifying such a need?
2. Integrity may be a core component of authentic leadership; however, leaders must also be pragmatic. Few issues in business are ethically black or white. Do you agree or disagree? Justify your answer.

SUMMARY

13.1 What is the nature of leadership?

- Leadership is the process of inspiring others to work hard to accomplish important tasks.
- Vision, or a clear sense of the future, is increasingly considered to be an essential ingredient of effective leadership.
- Visionary leaders are able to communicate their vision to others and build the commitments needed to perform the required work.
- Power, the ability to get others to do what you want them to do, is an essential ingredient of effective leadership.
- Managerial power may be gained through the formal position in the organisation and/or through personal sources of influence.
- Sources of position power include rewards, coercion and legitimacy or formal authority; sources of personal power include expertise and reference.
- Effective leaders empower others; that is, they help and allow others to take action and make job-related decisions on their own.

13.2 What are the important leadership traits and behaviours?

- Early leadership studies searched unsuccessfully for a definitive set of personal traits that differentiated successful and unsuccessful leaders.
- Traits that seem to have a positive impact on leadership include drive, integrity and self-confidence.
- Research on leader behaviours focused on alternative leadership styles that involved concerns for task and concerns for people.
- One suggestion of leader-behaviour researchers is that effective leaders will be good at team based or participatory leadership that is high in both task and people concerns.

13.3 What are the contingency theories of leadership?

- Contingency leadership approaches point out that no one leadership style always works best; rather, the best style is one that properly matches the demands of each unique situation.
- Fiedler's contingency theory describes how situational differences in task structure, position power and leader–member relations may influence which leadership style works best.
- House's path–goal theory suggests leaders add value to situations by responding with supportive, directive, achievement-oriented and/or participatory styles as needed.
- The Hersey–Blanchard situational model recommends using task-oriented and people-oriented behaviours, depending on the 'maturity' of the group.
- The Vroom–Jago leader-participation theory advises leaders to choose decision-making methods (individual, consultative, group) that best fit the problems they are trying to resolve.

13.4 What are current issues in leadership development?

- Transactional leadership focuses on tasks, rewards and structures to influence follower behaviour.
- Charismatic leadership creates a truly inspirational relationship between leader and followers.
- Transformational leaders use charisma and related qualities to inspire extraordinary efforts in support of innovation and large-scale change.
- Emotional intelligence, the ability to manage our relationships and ourselves effectively, is an important dimension of leadership capability.
- The interactive leadership style seems consistent with the demands of the new workplace and the emphasis on communication, involvement and interpersonal respect.
- All leadership is 'hard work' that always requires a personal commitment to meeting the highest ethical and moral standards.

KEY TERMS

Authentic leadership activates logical states to achieve self-awareness and positive self-regulation.
An **authority decision** is a decision made by the leader and then communicated to the group.
Charismatic leaders develop special leader–follower relationships and inspire followers in extraordinary ways.
Coercive power is the capacity to punish or withhold positive outcomes as a way of influencing other people.
A **consultative decision** is a decision made by a leader after receiving information, advice or opinions from group members.
Emotional intelligence is the ability to manage ourselves and our relationships effectively.
Empowerment distributes decision-making power through an organisation.
Expert power is the capacity to influence other people because of specialised knowledge.
A **group decision** is a decision made with the full participation of all group members.
Integrity in leadership is honesty, credibility and consistency in putting values into action.
Leadership style is the recurring pattern of behaviours exhibited by a leader.
Leading is the process of arousing enthusiasm and directing efforts towards organisational goals.
Legitimate power is the capacity to influence other people by virtue of formal authority, or the rights of office.
Moral leadership is always 'good' and 'right' by ethical standards.
Power is the ability to get someone else to do something you want done or to make things happen the way you want.
Referent power is the capacity to influence other people because of their desire to identify personally with you.
Reward power is the capacity to offer something of value as a way of influencing other people.
Substitutes for leadership are factors in the work setting that direct work efforts without the involvement of a leader.
Transactional leadership is leadership that directs the efforts of others through tasks, rewards and structures.
Transformational leadership is inspirational leadership that gets people to do more in achieving high performance.
Vision is a term used to describe a clear sense of the future.
Visionary leadership brings to the situation a clear sense of the future and an understanding of how to get there.

APPLIED ACTIVITIES

1. Why does a person need both position power and personal power to achieve long-term managerial effectiveness?
2. What is the major insight offered by the Vroom–Jago leader-participation model?
3. What are the three variables that Fiedler's contingency theory uses to diagnose the favourability of leadership situations, and what does each mean?
4. How does Peter Drucker's view of 'good old-fashioned leadership' differ from the popular concept of transformational leadership?
5. When Jasmine Singh took over as leader of a new product development team, she was both excited and apprehensive. 'I wonder', she said to herself on the first day in her new assignment, 'if I can meet the challenges of leadership'. Later that day, Jasmine shares this concern with you during a coffee break. Based on the insights of this chapter, describe to her the essential implications for her personal leadership development of the current thinking on charismatic or transformational leadership.

ENDNOTES

1. David Tuffley and Amy Antonio, 'Five Traits of an Ethical Leader', *The Conversation* (30 December 2015), www.theconversation.com.
2. See Jean Lipman-Blumen, *Connective Leadership: Managing in a Changing World* (New York: Oxford University Press, 1996), pp. 3–11.
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4. James M. Kouzes and Barry Z. Posner, 'The Leadership Challenge', *Success* (April 1988), p. 68. See also their books *The Leadership Challenge: How to Get Extraordinary Things Done in Organizations* (San Francisco: Jossey-Bass, 1987); *Credibility: How Leaders Gain and Lose It, Why People Demand It* (San Francisco: Jossey-Bass, 1996); and *Encouraging the Heart: A Leader's Guide to Rewarding and Recognizing Others* (San Francisco: Jossey-Bass, 1999).
5. Burt Nanus, *Visionary Leadership: Creating a Compelling Sense of Vision for Your Organization* (San Francisco: Jossey-Bass, 1992).
6. See Kouzes and Posner (1988), op. cit.; and James C. Collins and Jerry I. Porras, 'Building Your Company's Vision', *Harvard Business Review* (September–October 1996), pp. 65–77.
7. Rosabeth Moss Kanter, 'Power Failure in Management Circuits', *Harvard Business Review* (July–August 1979), pp. 65–75.
8. For a good managerial discussion of power, see David C. McClelland and David H. Burnham, 'Power is the Great Motivator', *Harvard Business Review* (March–April 1976), pp. 100–10.
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CHAPTER 14

Communication and interpersonal skills

LEARNING OBJECTIVES

14.1 What is the communication process?
14.2 How can communication be improved?
14.3 How does perception influence communication?
14.4 How can we deal positively with conflict?
14.5 How can we negotiate successful agreements?

Communication in a digital age

The dawn of the digital age is having a profuse effect on communications management. As business communication becomes digitalised the manner by which businesses communicate is changing forever.[1] Recently, for example, the Chinese company Alibaba has shown how e-commerce is going to play a key role in handling big data and driving significant change in Asia.[2] In Australia, AMP and Australia Post have shown how long-standing relationships can be used to transform organisations in this new digital world.

Established in 1849, AMP is Australia's top independent wealth management company and has 5 million customers, almost 6000 employees, 400 institutional clients as well as $172 billion of assets. AMP has been provided with mail services for more than 165 years by Australia Post.[3]

In 2011 the chief executives of AMP and Australia Post met to develop this relationship in line with the communication needs of the 21st century. This led to a new joint digital initiative, intended to increase understandings of the customer, improve the provision of information to customers and act on customer feedback. Meeting these goals challenged AMP to develop a rigorous data management system, capable of monitoring customer correspondence, and a comprehensive communications management system.

Ajit Thillainathan, Head of AMP's Product Alliances, Banking and Wealth Management Products reveals that the long standing alliance between AMP and Australia Post has laid the platform to roll out the new strategy. The strategy includes access for AMP to Australia Posts' Reconnect service, allowing AMP to compare shareholder movement data with a Movers Database of 2.5 million people, and the outsourcing of AMP's scanning and mailroom services to Decipha, a subsidiary of Australia Post. The importance of the AMP–Decipha relationship is noted by Thillainathan, who says that Australia Post plays a large part in helping them serve their customers, handling an approximate 11.8 million documents a year for AMP. [4]

The relationship between AMP and Australia Post has also allowed for the development of a significant digital initiative: the Australia Post Digital MailBox. This is a user friendly, no-cost solution for AMP customers to correspond through a secure online internet service. It also allows AMP to advance its communication and customer in an increasingly digitised business environment.

'As they move online, customers want to have the ability to interact digitally with AMP in a secure manner, so Australia Post and AMP have come together to satisfy this customer need. The Australia Post Digital MailBox allows us to engage with customers in a more interactive and meaningful way', says Thillainathan. He adds that the partnership enables them to save on print costs, enhance online customer engagement and create a closer relationship with customers, with both the business and consumer benefiting'.[5]

QUESTIONS

1. Do you think the partnership between AMP and Australia Post provides AMP with a competitive advantage?
2. How are AMP's direct competitors communicating with their customers online?

Introduction

Anyone heading into the contemporary workplace must understand that the work of managers and team leaders is highly interpersonal and communication-intensive. Whether you work at the top of the organisation, communicating strategies and building support for organisational goals, or at a lower level, interacting with others to support their work efforts and your own, communication and interpersonal skills are essential to your personal toolkit. Think back to the descriptions of managerial work by Henry Mintzberg, John Kotter and others as discussed in chapter 1. For Mintzberg, managerial success involves performing well as an information 'nerve centre', gathering information from and disseminating information to internal and external sources.[6] For Kotter, it depends largely on your ability to build and maintain a complex web of interpersonal networks with insiders and outsiders, so as to implement work priorities and agendas.[7]

Amy Rees Anderson explains that the way we communicate has an impact on business outcomes. She notes that 'becoming a good communicator takes practice and consistent attention and effort on our part, and it is a skill that we cannot afford to overlook'.[8] Neil Clark describes how this skill is critical in creating effective shared understanding, between managers and employees, during performance appraisals and in increasing job performance. [9]

The ability to communicate well, both verbally and in writing, is a vital managerial skill and the foundation of effective leadership.[10] Through communication, people exchange and share information with one another, and influence one another's attitudes, behaviours and understanding. Communication allows managers to establish and maintain interpersonal relationships, listen to others, and otherwise gain the information needed to create an inspirational workplace. No manager can handle conflict, negotiate successfully and succeed at leadership without being a good communicator. It is no wonder that 'communication skills' often top the list of attributes employers look for in job candidates. Any career portfolio should include adequate testimony to your abilities to communicate well in interpersonal relationships, in various forms of public speaking and increasingly through the electronic medium of the computer. At Intel Inc., for example, millions of email messages a day move through the firm's computer networks. Some workers personally process as many as 300 per day; the average worker spends 2.5 hours per day 'communicating' with others via computer.[11]

14.1 The communication process

LEARNING OBJECTIVE 14.1 What is the communication process?

Communication is an interpersonal process of sending and receiving symbols with messages attached to them. In more practical terms, the key elements in the communication process are shown in figure 14.1. They include a *sender*, who is responsible for encoding an intended *message* into meaningful symbols, both verbal and non-verbal. The message is sent through a *communication channel* to a *receiver*, who then decodes or interprets its *meaning*. This interpretation, importantly, may or may not match the sender's original intentions. *Feedback*, when present, reverses the process and conveys the receiver's response to the sender. Another way to view the communication process is as a series of questions. 'Who?' (sender) 'says what?' (message) 'in what way?' (channel) 'to whom?' (receiver) 'with what result?' (interpreted meaning).

What is effective communication?

Effective communication occurs when the intended message of the sender and the interpreted meaning of the receiver are one and the same. Although this should be the goal in any communication attempt, it is not always achieved. **Efficient communication** occurs at minimum cost in terms of resources expended. Time, in particular, is an important resource in the communication process. Picture your instructor taking the time to communicate individually with each student about this chapter. It would be virtually impossible. Even if it were possible, it would be costly. This is why managers often leave voicemail messages and interact by email rather than visit their subordinates personally. Simply put, these alternatives are more efficient ways to communicate than through one-on-one and face-to-face communication.

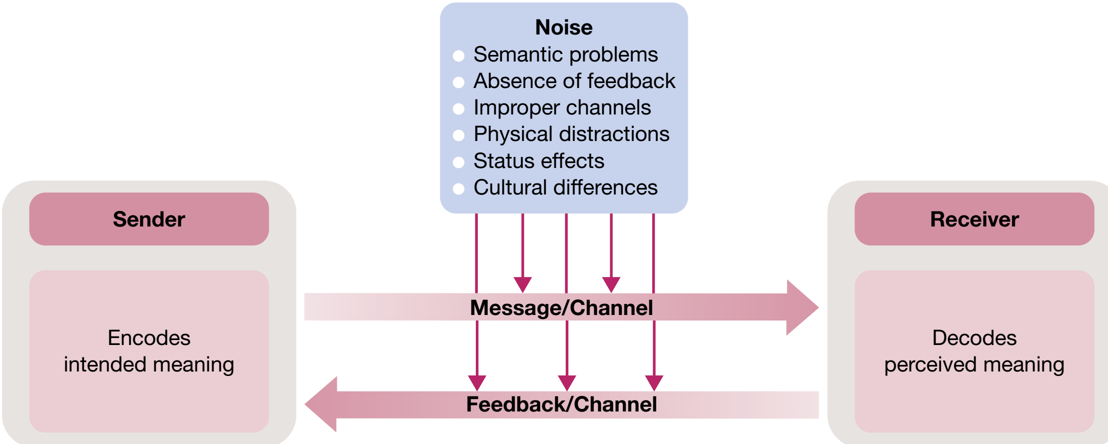

FIGURE 14.1 The process of interpersonal communication

One problem is that efficient communications are not always effective. A low-cost approach such as an email note to a distribution list may save time but it does not always result in everyone getting the same meaning from the message. Without opportunities to ask questions and clarify the message, different interpretations are possible. By the same token, an effective communication may not always be efficient. If a work team leader visits each team member individually to explain a new change in procedures, this may guarantee that everyone truly understands the change. But it may also be very costly in the demands it makes on the leader's time. A team meeting would be more efficient. In these and other ways, potential tradeoffs between effectiveness and efficiency must be recognised in communication.

Persuasion and credibility in communication

Communication is not only about sharing information or being 'heard'. It often includes the intent of one party to influence or motivate the other in a desired way. **Persuasive communication** results in a recipient agreeing with or supporting the message being presented.[12] Managers get things done by working with and persuading others who are their peers, teammates, co-workers and bosses. They often get things done more by convincing than by giving orders.

Scholar and consultant Jay Conger says that many managers 'confuse persuasion with taking bold stands and aggressive arguing'.[13] He points out that this often leads to 'counter-persuasion' responses and may even raise questions about credibility, something managers can't afford to lose. **Credible communication** earns trust, respect and integrity in the eyes of others. And without credibility, Conger sees little chance that persuasion can be successful. Conger's advice is to build credibility for persuasive communication through expertise and relationships.

To build credibility through expertise, you must be knowledgeable about the issue in question or have a successful track record in dealing with similar issues in the past. In a hiring situation where you are trying to persuade team members to select candidate A rather than B, for example, you must be able to defend your reasons. And it will always be better if your past recommendations turned out to be good ones. To build credibility through relationships, you must have a good working relationship with the person to be persuaded. And it is always easier to get someone to do what you want if that person likes you. In a hiring situation where you want to persuade your boss to provide a special bonus package to attract a top job candidate, for example, having a good relationship with your boss can add credibility to your request.[14]

Barriers to effective communication

Effective communication is a two-way process that requires effort and skill on the part of both the sender and the receiver. **Noise**, as figure 14.1 shows, is anything that interferes with the effectiveness of the communication process. For instance, translating from one language to another can often lead to a loss of intended meaning. To cite one example: a foreign executive touring shopping centres in China often said 'Is that so?' as he was shown around. The interpreter translated this to mean that the executive had no real interest in pursuing business in China. This interpretation was the opposite of the executive's intentions. Not only did he have considerable interest in doing business in China, his use of the phrase was merely intended to indicate that he was listening with interest.[15] In addition to these obvious problems, common sources of noise when different languages are involved in a communication attempt include poor choice of channels, poor written or oral expression, failure to recognise non-verbal signals, physical distractions and status effects.

Poor choice of channels

A **communication channel** is the medium through which a message is conveyed from sender to receiver. Good managers choose the right communication channel, or combination of channels, to accomplish their intended purpose in a given situation.[16] In general, *written channels* are acceptable for simple messages that are easy to convey and for those that require extensive dissemination quickly. They are also important, at least as follow-up communications, when formal policy or authoritative directives are being conveyed. *Oral channels* work best for messages that are complex and difficult to convey, where immediate feedback to the sender is valuable. They are also more personal and can create a supportive, even inspirational, emotional climate.

Poor written or verbal expression

Communication will be effective only to the extent that the sender expresses a message in a way that can be clearly understood by the receiver. This means that words must be well chosen and properly used to express the sender's intentions. When they are not, semantic barriers to communication occur as encoding and decoding errors and as mixed messages. Consider the following gobbledegook found among some executive communications:

> *A business report said:* 'Consumer elements are continuing to stress the fundamental necessity of a stabilisation of the price structure at a lower level than exists at the present time.' (*Translation:* Consumers keep saying that prices must go down and stay down.)
>
> *A manager said:* 'Substantial economies were effective in this division by increasing the time interval between distribution of data-eliciting forms to business entities.' (*Translation:* The division was saving money by sending fewer questionnaires to suppliers.)

The use of jargon can be a barrier to effective communication. Sometimes we need to become familiar with the jargon associated with doing business. At other times, however, jargon can be overused or used incorrectly. Accounting firm Deloitte once developed 'jargon-buster' software to detect the sort of jargon often used in business communication, including words like 'leverage', 'value-added' and 'knowledge capital'.[17]

Leo D'Angelo Fisher, a columnist in *Business Review Weekly*, often writes about the tendency of many organisations to use jargon at the expense of clarity. Fisher says that he is fighting a losing battle against jargon. He is sick and tired, for example, of reading job advertisements seeking 'proactive' managers given the vagueness of the word 'proactive'. If the advertisement read 'entrepreneurial' rather than 'proactive', its meaning would immediately become much clearer. Still, Fisher laments that he is on the losing side:

> The all-powerful jargon junta is impervious to the derision that their convoluted cant attracts. What most of us consider indecipherable sludge these preening nitwits consider masterstrokes of modern management communication.[18]

Jargon is also misleading to the public. In 2014, Coles, the Australian supermarket giant was facing fines of more than $3 million after the Federal Court ruled on the side of the consumer. The ACCC initiated proceedings after they found that Coles falsely advertised pre-cooked bread as freshly baked. The bread actually originated in Ireland, Denmark and Germany.[19] Chief Justice Allsop made a ruling that Coles breached three sections of the Australian Consumer Law and the 'Baked Today, Sold Today' labels were a misrepresentation. He said that although it is not the court's role to advise whether or not Coles should sell par-baked bread, they should:

> Make it tolerably clear to the public that the recent baking was the completion of a baking process that had taken place sometime before, off site, and that 'freshly baked' actually meant the completion of the baking process of frozen product prepared and frozen off site by suppliers.[20]

Both written and oral communication require skill. It is not easy, for example, to write a concise letter or to express your thoughts in a computer email report. Any such message can easily be misunderstood. It takes practice and hard work to express yourself well. The same holds true for oral communication in telephone calls, face-to-face meetings, formal briefings, videoconferences and so on. Manager's notepad 14.1 identifies guidelines for an important oral communication situation faced by managers — the executive briefing or formal presentation.[21]

MANAGER'S NOTEPAD 14.1

How to make a successful presentation

- *Be prepared*. Know what you want to say, know how you want to say it, and rehearse saying it.
- *Set the right tone*. Act audience-centred, make eye contact, be pleasant and confident.
- *Sequence points*. State your purpose, make important points, follow with details, summarise.
- *Support your points*. Give specific reasons for your points; state them in understandable terms.
- *Accent the presentation*. Use good visual aids and provide supporting 'handouts' when possible.
- *Add the right amount of polish*. Attend to details — have room, materials and arrangements ready to go.
- *Check your technology*. Check everything ahead of time; make sure it works and know how to use it.
- *Don't bet on the internet*. Beware of plans to make real-time internet visits; save sites on a disk and use a browser to open the file.
- *Be professional*. Be on time, wear appropriate attire, and be organised, confident and enthusiastic.

Failure to recognise non-verbal signals

Non-verbal communication takes place through such things as hand movements, facial expressions, body posture, eye contact and the use of interpersonal space. It can be a powerful means of transmitting messages. Eye contact or voice intonation can be used intentionally to accent special parts of an oral communication. The astute observer notes the 'body language' expressed by other people. At times our body may be 'talking' for us even as we maintain silence. And when we do speak, our body may sometimes 'say' different things from the words we use. A **mixed message** occurs when a person's words communicate one message and his or her actions, body language, appearance or use of interpersonal space communicate something else. Watch how people behave in a meeting. A person who feels under attack may move back in a chair or lean away from the presumed antagonist, even while expressing verbal agreement. All of this is done quite unconsciously, but it sends a message to those alert enough to pick it up.

Non-verbal channels probably play a more important part in communication than most people realise. One researcher indicates that gestures alone may make up as much as 70 per cent of communication.[22] In fact, a side effect of the growing use of electronic mail, computer networking and other communication technologies is that gestures and other non-verbal signals that may add important meaning to the communication event are lost.

Physical distractions

Any number of physical distractions can interfere with the effectiveness of a communication attempt. Some of these distractions, such as telephone interruptions, drop-in visitors and lack of privacy, are evident in the following conversation between an employee, George, and his manager:

> Okay, George, let's hear your problem [phone rings, boss picks it up, promises to deliver a report 'just as soon as I can get it done']. Uh, now, where were we — oh, you're having a problem with your technician. She's [manager's secretary brings in some papers that need his immediate signature; secretary leaves] . . . you say she's overstressed lately, wants to leave . . . I tell you what, George, why don't you [phone rings again, lunch partner drops by] . . . uh, take a stab at handling it yourself . . . I've got to go now.[23]

Besides what may have been poor intentions in the first place, the manager in this example did not do a good job of communicating with George. This problem could be easily corrected. If George has something important to say, the manager should set aside adequate time for the meeting. Furthermore, issuing appropriate instructions to the secretary could eliminate additional interruptions such as telephone calls and drop-in visitors. Many communication distractions can be avoided or at least minimised through proper planning.

Status effects

'Criticise my boss? I don't have the right to.' 'I'd get fired.' 'It's her company, not mine.' As suggested in these comments, the hierarchy of authority in organisations creates another potential barrier to effective communications. Consider the 'corporate cover-up' once discovered at an electronics company. Product shipments were being predated and papers falsified to meet unrealistic sales targets set by the CEO. His managers knew the targets were impossible to attain, but at least 20 people in the organisation cooperated in the deception. It was months before the top found out. What happened in this case is **filtering** — the intentional distortion of information to make it appear favourable to the recipient.

The presence of such information filtering is often found in communications between lower and higher levels in organisations. Tom Peters, management author and consultant, has called such information distortion 'Management Enemy Number 1'.[24] Simply put, it most often involves someone 'telling the boss what he or she wants to hear'. Whether the reason behind this is a fear of retribution for bringing bad news, an unwillingness to identify personal mistakes, or just a general desire to please, the end result is the same. The person receiving filtered communications can end up making poor decisions because of a biased and inaccurate information base.

TECHNOLOGY

The fragility of organisational reputation

When organisations are viewed as unethical or earn a poor reputation, their share price and employer brand will likely plummet alongside the morale of their staff and their long-term chances of survival. On 25 January 2013, Juliette Garside, telecoms correspondent to *The Guardian*, wrote an article titled 'Child Labour Uncovered in Apple's Supply Chain'. In the article she disclosed how Apple's own internal audits across 400 suppliers revealed that 106 children were employed by its Chinese-based suppliers in the previous year. In one company, 74 children under the age of 16 were employed, some of them having been employed with forged documents.[25]

The audit followed the reporting of multiple suicides due to poor working conditions at Foxconn, Apple's Taiwanese-based assembler of iPads and iPhones.[26]

The internal audit also found evidence of mandatory pregnancy tests, wage confiscation to pay off recruitment agencies in addition to a list of other human rights abuses. Apple's CEO, Tim Cook, who was previously involved in setting up Apple's supply chain, has come under increasing pressure to bring changes. Jeff Williams, senior vice president of operations at Apple claims, 'Underage labour is a subject no company wants to be associated with, so as a result I don't believe it gets the attention it deserves, and as a result it doesn't get fixed like it should'.[27] In vowing to purge the companies supply chain of this practice he also warned that it would take some time. Ten per cent of audited companies were found not to be in compliance with Apple's child labour laws and were forced to return underage children to schools selected by their families and pay their debts. In addition, Apple claims that US$6.4 million was given back to contract workers. Apple also set in place a comprehensive whistle-blowers program to protect those claiming intimidation.

QUESTION

Should Apple have been more aware of human rights abuses prior to the internal audits? How could Apple have acted prior to the audits to have improved the findings?

CRITICAL ANALYSIS

1. Technology is increasingly being used to improve communication in organisations, but what are the barriers that technology brings to the communication process?
2. How may overcoming barriers to communication improve organisational performance?

14.2 Improving communication

LEARNING OBJECTIVE 14.2 How can communication be improved?

A number of things can be done to overcome barriers and improve the process of communication. They include transparency, use of electronic media, active listening, body language, making constructive use of feedback, opening upward communication channels, understanding proxemics and the use of space, using technology, valuing diversity and using effective language.

Transparency and openness

Communication transparency involves being honest and openly sharing accurate and complete information about the organisation and workplace affairs. A lack of communication transparency is evident when managers try to hide such information and restrict the access of organisational members to it. The expected result of being transparent and open in communication is a positive impact on employee engagement and greater feelings of trust between them and their managers.

This emphasis on communication transparency is sometimes associated with the notion of **open-book management**, in which managers provide employees with essential financial information about their companies.[28]

Active listening

Managers must be very sensitive to their listening responsibility. When people 'talk', they are trying to communicate something. That 'something' may or may not be what they are saying. **Active listening** is the process of taking action to help the source of a message say exactly what he or she really means.

There are five rules for being an active listener.

1. *Listen for message content.* Try to hear exactly what content is being conveyed in the message.
2. *Listen for feelings.* Try to identify how the source feels about the content in the message.
3. *Respond to feelings.* Let the source know that the feelings are being recognised.
4. *Note all cues.* Be sensitive to non-verbal and verbal messages; be alert for mixed messages.
5. *Paraphrase and restate.* State back to the source what you think you are hearing.[29]

Different responses to the following two questions contrast how a 'passive' listener and an 'active' listener might act in real workplace conversations. Put yourself in the position of the questioner in each case and then consider how you would react to each listener's response.

Question	Passive listener's response	Active listener's response
Don't you think employees should be promoted on the basis of seniority?	No, I don't.	It seems to you that they should, I take it?
What does the supervisor expect us to do about these out-of-date computers?	Do the best you can, I guess.	You're pretty disgusted with those machines, aren't you?

These examples should give you a sense of how the active listening approach can facilitate and encourage communication in difficult circumstances, rather than discourage it. Manager's notepad 14.2, based on the work of prominent Australian social researcher Hugh Mackay, offers an additional set of useful guidelines for good listening.[30]

MANAGER'S NOTEPAD 14.2

Hugh Mackay's ten laws of human communication

1. It's not what our message does to the listener, but what the listener does with our message, that determines our success as communicators.
2. Listeners generally interpret messages in ways which make them feel comfortable and secure.
3. When people's attitudes are attacked head-on, they are likely to defend those attitudes and, in the process, to reinforce them.
4. People pay most attention to messages that are relevant to their own circumstances and point of view.
5. People who feel insecure in a relationship are unlikely to be good listeners.
6. People are more likely to listen to us if we also listen to them.
7. People are more likely to change in response to a combination of new experience and communication than in response to communication alone.
8. People are more likely to support a change that affects them if they are consulted before the change is made.
9. The message in what is said will be interpreted in the light of how, when, where and by whom it is said.
10. Lack of self-knowledge and an unwillingness to resolve our own internal conflicts make it harder for us to communicate with other people.

Body language

Since non-verbal communication is a critical element of face-to-face communication, it makes sense that you work to ensure that your body language reinforces your message and remains consistent with that message. Kris Cole, a well-known communications consultant in Australia, New Zealand and Asia, says that effective body language is SO CLEAR.

- **S** relates to how you *sit* or *stand* or use *space*. Open, less confrontational communication is more likely if you stand at an angle rather than directly opposite the person with whom you are communicating. You should also be aware not to infringe on the other person's 'personal space'.
- **O** stands for the *openness* of your movements and expression. Having your arms and legs crossed indicates that you are probably going to be defensive in your expression and responses.
- **C** is for how you *centre your attention* on the other person. Good communication demands that you focus your mind and eliminate distracting thoughts.
- **L** concerns how you *lean* towards the other person. Leaning towards someone can indicate interest; however, leaning too far can create undue pressure in the conversation.
- **E** stands for *eye contact*. In European cultures, eye contact indicates interest and engagement; although less eye contact may be appropriate if communicating with people from Asian cultures.
- **A** relates to how *appropriately you respond* to the speaker, with active listening being particularly important.
- **R** is about how *relaxed* you appear during communication. Being appropriately relaxed includes eliminating annoying habits such as jangling your keys or nibbling on a pen or pencil.[31]

Constructive feedback

The process of telling other people how you feel about something they did or said, or about the situation in general, is called **feedback**. The art of giving feedback is an indispensable skill, particularly for managers who must regularly give feedback to other people. Often this takes the form of performance feedback given as evaluations and appraisals. When poorly done, such feedback can be threatening to the recipient and cause resentment. When properly done, feedback — even performance criticism — can be listened to, accepted and used to good advantage by the receiver.[32] Managers at GE, for example, are evaluated on how they give performance feedback to employees. Each subordinate must be annually rated by the manager on a low–high performance curve; the weakest are advised to find jobs elsewhere. By the same token, GE managers are also evaluated on how well they receive feedback. Employees are encouraged to let their bosses know how they are performing, and they can do so anonymously if they prefer.[33]

There are ways to help ensure that feedback is useful and constructive rather than harmful. To begin with, the sender must learn to recognise when the feedback he or she is about to offer will really benefit the receiver and when it will mainly satisfy some personal need. A supervisor who berates a computer operator for data analysis errors, for example, actually may be angry about personally failing to give clear instructions in the first place. Also, a manager should make sure that any feedback is considered from the recipient's point of view as understandable, acceptable and plausible.

Usefully accepted guidelines for giving 'constructive' feedback include the following.

- Give feedback directly and with real feeling, based on trust between you and the receiver.
- Make sure that feedback is specific rather than general — use good, clear and preferably recent examples to make your points.
- Give feedback at a time when the receiver seems most willing or able to accept it.
- Make sure the feedback is valid and limit it to things the receiver can be expected to do something about.
- Give feedback in small doses — never give more than the receiver can handle at any particular time.[34]

Use of communication channels

Channel richness is the capacity of a channel or communication medium to carry information in an effective manner.[35] Figure 14.2 shows that face-to-face communication, for example, is very high in richness, enabling personal two-way interaction and real-time feedback. At the other end of the continuum, posted email or hard-copy bulletins are very low in richness, representing impersonal one-way interaction and largely insulated from quick feedback. In between, you can see how the other common channels of electronic and traditional letters and memos, as well as telephone conversations and voice-mail messages, are distributed. Managers need to understand the limits of a channel and choose wisely when using them to communicate various types of messages.

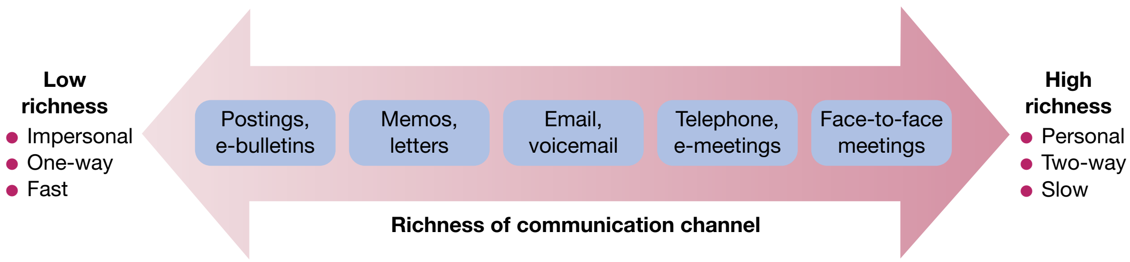

FIGURE 14.2 Channel richness and the use of communication media

There are a number of steps that can be taken to keep communication channels open to reduce the harmful consequences of status effects and filtering, described earlier. A popular approach is called 'management by wandering around', or **MBWA**. This means dealing directly with subordinates by regularly spending time walking around and talking with them about a variety of work-related matters. Instead of relying on less rich and more formal channels to bring information to your attention, MBWA involves finding out for yourself what is going on in a rich face-to-face communication channel. The basic objectives are to break down status barriers, increase the frequency of interpersonal contact and get more and better information from lower level sources. Of course, this requires a trusting relationship. One Australian CEO who is well known for moving around his retail outlets is Gerry Harvey, executive chairman of Harvey Norman. Terry Davis, former group managing director and executive director of Asia–Pacific softdrink giant Coca-Cola Amatil, also encourages his staff to manage by walking around, since so much can be missed if executives anchor themselves to their desks every day, saying:

> I recently asked one of our rising tax people how often they spent time in a supermarket and they said, 'As little as possible'. I said 'How about thinking about it from a Coke point of view and go and have a look?' All of a sudden you have created an opportunity for someone to think outside the square.

Management practices designed to open channels and improve upward communications have traditionally involved *open office hours*, whereby busy senior executives set aside time in their calendars to welcome walk-in visits during certain hours each week. Today, this approach can be expanded to include *online discussion forums* and 'chat rooms' that are open at certain hours. Programs of regular *employee group meetings* are also helpful. Here, a rotating schedule of team meetings brings top managers into face-to-face contact with mixed employee groups throughout an organisation. In some cases, a comprehensive communications program includes an *employee advisory council* composed of members elected by their fellow employees. Such a council may meet with top management regularly to discuss and react to new policies and programs that will affect employees. Again, the face-to-face groups can be supplemented with a variety of *computer-based meetings* that serve similar purposes, overcoming the time and distance limitations that might otherwise make communication less frequent or intense.

When bosses suspect that they are having communication problems, *communication consultants* can be hired to conduct interviews and surveys of employees on their behalf. Ingrid Jackson, for instance, consulted for a major Australian bank during a period of key strategic change at the organisation. Jackson coordinated a two-year communications strategy designed to involve and inform the bank's 23 000 retail staff in the change process. Moving away from the bank's traditional top–down communication processes, Jackson and an internal steering group applied a range of communication strategies to tackle the diversity of communication needs and styles present in such a large organisation, including:

- cascade briefings, which involved providing overhead transparencies and accompanying speaker notes so that regional, zone and branch managers could communicate effectively with their staff
- reverse cascades, so that questions that could not be answered at the cascade briefings were sent back up the line for a response
- visible executive leadership, in which key executives spent time travelling across Australia to speak to groups of staff
- staff booklets outlining the bank's new strategy and detailing the new organisation structures, roles and career streams
- national and state newsletters discussing the success of pilot projects and implementation across different states
- ten-minute staff videos, provided monthly with discussion guides
- audio tapes for managers with interviews, discussions, and questions and answers
- staff 'hotline' to respond to questions
- supervisor scripts, so that front-line managers could access appropriate form letters and implementation information.[36]

Another communication approach that seeks to broaden the awareness of 'bosses' regarding the feelings and perceptions of other people that they work closely with is 360 degree feedback.[37] This typically involves upward appraisals done by a manager's subordinates as well as additional feedback from peers, internal and external customers, and people higher up. A self-assessment is also part of the process. Often this feedback is gathered through questionnaires in which respondents can remain anonymous. The goal of 360 degree feedback is to provide the manager with information that can be used for constructive improvement. Managers who have participated in the process often express surprise at what they learn. Some have found themselves perceived as lacking vision, having bad tempers, being bad listeners, lacking flexibility and so on.[38]

In addition to the more traditional use of financial and other quantitative indicators, the ANZ Banking Group uses 360 degree feedback to analyse the leadership qualities of its managers, as well as their ability to generally 'add value' to the corporation.[39] Seeking to send a message to both ANZ employees and its other stakeholders, ANZ CEO Mike Smith announced in 2012 that the pay packages of the bank's 900 most senior executives would be frozen for a second consecutive year. Having said that, ANZ's profit in the 12 months to 30 June 2012 increased 5.5 per cent to $4.5 billion and it is likely that Smith's own pay packet will not shrink below $10 million each year![40]

Proxemics and space design

An important but sometimes neglected part of communication involves proxemics, or the use of interpersonal space.[41] The distance between people conveys varying intentions in terms of intimacy, openness and status; the proxemics or physical layout of an office is an often-overlooked form of non-verbal communication. See for yourself — offices with two or more chairs available for side-by-side seating, for example, convey different messages from those where the manager's chair sits behind the desk and those for visitors sit facing in front.

Office or workspace architecture is becoming increasingly recognised for its important influence on communication and behaviour. Office designs increasingly reflect deliberate attempts to encourage open communications among employees from different departments and from different levels of the organisational hierarchy.

Proxemics takes on a different meaning when we consider the increasing use of telecommuting, or working from a place other than your normal office. Asher Moses, IT specialist at Melbourne-based newspaper *The Age* explains that, although companies such as Yahoo and Google in the United States are focused on limiting their staffs' exposure to telecommuting, in Australia telecommuting is becoming increasingly prevalent.[42] He reports that research from the University of Melbourne suggests that

Australians are benefiting from teleworking; working three extra hours a day, increasing productivity and reducing stress levels. Tim Fawcett, the general manager of government affairs and policy at Cisco Australia, suggests that Yahoo and Google are 'working against the tide', with about 90 per cent of Cisco's 75 000 global workforce telecommuting a minimum of one day a week and approximately 40 per cent being classified as 'mobile workers'.[43] In addition the federal government set a goal for 12 per cent of its workers to telecommute one day a week by 2020 and Deloitte claims that teleworking will be worth some $3.2 billion a year to the Australian GDP by 2020/21.[44]

COUNTERPOINT

Managers as storytellers

Reissner and Pagan describe how storytelling is emerging as a management approach, even though there is ambiguity concerning the meaning of 'story' and 'storytelling' as a management practice, not only as a management communication tool, but also in how stories and storytelling are understood by employees. As a consequence, managers and consultants will have difficulty using stories and storytelling in making informed decisions.

Reissner and Pagan's research demonstrates that storytelling in the modern organisation is represented at three levels: corporate storytelling (macro level), managerial storytelling (meso level) and peer storytelling (micro level). Each level is distinctly defined in the organisation, with actors at each level displaying differing levels of consciousness as to how stories and storytelling are applied within the organisation.

Of particular importance in the researchers findings was that the more managers understand the use and limits of stories and storytelling, the more effectively they can communicate with employees and other stakeholders. Storytelling can be used to communicate corporate visions and strategic goals (corporate storytelling), assist in attaining principal business results (managerial storytelling) and enhance relationships within an organisation (peer storytelling). However, corporate storytelling at Northern-Services Ltd in the United Kingdom, through a monthly newsletter, a communications forum and a meeting with senior managers, was shown to be insufficient alone to convey the corporate message and required further support through managerial behaviours that go beyond the spoken word:

> Senior managers definitely follow up any points raised during the round tables. We've just received something today from our last meeting where they've listed all the questions and queries that were brought up and given some answers of why this is happening or what's going to happen in the future. They do try to follow up on everything, tiny things as well. Yes, they're really good for that.[45]

The authors explain further that without addressing the 'small details' manager's stories may not necessarily bring out the positive image of the corporate story.[46]

QUESTION

How do you think that managers' storytelling differ at the three different levels (macro, meso and micro)? What particular challenges do you envisage at each level of storytelling? How can managers overcome these challenges?

Technology use

Prerequisites to entry into just about any workplace with career value are basic computer literacy and a willingness to use the new technologies to maximum advantage. The new age of communication is one of email, voicemail, online discussions, videoconferencing, virtual or computer-based meetings and more. A related and important development is the growing use of in-house or corporate intranets to provide opportunities for increased communication and collaboration. Progressive organisations use database programs to host continuous online forums for internal communication and knowledge sharing among employees. The purposes are to encourage fast and regular communication and provide a source of up-to-date information for problem-solving and work implementation. For example, Vodafone New Zealand, with some 1400 employees, relies heavily on effective internal communications but were faced with a range of problems such as ineffective internal email use, low staff survey response rates, ineffective team meetings, challenges with movement to the global intranet and a need to reduce administration. As a response they collaborated with Snap Communications, providing employees with a customised internal software communication tool that allow them to be informed and empowered in dealing with customers.[47]

The Radicati Group issued their *Email Statistics Report* in 2014, which showed that on average the number of business emails will increase from 121 per day in 2014 to 140 in 2018.[48] With increasing numbers of emails clogging inboxes, David Dercho of Wallmans Lawyers says that although emails have become a 'critical communication tool' employees need proper strategies to manage them and that 'relationships are personal, that face-to-face and relationship-based communication methods build that level of trust which is important in business'.[49]

Perhaps of even greater concern is the widespread use of surveillance by organisations over our use of emails and the internet. According to Elisabeth Sexton, 'Every time we make a phone call, click on a website link, send an email or swipe a card through an electronic reader, we are creating a record that can be stored and later analysed by computers'.[50] Many companies are already doing so, of course. The relaunch of the Coles supermarkets Flybuys scheme was substantially motivated by the company's desire to track the buying habits of different customer groups and then target special offers to them on the basis of such past purchases.[51] Such strategies are not without their dangers, however. In December 2014, for example, one of Australia's largest travel insurance companies had their computer system hacked, resulting in the personal information of hundreds of thousands of customers being stolen. At the time the company hid the event from customers. [52]

It is also the case that many organisations, and their employees, do not really understand which kinds of email and internet surveillance are permissible and which are not. In the Australian Capital Territory, the Greens have sought to implement legislation to protect the rights of workers, particularly in terms of their privacy. Nonetheless, industrial lawyer Greg Robertson emphasises that 'the email system belongs to the employer' and that employers have the right to monitor and review emails, as well as web usage, as long as such monitoring complies with the relevant legislation. Nonetheless, 'grey areas' remain around the use of personal email accounts such as Hotmail and Gmail, particularly given that many organisations permit 'some internet use' for their staff.[53] Arguably, clarifying these areas of confusion is now long overdue.

Communications systems are also, increasingly, becoming more integrated. For example, Swedish company SAAB's integrated communication system Tacticall is a fundamental part of the Australian Navy's combat system. SAAB's Gunilla Fransson explains the importance of such systems in that, 'Our Australian operations support more than 300 employees developing Australia's future combat system for the next generation frigates and new technologies in unmanned surface vessels'.[54]

Several gadgets with swift take-up rates in recent years have included smartphones. Such tools enable users to access their email and the internet, as well as send text messages at any time and from virtually any place.

According to Martina Sheehan, founder of mind-training organisation Mind Gardener, such gadgets add an enormous load to our often already overcrowded brains. As the owner of two businesses, Sheehan juggles Facebook, Twitter and her smartphone, as well as the different thinking processes that each business requires. Such multi-tasking is now a common demand for many managers, particularly those whose workloads have risen as organisations have downsized to reduce costs. University of Sydney lecturer Dr Chris Chapparo notes that while the upsides of multi-tasking include higher productivity, the downsides can include a loss of morale and, eventually, burnout. A recent UK study found that two out of three employees check their emails while on vacation or out of the office!

Martina Sheehan provides five tips for making the most of multi-tasking in a world of constant interruptions and the constant demands of multiple technologies for our attention.

1. Do brain warm-ups by visualising your day progressing smoothly.
2. Focus on your achievements rather than your to-do list.
3. Consciously set aside one task, clear your mind, then think about the next to facilitate a smooth switch.
4. Don't ignore distractions. Acknowledge them and name them, then refocus on the task at hand.
5. Tackle one task at a time.[55]

Valuing culture and diversity

Workforce diversity and globalisation are two of the most talked-about trends in modern society. Communicating under conditions of diversity, where the sender and receiver are part of different cultures, is certainly a significant challenge. Cross-cultural communication challenges were first discussed in the chapter on the international dimensions of management. It is useful to recall that a major source of difficulty is **ethnocentrism**, the tendency to consider your culture superior to others. Ethnocentrism can adversely affect communication in at least three major ways: it may cause someone to *not* listen well to what others have to say; it may cause someone to address or speak to others in ways that alienate them; and it may lead to the use of inappropriate stereotypes when dealing with people from another culture.[56]

For years, cultural challenges have been recognised by international travellers and executives. But, as we know, you don't have to travel abroad to come face-to-face with communication and cultural diversity. Just going to work is a cross-cultural journey for most of us today. The workplace abounds with subcultures based on gender, age, ethnicity, race and other factors. As a result, the importance of cross-cultural communication skills applies at home just as much as it does in a foreign country. Remember, too, that cultural skills are gained by reaching out, crossing cultural boundaries and embracing differences.

Communications issues also arise because of gender differences. A study of female managers in Australian organisations found that the participants indicated that there were differences between their communication style and the style used by many male managers. Their views are captured in the following quotations.

> I think that there is a general recognition that I communicate in a different way within the executive team to the men and that I will get my message across in a different way. I probably am a little softer in some situations, but just as determined.
>
> My personal viewpoint is that it's style. Women are definitely less likely to be openly dogmatic: 'You will do this, you will do that.' I mean they're more likely to say: 'I think it would be a better idea if we did this', or 'Have you thought about that?'[57]

Language and organisational change

The words we choose can have a powerful impact on our effectiveness as communicators. In a study of two New Zealand organisations, it was found that the language used had a strong influence on how the organisations responded to environmental changes. In the case of multinational IT company Infotech (not its real name), the New Zealand office decided to pursue its own strategies while its parent company suffered heavy worldwide losses. These were viewed as its 'rebel' days. In responding to challenges, Infotech's managers saw the company's survival as a '1000-day journey' to recover faster than its competitors. They invoked a strongly positive view of 'the Kiwi way' as a motivator for the journey. As Infotech recovered, the managers referred to 'standing on our own two feet' to explain the New Zealand subsidiary's determination to succeed on its own terms. Then, as the parent company itself began to recover, managers used the word 'reglobalisation' to illustrate the parent company's desire to regain control over its New Zealand operation. The term became a rallying cry for employees keen to retain local control over Infotech operations.

Similarly, with reference to the world-changing events of 11 September 2001, when terrorists brought down the World Trade Center buildings in New York, well-known New Zealand manager Ian Clark argued that although a single organisation or manager can do little to influence world events, they do have control over how they respond in terms of their own area of influence. New strategies implemented in response to such events are much easier to carry out when managers pay ongoing attention to effectively managing communications within their companies. For Clark, 'the challenge is to give [employees] meaningful information without ringing alarm bells . . . tell them what you are doing or planning to do about it [because] staff want the truth, leadership and plans for the future [rather than] misinformation, uncertainty, confusion and surprises'. As many staff give credibility to the views of their immediate supervisors, frontline managers and supervisors should assume a major role in any communication strategy.[58]

The global financial crisis was not dissimilar to the 9/11 crisis in its influence on the style of communication needed during a challenging period. A rule for managing during a recession is: Don't stop talking! Managers are exhorted to be as open and honest as possible with their staff, and to create open lines of communication.[59] For Alan Oppenheim, managing director of Australian skincare manufacturer Ego Pharmaceuticals, ignoring the crisis when communicating with staff would be like pretending there was no elephant in the room. In this case, staff at Ego Pharmaceuticals were given regular updates about the elephant (the economy) via meetings, newsletters, and a message from Oppenheim and his colleagues that emphasised the company's heritage and ongoing commitment to its people.[60]

CRITICAL ANALYSIS

1. What strategies should global corporations pursue to integrate local cultures into their business operations? Can these strategies help overcome regional differences and build globally cohesive organisations?
2. How can managers balance the need for constant, real-time organisational communication with the simultaneous need to take time out for reflection and deeper thinking?

14.3 Perception

LEARNING OBJECTIVE 14.3 How does perception influence communication?

The process through which people receive and interpret information from the environment is called **perception**. It is the way we form impressions about ourselves, other people and daily life experiences and the way we process information into the decisions that ultimately guide our actions.[61]

As shown in figure 14.3, perception acts as a filter through which information must pass before it has an impact on communication, decision-making and action. The results of this screening process vary because individual perceptions are influenced by such things as values, cultural background and other circumstances of the moment. Simply put, people can and do perceive the same things or situations very differently. And, importantly, people behave according to their perceptions. Unless the potential for alternative perceptions is recognised and understood, this influence on individual behaviour may be neglected.

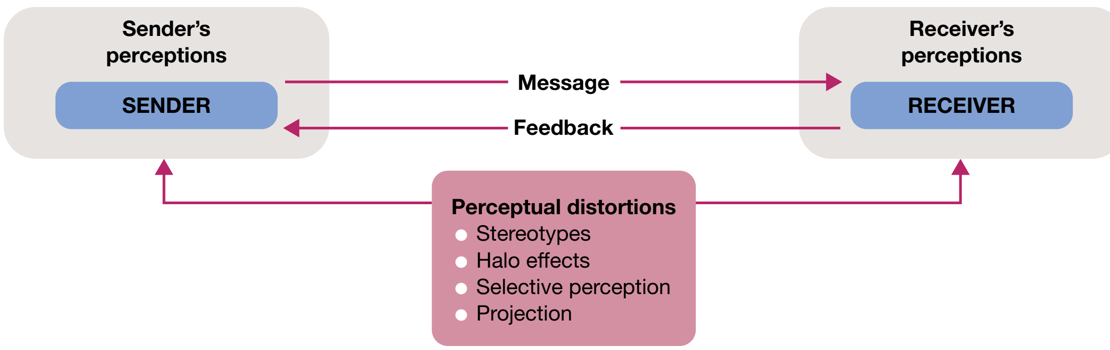

FIGURE 14.3 Perception and communication

Perception and attribution

It is natural for people to try to explain what they observe and the things that happen to them. This process of developing explanations for events is called *attribution*. The fact that people can perceive the same things quite differently has an important influence on attributions and their ultimate influence on behaviour. In social psychology, attribution theory describes how people try to explain the behaviour of themselves and other people.[62] One of its significant applications is in the context of people's performance at work.

Fundamental attribution error occurs when observers blame another person's performance failures more on internal factors relating to the individual than on external factors relating to the environment. In the case of someone who is producing poor-quality work, for example, a supervisor might blame a lack of job skills or laziness — an unwillingness to work hard enough. These internal explanations of the performance deficiency, moreover, are likely to lead the supervisor to try to resolve the problem through training, motivation or even replacement. The attribution error leads to the neglect of possible external explanations. They might suggest, for example, that the poor-quality work was caused by unrealistic time pressures or substandard technology. Opportunities to improve these factors through managerial action will thus be missed.

Another confounding aspect of perception and attribution is the **self-serving bias**. This occurs because individuals tend to blame their personal failures or problems on external causes, and attribute their successes to internal causes. In this instance, the individual may give insufficient attention to the need for personal change and development. Instead, he or she may be prone to take credit for successes and focus on the environment to explain away failures.

Perceptual tendencies and distortions

In addition to the attribution errors just discussed, a variety of perceptual distortions can also influence human behaviour in the workplace. Of particular interest are the use of stereotypes, halo effects, selectivity and projection.

Stereotypes

A **stereotype** occurs when someone is identified with a group or category, and then oversimplified attributes associated with the group or category are linked to the individual. Common stereotypes include those of young people, old people, teachers, students, union members, males and females. The phenomenon, in each case, is the same: a person is classified into a group on the basis of one piece of information, such as age. Characteristics commonly associated with the group are then assigned to the individual. What is generalised about the group (e.g. 'Young people dislike authority') may or may not be true about the individual. Stereotypes based on factors such as gender, age and race can and do bias the perceptions of people in some work settings.

In the world of international business, only about 7 per cent of expatriate managers working in the Asia–Pacific region are women.[63] Why? A Catalyst study of opportunities for women in global business points to *gender stereotypes* that place women at a disadvantage to men for these types of opportunities. The tendency is to assume they lack the ability and/or willingness to work abroad.[64]

Finally, *ability stereotypes* and *age stereotypes* also exist in the workplace. Their inappropriate use may place disabled and older workers at a disadvantage in various work situations. A worker with a disability may be overlooked in the hiring process because the recruiter assumes that someone with a disability would have a difficult time meeting a normal work schedule. A talented older worker may not be promoted to fill an important and challenging job, because a manager assumes older workers lack creativity, are cautious and tend to avoid risk. A study found that less than 11 per cent of recently hired staff in Australian organisations were aged 45 or older, and 47 per cent of organisations had no staff older than 55. With an ageing workforce, however, employers in some industries may have little choice but to employ older workers. It is estimated that by 2020 there will be as many people approaching retirement in Australia as there will be entering the workforce. As older workers can be just as productive and creative as younger employees, the pressure to employ more older staff is not necessarily a bad thing.[65]

Halo effects

A **halo effect** occurs when one attribute is used to develop an overall impression of a person or situation. When meeting someone new, for example, the halo effect may cause one trait, such as a pleasant smile, to result in a positive first impression. On the other hand, a particular hairstyle or manner of dress may create a negative reaction. Halo effects cause the same problem for managers as do stereotypes — that is, individual differences become obscured. This is especially significant with respect to a manager's view of subordinates' work performance. One factor, such as a person's punctuality, may become the 'halo' for a positive overall performance evaluation.

Selectivity

Selective perception is the tendency to single out for attention those aspects of a situation or person that reinforce or appear consistent with one's existing beliefs, values or needs.[66] What this often means in an organisation is that people from different departments or functions — such as marketing and manufacturing — tend to see things from their own points of view and tend not to recognise other points of view. Like the other perceptual distortions just discussed, selective perception can bias a manager's view of situations and individuals. One way to reduce its impact is to gather additional opinions from other people.

Projection

Projection is the assignment of personal attributes to other individuals. A classic projection error is to assume that other people share our needs, desires and values. Suppose, for example, that you enjoy a lot of responsibility and challenge in your work. Suppose, too, that you are the newly appointed supervisor for people whose work you consider dull and routine. You might move quickly to start a program of job enrichment to help them experience more responsibility and challenge. This may not be a good decision. Instead of designing jobs to best fit their needs, you have designed their jobs to fit yours. In fact, your subordinates may be quite satisfied and productive doing jobs that, to you, seem routine. Such projection errors can be controlled through self-awareness and a willingness to communicate and empathise with others — that is, to try to see things through their eyes.

CRITICAL ANALYSIS

1. 'The halo effect occurs repeatedly because of the blinding impacts of beauty. Too many managers, particularly male executives, ignore a whole raft of flaws that may exist in the character of their beautiful employees.' Is this true? If so, what can be done?
2. Given that projection often occurs when members of one generation assume that subsequent generations share their values and attitudes to work, how can managers guard against distorted thinking?

14.4 Communication and conflict management

LEARNING OBJECTIVE 14.4 How can we deal positively with conflict?

Communication and related interpersonal skills must be at the forefront of any attempt to develop managerial and leadership expertise. Among these essential skills, the ability to deal with interpersonal conflicts is critical. Formally defined, **conflict** is a disagreement between people on substantive or emotional issues.[67] Managers and leaders spend a lot of time dealing with conflicts of various forms. **Substantive conflicts** involve disagreements over such things as goals; the allocation of resources; the distribution of rewards, policies and procedures; and job assignments. **Emotional conflicts** result from feelings of anger, distrust, dislike, fear and resentment, as well as from personality clashes. Both forms of conflict can cause problems in the workplace. But when managed well, they can be helpful in promoting high performance, creativity and innovation.

Consequences of conflict

Whether or not conflict benefits people and organisations depends on two factors: the intensity of the conflict and how well the conflict is managed. The inverted 'U' curve in figure 14.4 shows that conflict of moderate intensity can be good for performance. This **functional conflict**, or *constructive conflict*, stimulates people to greater work efforts, cooperation and creativity. At very low or very high intensities **dysfunctional conflict**, or *destructive conflict*, occurs. Too much conflict interferes with other more task-relevant activities; too little conflict may promote complacency and the loss of a creative, high-performance edge.

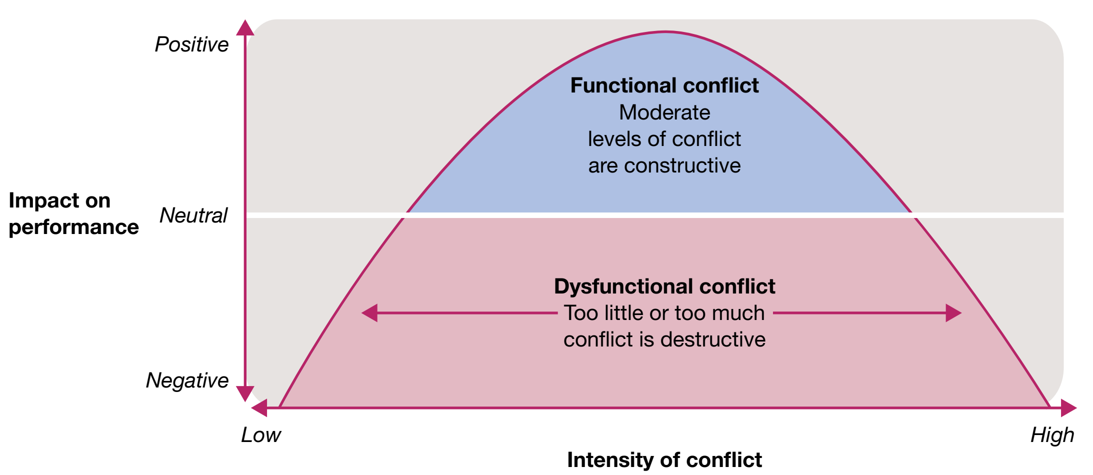

FIGURE 14.4 The relationship between conflict and performance

Causes of conflict

Conflict in organisations may arise for a variety of reasons. Indeed, the following conditions can make the eventual emergence of conflict very likely. *Role ambiguities* set the stage for conflict. Unclear job expectations and other task uncertainties increase the probability that some people will be working at cross-purposes, at least some of the time. *Resource scarcities* cause conflict. Having to share resources with others and/or compete directly with them for resource allocations creates a potential situation conflict, especially when resources are scarce. *Task interdependencies* cause conflict. When individuals or groups must depend on what others do to perform well themselves, conflicts often occur. *Competing objectives* are opportunities for conflict. When objectives are poorly set or reward systems are poorly designed, individuals and groups may come into conflict by working to one another's disadvantage. *Structural differentiation* breeds conflict. Differences in organisation structures and in the characteristics of the people staffing them may foster conflict because of incompatible approaches to work. And *unresolved prior conflicts* tend to erupt in later conflicts. Unless a conflict is fully resolved, it may remain latent in the situation as a lingering basis for future conflicts over the same or related matters. Increasing numbers of employees are communicating their high levels of frustration, stress and anxiety via verbal outbursts.[68]

How to deal with conflict

When any one or more of these conditions is present, an informed manager expects conflicts to occur. And when they do, the conflicts then can either be 'resolved', in the sense that the sources are corrected, or be 'suppressed', in that the sources remain but the conflict behaviours are controlled. Suppressed conflicts tend to fester and recur at a later time. They can also contribute to other conflicts over the same or related issues. True **conflict resolution** eliminates the underlying causes of conflict and reduces the potential for similar conflicts in the future.

Managers can try several approaches to restructure situations in order to resolve conflicts between individuals or groups. There are times when *appealing to superordinate goals* can focus the attention of conflicting parties on one mutually desirable end state. The appeal to higher level goals offers all parties a common frame of reference against which to analyse differences and reconcile disagreements. Conflicts whose reasons lie in the competition for scarce resources can also be resolved by *making more resources available* to everyone. Although costly, this technique removes the reasons for the continuing conflict. By *changing the people*, that is, by replacing or transferring one or more of the conflicting parties, conflicts caused by poor interpersonal relationships can be eliminated. The same holds true for *altering the physical environment* by rearranging facilities, work space or workflows to physically separate conflicting parties and decrease opportunities for them to come into contact with one another.

A variety of *integrating devices* or coordinating mechanisms — ways to improve integration in organisations — can also be used with success in many settings. Implementing liaison personnel, special task forces and cross-functional teams, and even the matrix form of organisation, can change interaction patterns and assist in conflict management. *Changing reward systems* may reduce the competition between individuals and groups for rewards. Creating systems that reward cooperation can encourage behaviours and attitudes that promote teamwork and keep conflict within more constructive limits. *Changing policies and procedures* may redirect behaviour in ways that minimise the likelihood of unfortunate conflict situations. Finally, *training in interpersonal skills* can help prepare people to communicate and work more effectively in situations that are conflict prone.

Kathy Adams trains around 800 middle managers each year in the art of delivering criticism to colleagues and staff in the most appropriate and diplomatic ways. This is particularly important since many executives avoid giving criticism, thinking that it will only create unnecessary conflict, or give criticism in an overly aggressive manner. According to Adams, criticism is best given when it is positive, thus giving employees some ideas about how to perform more effectively in the future;

proactive, being given at the right time and place; and upbeat, ideally delivered alongside praise and encouragement for solid performance.[69]

An innovative approach to conflict resolution has been trialled by organisations such as Sydney-based WSN Environmental Solutions (WSN), a company that experienced significant conflict between sales and operations staff when it expanded from 110 to 400 employees. It brought in Primed, a training company whose staff includes actors skilled in performing organisational conflict roleplays, to give the warring staff a different perspective on their problems. As they watched their conflict portrayed, WSN employees could ask questions of the actors and were encouraged to suggest constructive solutions to the conflict. The actors then resumed their parts and played out the new scenarios, thus providing valuable hints about how the real conflict could be resolved.[70]

Conflict management styles

Interpersonally, people respond to conflict through different combinations of cooperative and assertive behaviours.[71] *Cooperativeness* is the desire to satisfy another party's needs and concerns. *Assertiveness* is the desire to satisfy one's own needs and concerns. Figure 14.5 shows five interpersonal styles of conflict management that result from various combinations of the two. Briefly stated, these conflict management styles involve the following behaviours.

- **Avoidance** — being uncooperative and unassertive; downplaying disagreement, withdrawing from the situation and/or staying neutral at all costs.
- **Accommodation** or *smoothing* — being cooperative but unassertive; letting the wishes of others rule; smoothing over or overlooking differences to maintain harmony.
- **Competition** or *authoritative command* — being uncooperative but assertive; working against the wishes of the other party, engaging in win–lose competition and/or forcing through the exercise of authority.
- **Compromise** — being moderately cooperative and assertive, bargaining for 'acceptable' solutions in which each party wins a bit and loses a bit.
- **Collaboration** or *problem-solving* — being both cooperative and assertive; trying to fully satisfy everyone's concerns by working through differences; finding and solving problems so that everyone gains.[72]

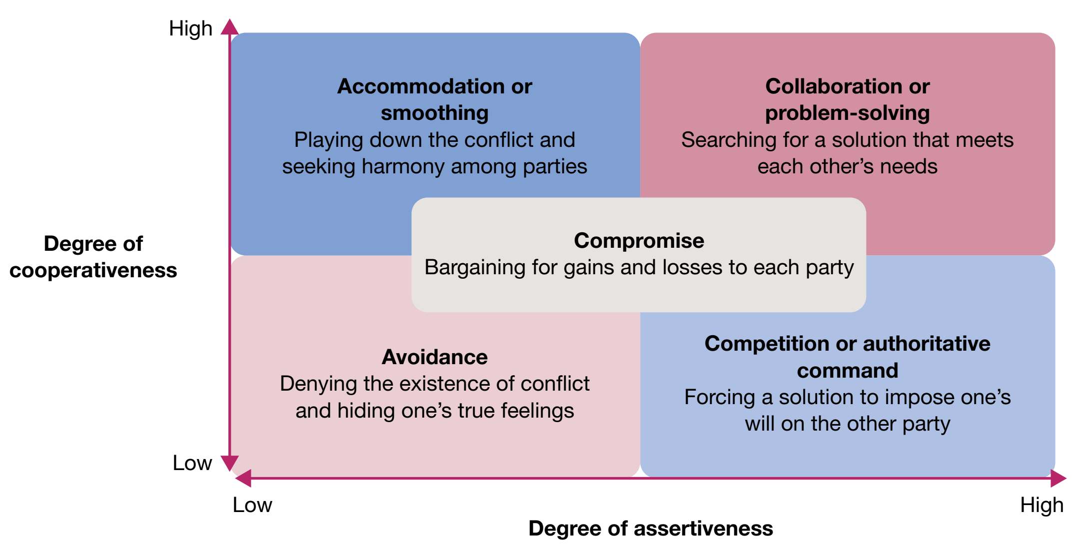

FIGURE 14.5 Alternative conflict management styles

The various conflict management styles can have quite different outcomes.[73] Therefore they should be selected and used with caution, and with the requirements of each unique conflict situation carefully considered. Conflict management by *avoiding* or *accommodating* often creates **lose–lose conflict**. No-one achieves his or her true desires and the underlying reasons for conflict often remain unaffected. Although a lose–lose conflict may appear settled or may even disappear for a while, it tends to recur in the future. Avoidance is an extreme form of non-attention. Everyone pretends that conflict doesn't really exist and hopes that it will simply go away. Accommodation plays down differences and highlights similarities and areas of agreement. Peaceful coexistence through a recognition of common interests is the goal. In reality, such smoothing may ignore the real essence of a conflict.

Competing and compromising tend to create **win–lose conflict**. Here, each party strives to gain at the other's expense. In extreme cases, one party achieves its desires to the complete exclusion of the other party's desires. Because win–lose methods fail to confront the root causes of conflict, future conflicts of the same or a similar nature are likely to occur. In competition, one party wins, as superior skill or outright domination allows his or her desires to be forced on the other. This occurs in the form of authoritative command, where the forcing is accomplished by a higher level supervisor who simply dictates a solution to subordinates. Compromise occurs when tradeoffs are made such that each party to the conflict gives up and gains something of value. As a result, neither party is completely satisfied, and reasons for future conflicts are established.

Collaborating in true problem-solving tries to reconcile underlying differences and is often the most effective conflict management style. It is a form of **win–win conflict** whereby issues are resolved to the mutual benefit of all conflicting parties. This is typically achieved by confronting the issues and through the willingness of those involved to recognise that something is wrong and needs attention. Win–win conditions are created by eliminating the underlying causes of the conflict. All relevant issues are raised and discussed openly. Win–win methods are clearly the most preferred of the interpersonal styles of conflict management.

Developing an organisational culture that encourages collaboration involves three key dimensions. First, establishing clear tasks and roles provides employees with a framework through which conflicts can be understood. Next, people in the workplace can be encouraged to learn from experience, therefore providing a shared base of knowledge and learning so that conflicts can be dealt with in mature ways. Finally, managers should create an environment in which employees are encouraged to raise concerns about tasks and roles, and ensure that these concerns are listened to and considered.[74]

Structural approaches to conflict management

Most managers will tell you that not all conflict management in groups and organisations can be resolved at the interpersonal level. Think about it. Aren't there likely to be times when personalities and emotions prove irreconcilable? In such cases, a structural approach to conflict management can often help.

When conflict traces back to a resource issue, the structural solution is to *make more resources available* to everyone. Although costly and not always possible, this is a straightforward way to resolve resource-driven conflicts. When people are stuck in conflict and just can't seem to appreciate one another's points of view, *appealing to higher level goals* can sometimes focus their attention on one mutually desirable outcome. In a student team where members are arguing over content choices for a PowerPoint presentation, for example, it might help to remind everyone that the goal is to impress the instructor and get an 'A' for the presentation. An appeal to higher goals offers a common frame of reference for analysing differences and reconciling disagreements.

When appeals to higher goals don't work, it may be that *changing the people* is necessary. There are times when a manager may need to replace or transfer one or more of the conflicting parties to eliminate the conflict. When the people can't be changed, they may have to be separated by *altering the physical environment*. Sometimes it is possible to rearrange facilities, work spaces or workflows to physically separate conflicting parties and decrease opportunities for contact with another. Organisations also use a variety of *integrating devices* to help manage conflicts between groups. These approaches include assigning people to formal liaison roles, convening special task forces, setting up cross-functional teams, and even switching to the matrix form of organisation.

Providing *training in interpersonal skills* can also help prepare people to communicate and work more effectively in situations where conflict is likely. When corporate recruiters list criteria for recruiting new college graduates, such 'soft' or 'people' skills are often right at the top. In today's horizontal and team-oriented organisations, you can't succeed if you can't work well with other people even when disagreements are inevitable. Finally, by *changing reward systems* it is sometimes possible to reduce conflicts that arise when people feel they have to compete with one another for attention, pay and other rewards. An example is shifting pay bonuses or even student project grades to the group level so that individuals benefit in direct proportion to how well the team performs as a whole. This is a way of reinforcing teamwork and reducing the tendencies of team members to compete with one another.[75]

CRITICAL ANALYSIS

1. The collaborative approach to problem-solving appears to be the preferred approach to conflict resolution; however, the other styles may be useful at different times. Suggest several situations in which you might use alternative styles.
2. Dysfunctional conflict may occur when there is too little conflict. At such times, executives should carefully introduce conflicts to energise people and engage them in constructive debate. How might they do this without moving towards the other extreme and creating too much conflict?

14.5 Negotiation

LEARNING OBJECTIVE 14.5 How can we negotiate successful agreements?

Put yourself in the following situations. How would you behave, and what would you do?

1. *You have been offered a promotion and would really like to take it*. However, the pay increase being offered is less than you hoped.
2. *You have enough money to order one new computer for your department*. Two of your subordinates have each requested a new computer for their individual jobs.[76]

These are two examples of the many negotiation situations that involve managers and other people in the typical workplace.

Negotiation is the process of making joint decisions when the parties involved have different preferences. Stated a bit differently, it is a way of reaching agreement when decisions involve more than one person or group. People negotiate over such diverse matters as salary, merit raises and performance evaluations, job assignments, work schedules, work locations, special privileges and many other considerations. All such situations are susceptible to conflict and require exceptional communication skills.

Negotiation goals and approaches

There are two important goals in negotiation. *Substance goals* are concerned with outcomes — they are tied to the 'content' issues of the negotiation. *Relationship goals* are concerned with processes — they are tied to the way people work together while negotiating and how they (and any constituencies they represent) will be able to work together again in the future.

Effective negotiation occurs when issues of substance are resolved and working relationships among the negotiating parties are maintained or even improved in the process. The three criteria of effective negotiation are (1) *quality* — negotiating a 'wise' agreement that is truly satisfactory to all sides,

(2) *cost* — negotiating efficiently, using up minimum resources and time and (3) *harmony* — negotiating in a way that fosters, rather than inhibits, interpersonal relationships.[77] The way each party approaches a negotiation can have a major impact on these outcomes.[78]

Distributive negotiation focuses on 'claims' made by each party for certain preferred outcomes. This can take a competitive form in which one party can gain only if the other loses. In such 'win–lose' conditions, relationships are often sacrificed as the negotiating parties focus only on their respective self-interests. It may also become accommodative if the parties defer to one another's wishes simply 'to get it over with'.

Principled negotiation, often called **integrative negotiation**, is based on a 'win–win' orientation. The focus on substance is still important, but the interests of all parties are considered. The goal is to base the final outcome on the merits of individual claims and to try to find a way for all claims to be satisfied if at all possible. No-one should 'lose' and relationships should be maintained in the process.

Gaining integrative agreements

In their book *Getting to Yes*, Roger Fisher and William Ury point out that truly integrative agreements are obtained by following four negotiation rules.[79]

1. Separate the people from the problem.
2. Focus on interests, not on positions.
3. Generate many alternatives before deciding what to do.
4. Insist that results are based on some objective standard.

Proper attitudes and good information are important foundations for such integrative agreements. The attitudinal foundations of integrative agreements involve the willingness of each negotiating party to trust, share information with, and ask reasonable questions of the other party. The informational foundations of integrative agreements involve each party knowing what is really important to them and finding out what is really important to the other party. In addition, each should understand his or her personal best alternative to a negotiated agreement, or **BATNA**. This is an answer to the question: what will I do if an agreement can't be reached?

Figure 14.6 introduces a typical case of labour–management negotiations over a new contract and salary increase. This helps to illustrate elements of classic two-party negotiation as they occur in many contexts.[80] To begin, look at the figure and case from the labour union's perspective. The union negotiator has told her management counterpart that the union wants a new wage of $24.00 per hour. This expressed preference is the union's *initial offer*. However, she also has in mind a *minimum reservation point* of $20.00 per hour. This is the lowest wage rate that she is willing to accept for the union. But the management negotiator has a different perspective. His *initial offer* is $18.00 per hour, and his *maximum reservation point*, the highest wage he is prepared eventually to offer to the union, is $21.50 per hour.

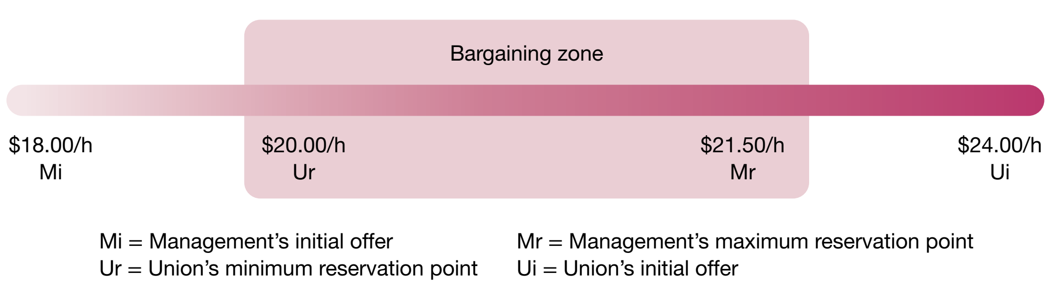

FIGURE 14.6 The bargaining zone in classic two-party negotiation

In classic two-party negotiations of this type, the **bargaining zone** is defined as the zone between one party's minimum reservation point and the other party's maximum reservation point. The bargaining zone of $20.00 per hour to $21.50 per hour in this case is a 'positive' one, since the reservation points of the two parties overlap. If the union's minimum reservation point were greater than management's maximum reservation point, no room would exist for bargaining. Whenever a positive bargaining zone exists, there is room for true negotiation.

A key task for any negotiator is to discover the other party's reservation point. Until this is known and each party becomes aware that a positive bargaining zone exists, it is difficult to proceed effectively. When negotiation does move forwards, each negotiator typically tries to achieve an agreement that is as close as possible to the other party's reservation point. Returning to figure 14.6, the union negotiator would like to get an offer as close to $24.00 per hour as possible. The management negotiator would like to get a contract for as close to $18.00 per hour as possible.

Avoiding negotiation pitfalls

The negotiation process is admittedly complex, and negotiators must guard against common mistakes. Four negotiator pitfalls that can be avoided by proper discipline and personal attention should be recognised. The first is the tendency of *falling prey to the myth of the 'fixed pie'*. This involves acting on the distributive assumption that in order for you to gain, the other person must give something up. Negotiating this way fails to recognise the integrative assumption that the 'pie' can sometimes be expanded and/or used to everyone's advantage. A second negotiation error is the *non-relational escalation of conflict*. The negotiator in this case becomes committed to previously stated 'demands' and allows concerns for 'ego' and 'face saving' to increase the perceived importance of satisfying these demands. The third error is *overconfidence and ignoring the other's needs*. The error here is becoming overconfident that your position is the only correct one and failing to see the needs of the other party and the merits in its position. The fourth error is the tendency to do *too much 'telling' and too little 'hearing'*. When committing the 'telling' problem, parties to a negotiation don't really make themselves understood to each other. When committing the 'hearing' problem neither party listens sufficiently to understand what the other is saying.[81]

It is also important to ensure that we don't assume that the world views, perspectives or **frames** of those with whom we are negotiating are the same as ours. When negotiating, we are influenced by our individual characteristics, the context of the situation, and by the views, characteristics and approaches of those on the other side of the negotiation. Good negotiators recognise that the way in which they frame situations may differ significantly from others. They work hard to empathise with the perspective of others and actively consider how they can adapt their own negotiating position to best complement the approach of those with whom they are negotiating. They also work hard to subject their own views and positions to adaptation and change, given the facts of the situation and the evolving context of the negotiation.

It may not always be possible to achieve integrative agreements. When disputes reach the point of impasse, mediation and arbitration can be useful. **Mediation** involves a neutral third party who tries to improve communication between negotiating parties and keep them focused on relevant issues. The *mediator* does not issue a ruling or make a decision, but can take an active role in discussions. This may include making suggestions in an attempt to move the parties towards agreement. **Arbitration** is a stronger form of dispute resolution. It involves a neutral third party, the *arbitrator*, who acts as a 'judge' and issues a binding decision. This usually includes a formal hearing in which the arbitrator listens to both sides and reviews all facets of the case before making a ruling. Some organisations formally provide for a process called *alternative dispute resolution*. This approach uses mediation and/or arbitration but only after direct attempts to negotiate agreements between the conflicting parties have failed. Often an *ombudsman*, or designated neutral third party who listens to complaints and disputes, plays a key role in the process.

Cross-cultural negotiation

Negotiating in other countries can bring particular challenges not normally faced in a manager's home country. Many such challenges can be traced to cultural differences. When negotiating in India, for example, an awareness of status differences is essential. Communication should be directed first to the most senior person in an organisation, and negotiators should be aware of the common practice of 'name dropping' during conversations, because the level and quality of the relationship between the person and his or her 'contact' may require additional investigation. As access to key players in the government bureaucracy is often vital to doing business in India, secretaries and assistants are often valuable sources of information and advice, and relationships with them should be cultivated where appropriate. Whereas Indian businesspeople will often take great pride in having Westerners to their homes for a meal, the Chinese will rarely invite foreigners to their home unless the relationship is very well developed. One of the main reasons for this is that the Chinese may view their dwellings as quite small in comparison to homes in many parts of the West. Another difference concerns the importance of time. Whereas Indians are 'habitually late' for appointments, the Chinese view punctuality as 'a positive asset in others'.

Such cultural differences abound throughout the Asia–Pacific region, and the effective manager is well prepared for such differences.[82] This is not as easy to achieve as it sounds. Australian managers, for instance, have a reputation for being direct in their willingness to take a leadership position during negotiations. This style is often called a 'crash through or crash' approach. The downside of this style is that it may be perceived by other cultures as reflecting aggressiveness, impatience and an ignorance of cultural difference.[83]

Ethical issues in negotiation

Managers, and anyone else involved in negotiation, should maintain high standards of ethical conduct even when they are personally engaged in a dynamic and challenging situation. The motivation to behave unethically sometimes arises from an undue emphasis on the profit motive. This may be experienced as a desire to 'get just a bit more' or to 'get as much as you can' from a negotiation. The motivation to behave unethically may also result from a sense of competition. This may be experienced as a desire to 'win' a negotiation just for the sake of it or in the misguided belief that someone else must 'lose' in order for you to gain.

When unethical behaviour occurs in negotiation, the persons involved sometimes try to rationalise or explain it away. We first discussed such rationalisations for unethical conduct in the chapter on ethical behaviour and corporate social responsibility. In a negotiation situation, the following comments may be indicative of inappropriate rationalising: 'It was really unavoidable', 'Oh, it's harmless', 'The results justify the means', or 'It's really quite fair and appropriate'.[84] Moral issues aside, tendencies to use or accept such explanations can be challenged by the possibility that any short-term gains may be accompanied by long-term losses. Unethical parties should also realise that they may be targeted for later 'revenge' from those disadvantaged by their tactics. Furthermore, once people behave unethically in one situation, they may consider such behaviour acceptable in similar circumstances in the future.

CRITICAL ANALYSIS

1. Indra Nooyi, chairman and CEO of PepsiCo, argues that it is better to walk away from negotiations than permit 'win–lose' outcomes. Do you agree? Why or why not?
2. Given the challenges of cross-cultural negotiation, how can executives develop the cross-cultural sensitivity to ensure positive negotiation outcomes?

SUMMARY

14.1 What is the communication process?

- Communication is the interpersonal process of sending and receiving symbols with messages attached to them.
- Effective communication occurs when the sender and the receiver of a message both interpret it in the same way. Efficient communication occurs when the message is sent at low cost for the sender.
- Persuasive communication occurs when a recipient agrees with or supports the message being presented.
- Noise is anything that interferes with the effectiveness of communication. It occurs in the form of poor use of channels, poor written or oral expression, physical distractions and status effects, among other possibilities.

14.2 How can communication be improved?

- Transparency and openness results in a positive impact on employee engagement and greater feelings of trust between them and their managers.
- Active listening, through reflecting and paraphrasing, can help overcome communication barriers.
- Upward communication may be improved through MBWA (managing by wandering around) and by the use of structured meetings, suggestion systems, advisory councils and the like.
- Space can be used and designed to improve communication in organisations.
- The appropriate use of information technology, such as e-mail and intranets, can improve communication in organisations.
- Greater cross-cultural awareness and sensitivity can help reduce the difficulties of communication and diversity.

14.3 How does perception influence communication?

- Perception acts as a filter through which all communication passes as it travels from one person to the next.
- Because people tend to perceive things differently, the same message may be interpreted quite differently by different people.
- Attribution is the process of assigning explanations to events.
- Attribution theory identifies tendencies towards fundamental attribution errors when judging the performance of others and self-serving bias when judging our own performance.
- Common perceptual distortions that may reduce communication effectiveness include stereotypes, projections, halo effects and selective perception.

14.4 How can we deal positively with conflict?

- Conflict occurs as disagreements over substantive or emotional issues.
- Managers should support functional conflict that facilitates a high-performance edge and creativity; they should avoid the harmful effects of too little or too much conflict that becomes dysfunctional.
- Conflict may be managed through structural approaches that involve changing people, goals, resources or work arrangements.
- Personal conflict management styles include avoidance, accommodation, compromise, competition and collaboration.
- True conflict resolution involves problem-solving through a win–win collaborative approach.

14.5 How can we negotiate successful agreements?

- Negotiation is the process of making decisions in situations in which the participants have different preferences.
- Both substance goals (those concerned with outcomes) and relationship goals (those concerned with processes) are important in successful negotiation.

- Effective negotiation occurs when issues of substance are resolved and the process results in good working relationships.
- Distributive approaches to negotiation emphasise win–lose outcomes and are usually harmful to relationships.
- Integrative approaches to negotiation emphasise win–win outcomes and the interests of all parties.

KEY TERMS

Accommodation or smoothing, plays down differences and highlights similarities to reduce conflict.
Active listening helps the source of a message say what he or she really means.
In **arbitration** a neutral third party issues a binding decision to resolve a dispute.
Avoidance pretends that a conflict doesn't really exist.
A **bargaining zone** is the area between one party's minimum reservation point and the other party's maximum reservation point.
BATNA is the best alternative to a negotiated agreement.
Channel richness is the capacity of a communication channel to effectively carry information.
Collaboration or problem-solving, involves working through conflict differences and solving problems so everyone wins.
Communication is the process of sending and receiving symbols with meanings attached.
A **communication channel** is the medium through which a message is sent.
Communication transparency involves openly sharing honest and complete information about the organisation and workplace affairs.
Competition or authoritative command, uses force, superior skill or domination to 'win' a conflict.
Compromise occurs when each party to the conflict gives up something of value to the other.
Conflict is a disagreement over issues of substance and/or an emotional antagonism.
Conflict resolution is the removal of the substantial and/or emotional reasons for a conflict.
Credible communication earns trust, respect, and integrity in the eyes of others.
Distributive negotiation focuses on 'win–lose' claims made by each party for certain preferred outcomes.
Dysfunctional conflict is destructive and hurts task performance.
In **effective communication** the intended meaning of the source and the perceived meaning of the receiver are identical.
Efficient communication occurs at minimum cost.
Emotional conflicts result from feelings of anger, distrust, dislike, fear and resentment as well as from personality clashes.
Ethnocentrism is the tendency to consider one's culture superior to others.
Feedback is the process of telling someone else how you feel about something that person did or said.
Filtering is the intentional distortion of information to make it appear more favourable to the recipient.
By considering the **frames** of ourselves and others, we may more easily achieve an acceptable outcome to both sides of the negotiation.
Functional conflict is constructive and helps task performance.
Fundamental attribution error overestimates internal factors and underestimates external factors as influences on someone's behaviour.
A **halo effect** occurs when one attribute is used to develop an overall impression of a person or situation.
In **lose–lose conflict** no-one achieves his or her true desires and the underlying reasons for conflict remain unaffected.
In **MBWA** managers spend time outside of their offices to meet and talk with workers at all levels.
In **mediation,** a neutral party tries to help conflicting parties improve communication to resolve their dispute.

A **mixed message** results when words communicate one message as actions, body language or appearance communicate something else.
Negotiation is the process of making joint decisions when the parties involved have different preferences.
Noise is anything that interferes with communication effectiveness.
Non-verbal communication takes place through gestures and body language.
Open-book management is where managers provide employees with essential financial information about their companies.
Perception is the process through which people receive, organise and interpret information from the environment.
Persuasive communication presents a message in a manner that causes the other person to support it.
Principled/integrative negotiation uses a 'win–win' orientation to reach solutions acceptable to each party.
Projection is the assignment of personal attributes to other individuals.
Selective perception is the tendency to define problems from your own point of view.
Self-serving bias explains personal success by internal causes and personal failures by external causes.
A **stereotype** is when attributes commonly associated with a group are assigned to an individual.
Substantive conflicts involve disagreements over goals, resources, rewards, policies, procedures and job assignments.
In **win–lose conflict** one party achieves its desires and the other party does not.
In **win–win conflict** the conflict is resolved to everyone's benefit.

APPLIED ACTIVITIES

1. Briefly describe what a manager would do to be an 'active listener' when communicating with subordinates.
2. What is the difference between the halo effect and selective perception?
3. How do tendencies towards assertiveness and cooperativeness in conflict management result in win–lose, lose–lose and win–win outcomes?
4. What is the difference between substance and relationship goals in negotiation?
5. After being promoted to store manager for a new branch of a large department store chain, Jane Gordon was concerned about communication in the store. Six department heads reported directly to her, and fifty full-time and part-time sales associates reported to them. Given this structure, Jane worried about staying informed about all store operations, not just those coming to her attention as senior manager. What steps might Jane take to establish and maintain an effective system of upward communication in her store?

ENDNOTES

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CHAPTER 15

Motivation and rewards

LEARNING OBJECTIVES

15.1 What is motivation?
15.2 What are the different types of individual needs?
15.3 What are the process theories of motivation and why is self-efficacy so important?
15.4 What role does reinforcement play in motivation?
15.5 What are the trends in motivation and remuneration?

Culture Amp pioneers employee share options

The Australian federal government has developed new legislation aimed at helping small start-up companies attract high-quality recruits and retain existing staff. The new legislation allows companies with less than $50 million turnover to offer employee share option plans (ESOPs) with deferred tax payments for up to 15 years. The start-ups must also be companies that are unlisted and incorporated for less than 10 years.

One of the first companies to take advantage of the new legislation, which came into effect on 1 July 2015, was Melbourne-based software company Culture Amp. Culture Amp has grown substantially since January 2015, more than doubling its staff from 14 to 39 and adding a San Francisco office to its Head Office in Melbourne. Didier Elzinga, Culture Amp's CEO and co-founder, said that, given the rate of growth, the company will be able to provide the scheme as an incentive to employees only at this early stage of development and as the company matures there will be other ways to motivate staff. The concept behind the offering was to allow staff to feel they have an ownership in the firm. Elzinga said that employees feel empowered in the knowledge that they are a part-owner of the company and that can only lead to positives in terms of performance.

In implementing the scheme, Culture Amp consulted Herbert Smith Freehills, a specialist company who had advised the federal government in setting up the ESOPs legislation. Peter Dunne, partner at Herbert Smith Freehills, explained that there is a growing global trend of start-up technology companies offering stock options and that employees are increasingly savvy about what benefits are available to them on top of traditional remuneration, with stock options now a big currency. Dunne said that more and more companies are looking at doing this, with it unlikely to abate any time soon.

Dunne also claims that in Australia, especially, employees need to be educated about the way share option schemes operate. 'It's incumbent on any company that puts this in place — and the Culture Amp guys do this well — to take people through how the plan works so it's seen as a good offering, and not something clouded in mystique and uncertainty'.[1]

QUESTION

What benefits do ESOPs provide to employees? How far can share options substitute for salaries in motivating employees?

Introduction

Why do some people work enthusiastically, often doing more than required to turn out extraordinary performance? Why do others hold back and do the minimum needed to avoid reprimand or termination? How can a team leader or manager build a high-performance work setting? What can be done to ensure that the highest possible performance is achieved by every person in every job on every workday? These questions are, or should be, asked by managers in all work settings. Good answers begin with a true respect for people, with all of their talents and diversity, as the human capital of organisations. The best managers already know this. The work cultures they create invariably reflect an awareness that 'productivity through people' is an essential ingredient of long-term organisational success.

It is easy to say as a leader or in a mission statement that 'people are our most important asset'. But the proof comes with backing such a statement up with actions that support it. This means consistently demonstrating that the organisation is committed to people and that it offers a truly 'motivational' work environment. In this sense, however, human nature is always both fascinating and challenging. The human side of the workplace becomes complicated as the intricacies of human psychology come into play with daily events and situations. At a packaging plant, for example, senior executive Kevin Kelley learned that a supervisor was starting to retire on the job. The man had worked his 20 years and felt it was time to slow down. He was unresponsive to gentle 'nudging' from co-workers and managers. But when Kelley politely confronted him with the facts, saying, 'We need your talent, your knowledge of those machines', the supervisor responded with new vigour in his work and earned the praise of his peers. For his part, Kelley believes in employee involvement and claims that one of the best motivators is information on the company's competitive environment. With information comes the motivation to work hard and keep the company competitive.[2]

15.1 What is motivation?

LEARNING OBJECTIVE 15.1 What is motivation?

This chapter contains many ideas on how managers exercise leadership in ways that encourage other people to work hard in their jobs. The concept of **motivation** is central to this goal. The term is used in management theory to describe forces within the individual that account for the level, direction and persistence of effort expended at work. Simply put, a highly motivated person works hard at a job; an unmotivated person does not. A manager who leads through motivation does so by creating conditions under which other people feel consistently inspired to work hard. A highly motivated workforce is indispensable to the achievement of sustained high-performance results.

Motivation and rewards

A reward is a work outcome of positive value to the individual. A motivational work setting is rich in rewards for people whose performance accomplishments help meet organisational objectives. In management, it is useful to distinguish between two types of rewards, extrinsic and intrinsic. **Extrinsic rewards** are externally administered. They are valued outcomes given to someone by another person, typically a supervisor or higher level manager. Common workplace examples are pay bonuses, promotions, time off, special assignments, office fixtures, awards and verbal praise. In all cases, the motivational stimulus of extrinsic rewards originates outside of the individual; the rewards are made available by another person or by the organisational system.[3]

Intrinsic rewards, on the other hand, are self-administered. They occur 'naturally' as a person performs a task and are, in this sense, built directly into the job itself. The major sources of intrinsic rewards are the feelings of competency, personal development and self-control people experience in their work.[4] In contrast to extrinsic rewards, the motivational stimulus of intrinsic rewards is internal and does not depend on the actions of some other person. Being self-administered, they offer the great advantage and power of 'motivating from within'. An air traffic controller, for example, says 'I don't know of anything I'd rather be doing. I love working the airplanes'.[5] Intrinsic rewards are particularly important for motivating knowledge workers, those who come to work to use their minds rather than engaging solely in repetitive or routine work.[6] Since knowledge work is common to so many professions and occupations these days, learning how to motivate via the use of intrinsic rewards is now more important than ever.

Rewards and performance

Like so many aspects of management, effectively linking rewards and performance is easier said than done. After all, we are dealing with complex human beings who possess individual desires, needs, and dreams, as well as complex organisations that confront constantly changing internal and external environments, challenges and threats. There are many possible ways to creatively link rewards and performance in the contemporary workplace; that is, to establish performance-contingent rewards. To take full advantage of the possibilities, however, managers must respect diversity and individual differences, clearly understand what people want from work and allocate rewards to satisfy the interests of both individuals and the organisation.

Michael Vavakis, vice-president of human resources for Hewlett-Packard Asia–Pacific, suggests that we must move beyond 'one size fits all' approaches to motivation and rewards, and, instead, embrace the 'I'. In this age of personal empowerment and freedom, typified by the rise of weblogs and social networking sites such as Twitter and Facebook, Vavakis argues that 'employees will increasingly become individuals within a team as opposed to simply being part of a team'. HP has sought to creatively respond to this philosophy by customising the rewards that employees may receive in recognition of their efforts. They may choose between cash, gifts, and an array of services in personalising their rewards to suit their individual needs and desires. While it is difficult to personalise an entire rewards system in this way, adapting elements of such systems to individual needs makes good sense if our 'I's' are to be truly satisfied.[7]

CRITICAL ANALYSIS

1. Individuals will have differing needs for intrinsic and extrinsic rewards. The balance between them will also change over time. What can organisational leaders do to best meet this shifting balance?
2. It is often said that you can't motivate people. Instead, you can only create an environment in which they may choose to motivate themselves. Do you agree? Why or why not?

GLOBALISATION

Glaxo exposed in Chinese scandal

In May 2014, and after a 10-month investigation into corruption in the Chinese operations of the British pharmaceutical giant GlaxoSmithKline (GSK), the Chinese government accused the company of 'massive and systemic' corruption. By July 2014 the situation became more fraught for GSK with revelations concerning covert sex tapes. Events began in 2012 when China's State Administration for Industry and Commerce had received anonymous emails claiming corruption at GSK. Then in 2013 a whistleblower emailed GSK executives suggesting that bribes had been paid and records had been altered. One particular email from March 2013 revealed a covertly filmed video of Mark Reilly, Head of GSK's Chinese operations, in a sexual act with his girlfriend. Mark Reilly remonstrated that this was part of a smear campaign against him.

GSK responded by hiring corporate investigator Peter Humphrey, head of Shanghai-based company ChinaWays. GSK withheld knowledge of the accusations of corruption from Peter Humphrey who was asked to investigate the source of the video and the background of Vivian Shi, a previous employee of GSK who had denied being the whisteblower. GSK's engagement in China was important for the company as China's healthcare spending was set to jump from US$357 billion in 2011 to US$1 trillion in 2020.

Initially, Humphrey's investigations did not establish who had planted the video recorder. However, after the investigation GSK shared the accounts of the corruption accusations with Peter Humphrey, and in a sharp twist to the story Peter Humphrey himself was arrested and his American wife Yu Yingzeng was detained. He was later exposed on Chinese television in handcuffs and confessed to the illegal appropriation of personal data, saying that he was 'very regretful' and apologising to the Chinese government.

Furthermore, the Chinese government had shown that corruption was endemic throughout GSK. For example, corrupt practices included the use of internal units to bribe medical staff and officials with money and gifts, paid for with higher priced medicines. The company responded by stating that the matters relating to its Chinese business were 'very difficult and complicated' with some employees being dismissed after an external audit. Overall, however, the company claimed that the 'investigation did not find evidence to substantiate the allegations made in the "whistleblowers emails"'. The investigations into GSK's commercial practices, however, did not end there. Following a report by the UK Serious Fraud Office, US$2.2 billion was wiped off GSK's share value.

More broadly, corruption is rife in China and the Chinese government is keen to make an example, especially of foreign companies and corrupt Communist party officials. As Xinhua, the state-run news agency, states, 'GSK is a warning'. The Chinese healthcare system is susceptible to corrupt practices due to poorly paid doctors and hospitals dependant on the sale of pharmaceutical drugs. However, the GSK case has startled foreign pharmaceutical companies keen to take advantage of the huge emerging market in China.[8]

QUESTION

Do you believe there is a link between corruption and motivation? Why/why not?

15.2 Content theories of motivation

LEARNING OBJECTIVE 15.2 What are the different types of individual needs?

Among the available insights into the complex process of motivation, the *content theories of motivation* help us to understand human needs and how people with different needs may respond to different work situations. The *process theories of motivation* offer additional insights into how people give meaning to rewards and then respond with various work-related behaviours. The *reinforcement theory of motivation* focuses attention on the environment as a major source of rewards and influence on human behaviour. We will examine each of these three broad theories in turn, including examples of each, beginning with content theories.

Most discussions of motivation begin with the concept of individual **needs** — the unfulfilled physiological or psychological desires of an individual. Content theories of motivation use individual needs to explain the behaviours and attitudes of people at work. The basic logic is straightforward. People have needs. They engage in behaviours to obtain extrinsic and intrinsic rewards to satisfy these needs. Although each of the following theories discusses a slightly different set of needs, all agree that needs cause tensions that influence attitudes and behaviours. Good managers and leaders establish conditions in which people are able to satisfy important needs through their work. They also take action to eliminate work obstacles that interfere with the satisfaction of important needs. Salaries and benefits are important sources of need satisfaction. In countries that emphasise individualism, rewards are usually linked closely to individual performance. In countries organised more strongly around groups (family or work), reward systems generally emphasise group and team performance and downplay individual performance.[9]

Hierarchy of needs theory

The theory of human needs developed by Abraham Maslow was introduced in chapter 5 as an important foundation of the history of management thought. According to his hierarchy of human needs, **lower order needs** are physiological, safety and social concerns, and **higher order needs** are esteem and self-actualisation concerns.[10] Whereas lower order needs are desires for social and physical wellbeing, the higher order needs represent a person's desires for psychological development and growth.

Maslow offers two principles to describe how these needs affect human behaviour. The *deficit principle* states that a satisfied need is not a motivator of behaviour. People are expected to act in ways that satisfy deprived needs; that is, needs for which a 'deficit' exists. The *progression principle* states that a need at one level does not become activated until the next lower level need is already satisfied. People are expected to advance step-by-step up the hierarchy in their search for need satisfactions. At the level of self-actualisation, the more these needs are satisfied, the stronger they are supposed to grow. According to Maslow, a person should continue to be motivated by opportunities for self-fulfilment as long as the other needs remain satisfied.

Although research has not verified the strict deficit and progression principles just presented, Maslow's ideas are very helpful for understanding the needs of people at work and for determining what can be done to satisfy them. His theory advises managers to recognise that deprived needs may negatively influence attitudes and behaviours. By the same token, providing opportunities for need satisfaction may have positive motivational consequences. Figure 15.1 illustrates how managers can use Maslow's ideas to better meet the needs of the people with whom they work. Note that the higher order self-actualisation needs are served entirely by intrinsic rewards. The esteem needs are served by both intrinsic and extrinsic rewards. Lower order needs are served solely by extrinsic rewards.

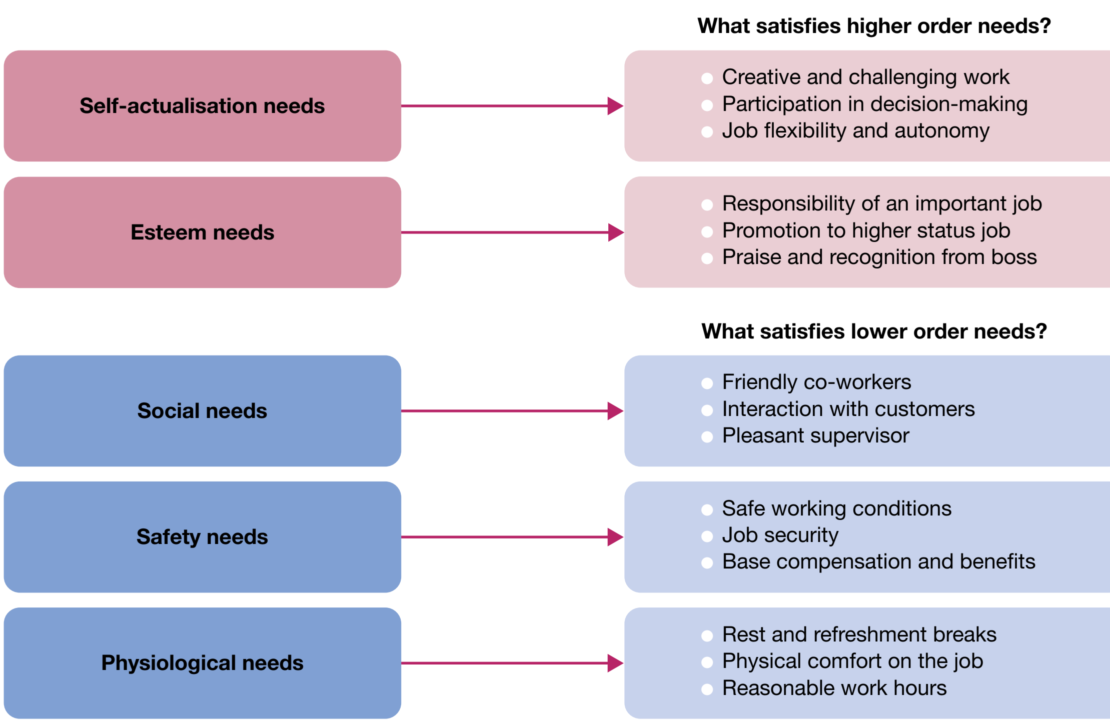

FIGURE 15.1 Opportunities for satisfaction in Maslow's hierarchy of human needs

For some people, satisfying their lower order needs is enough, or needs to be if they are to earn their way. Consider 35-year-old driller Matt Brown as he downs a cold beer at the Rock Inn and Hotel in the mining town of Kalgoorlie, 600 kilometres east of Perth, Western Australia. The average pay for miners is $2113 a week (almost double the average Australian wage), and many earn more than $5000 a week. While he is able to return home every few weeks, the work has cost him his relationship with his girlfriend. In fact, at Kalgoorlie, there are 23 unmarried men in their 40s for each single woman in the town. Says Brown, 'For a lot of us, it's the money. If you want to work, there's a job here for you'. So, for Matt Brown it is the lower order needs — those for financial security and for a roof over his head — that trump self-actualisation and, to a fair degree, also triumph over his social needs, at least as far as the opposite sex is concerned.[11]

ERG theory

One of the most promising efforts to build on Maslow's work is the existence, relatedness and growth (ERG) theory proposed by Clayton Alderfer.[12] This theory collapses Maslow's five needs categories into three. *Existence needs* are desires for physiological and material wellbeing. *Relatedness needs* are desires for satisfying interpersonal relationships. *Growth needs* are desires for continued psychological growth and development. Alderfer's ERG theory also differs from Maslow's theory in other respects. This theory does not assume that lower level needs must be satisfied before higher level needs become activated. According to ERG theory, any or all of these three types of needs can influence individual behaviour at a given time. Alderfer also does not assume that satisfied needs lose their motivational impact. ERG theory thus contains a unique *frustration–regression principle*, according to which an already satisfied lower level need can become reactivated and influence behaviour when a higher level need cannot be satisfied. Alderfer's approach offers an additional means for understanding human needs and their influence on people at work.

Two-factor theory

Another framework for understanding the motivational implications of work environments is the two-factor theory of Frederick Herzberg.[13] The theory was developed from a pattern identified in the responses of almost 4000 people to questions about their work. When questioned about what 'turned them on', they tended to identify things relating to the nature of the job itself. Herzberg calls these **satisfier factors**. When questioned about what 'turned them off', they tended to identify things relating more to the work setting. Herzberg calls these **hygiene factors**.

As shown in figure 15.2, the two-factor theory associates hygiene factors, or sources of job dissatisfaction, with aspects of *job context*. That is, 'dissatisfiers' are considered more likely to be a part of the work setting than of the nature of the work itself. The *hygiene factors* include things such as working conditions, interpersonal relations, organisational policies and administration, technical quality of supervision and base wage or salary. It is important to remember that Herzberg's two-factor theory argues that improving the hygiene factors, such as by adding piped music or implementing a no-smoking policy, can make people less dissatisfied with these aspects of their work. But they would not in themselves contribute to increases in satisfaction. That requires attention to an entirely different set of factors and managerial initiatives.

To really improve motivation, Herzberg advises managers to give proper attention to the satisfier factors. As part of *job content*, the satisfier factors deal with what people actually do in their work. By making improvements in what people are asked to do in their jobs, Herzberg suggests that job satisfaction and performance can be raised. The important *satisfier factors* include such things as a sense of achievement, feelings of recognition, a sense of responsibility, the opportunity for advancement and feelings of personal growth.

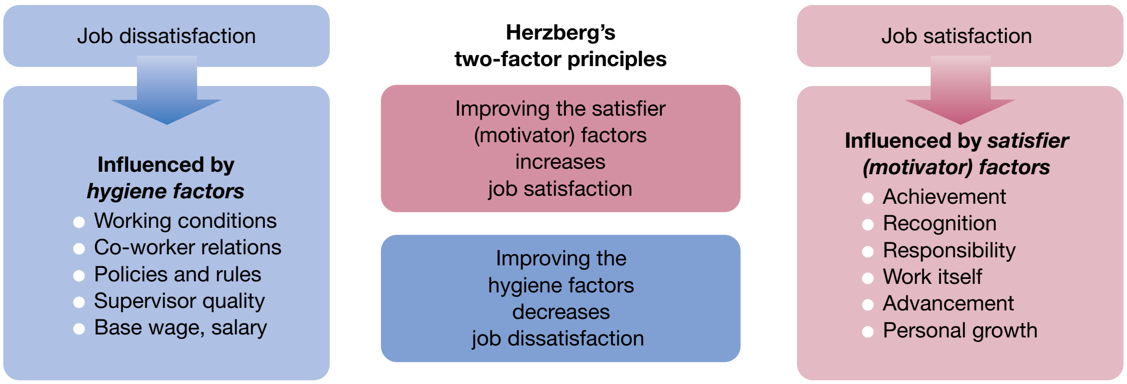

FIGURE 15.2 Herzberg's two-factor theory

The founder of experiences provider RedBalloon, Naomi Simson, seeks to respond to these needs at her Sydney office. To make work more enjoyable for her relatively young employees, the office is designed in an open-plan layout with splashes of red — the colour associated with the company — on the walls. Simson's dog trots around the office, and staff have access to regular further development opportunities. According to Simson, at the core of her approach lies a philosophy that seeks to balance both hygiene factors and satisfiers:

> Employees are the new customers. We honour our people. We listen to them the same way as we do our customers and in so doing they can create amazing experiences for our customers. I know if we're having fun, our customers will have fun . . . We challenge people, we set them big games.[14]

Scholars have criticised Herzberg's theory as being method-bound and difficult to replicate.[15] For his part, Herzberg reports confirming studies in countries located in Europe, Africa, the Middle East and Asia.[16] Other studies indicate that there is, at best, limited support for the theory. One study undertaken in New Zealand, for instance, found that the quality of supervision and interpersonal relationships were significant causes of satisfaction and motivation, but these are hygiene factors (associated with dissatisfaction) in the Herzberg model. Nonetheless, the model remains popular around the world, perhaps because of its simplicity and the intuitive appeal of its concepts.[17] At the very least, the two-factor theory remains a useful reminder that there are two important aspects of all jobs: *job content* — what people do in terms of job tasks; and *job context* — the work setting in which they do it. Herzberg's advice to managers is still timely: always correct poor context to eliminate actual or potential sources of job dissatisfaction, and be sure to build satisfier factors into job content to maximise opportunities for job satisfaction.

The two-factor theory also cautions managers not to expect too much by way of motivational improvements from investments in such things as special office fixtures, attractive lounges for breaks, and even high base salaries. Instead, it focuses on the nature of the job itself and directs attention towards things such as responsibility and opportunity for personal growth and development. These directions are very consistent with themes in the contemporary workplace.

Acquired needs theory

In the late 1940s, David McClelland and his colleagues began experimenting with the Thematic Apperception Test (TAT) as a way of examining human needs. The TAT asks people to view pictures and write stories about what they see. The stories are then content analysed for themes that display individual needs.[18] From this research, McClelland identified three needs that are central to his approach to motivation. **Need for achievement (nAch)** is the desire to do something better or more efficiently, to solve problems, or to master complex tasks. **Need for power (nPower)** is the desire to control other people, to influence their behaviour, or to be responsible for them. **Need for affiliation (nAff)** is the desire to establish and maintain friendly and warm relations with other people.

According to McClelland, people acquire or develop these needs over time as a result of individual life experiences. In addition, he associates each need with a distinct set of work preferences. Managers are encouraged to recognise the strength of each need in themselves and in other people. Attempts can then be made to create work environments responsive to them. People high in the need for achievement, for example, like to put their competencies to work, take moderate risks in competitive situations and are willing to work alone. As a result, the work preferences of people with a high need for achievement include individual responsibility for results, achievable but challenging goals and feedback on performance.

Through his research McClelland concludes that success in top management is not based on a concern for individual achievement alone. It requires broader interests that also relate to the needs for power and affiliation. People high in the need for power are motivated to behave in ways that have a clear impact on other people and events. They enjoy being in control of a situation and being recognised for this responsibility. A person with high need for power prefers work that involves control over other people, has an impact on people and events, and brings public recognition and attention.

Importantly, McClelland distinguishes between two forms of the power need. The *need for 'personal' power* is exploitative and involves manipulation for the pure sake of personal gratification. This type of power need is not successful in management. In contrast, the *need for 'social' power* is the positive face of power. It involves the use of power in a socially responsible way, one that is directed towards group or organisational objectives rather than personal ones. This need for social power is essential to managerial leadership.

People high in the need for affiliation seek companionship, social approval and satisfying interpersonal relationships. They take a special interest in work that involves interpersonal relationships, work that provides for companionship and work that brings social approval. McClelland believes that people very high in the need for affiliation alone may not make the best managers. For these managers, the desire for social approval and friendship may complicate managerial decision-making. There are times when managers and leaders must decide and act in ways that other people may disagree with. To the extent that the need for affiliation interferes with someone's ability to make these decisions, managerial effectiveness will be sacrificed. Thus, the successful executive, in McClelland's view, is likely to possess a high need for social power that is greater than an otherwise strong need for affiliation.

Questions and answers on content theories

Figure 15.3 shows how the human needs identified by Maslow, Alderfer, Herzberg and McClelland compare with one another. Although the terminology varies, there is a lot of common ground. The insights of the theories can and should be used together to add to our understanding of human needs in the workplace. By way of summary, the following questions and answers further clarify the content theories and their managerial implications.[19]

How many different individual needs are there? Research has not yet identified a perfect list of individual needs at work. But, as a manager, you can use the ideas of Maslow, Alderfer, Herzberg and McClelland to better understand the various needs that people may bring with them to the work setting.

Can a work outcome or reward satisfy more than one need? Yes, work outcomes or rewards can satisfy more than one need. Pay is a good example. It is a source of performance feedback for the person with a high need for achievement. It can be a source of personal security for someone with strong existence needs. It can also be used indirectly to obtain things that satisfy social and ego needs.

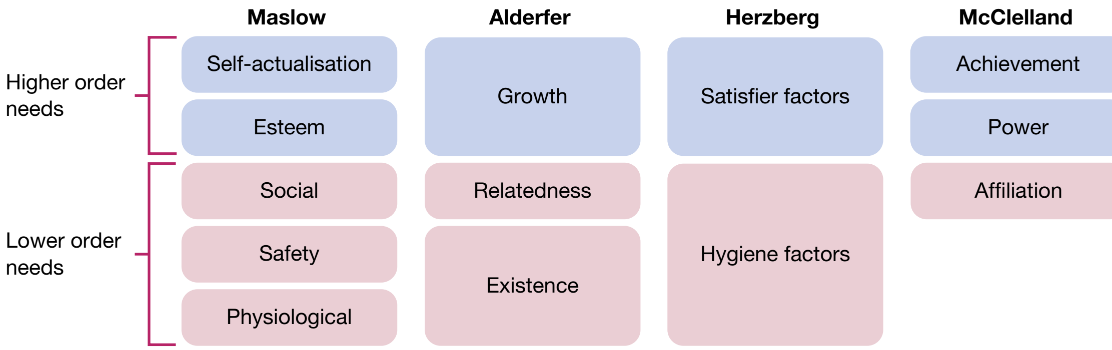

FIGURE 15.3 Comparison of Maslow's, Alderfer's, Herzberg's and McClelland's motivation theories

Is there a hierarchy of needs? Research does not support the precise five-step hierarchy of needs postulated by Maslow. It seems more legitimate to view human needs as operating in a flexible hierarchy, such as the one in Alderfer's ERG theory. However, it is useful to distinguish between the motivational properties of lower order and higher order needs.

How important are the various needs? Research is inconclusive as to the importance of different needs. Individuals vary widely in this regard. For example, money may be an important reward, but studies show that it may not be the main motivator for many employees. A New Zealand study of more than 600 people found that being able to contribute to organisational decisions, learn new things and confront exciting challenges, and having appropriate freedom and autonomy top the list of workplace motivators.[20] People may also value needs differently at different times and at different ages or career stages. A number of writers have argued that the needs of baby boomer employees (those born in the years 1946 to 1964, following World War II) are significantly different from those of generation X and generation Y employees. Baby boomers tend to be loyal and ambitious, value job status and security, and believe in process over outcomes. Generation X (born between 1965 and 1978) tend to be resourceful, individualistic, irreverent and difficult to retain, given their preference for new career challenges and disdain for organisational hierarchies. In a recent survey, they listed job satisfaction, recognition and diversity of work/special projects as the three most important elements they desired in a job. Generation Y (born between 1978 and 1994) are characterised by their information technology savvy and even greater idealism than generation X. Their focus on individuality will make traditional 'one size fits all' approaches to motivation even more outdated than they are today.[21] This is another reason that managers should use the insights of all the content theories to understand the differing needs of people at work.

Are these theories equally relevant across cultures? Significant differences between cultures make the relevance of some elements of the content theories potentially questionable. The concept of achievement, so important to McLelland's acquired needs theory, is almost impossible to translate into languages other than English. People from non-Western cultures may also find difficulty in understanding a highly Westernised concept such as self-actualisation, since other needs may be more important for them. The highly individual notion of self-actualisation may simply be irrelevant for such people, as they place greater value on security, relationships or physical needs.

CRITICAL ANALYSIS

1. It has been argued that the term 'self-actualisation' does not readily translate in the languages of some cultures. Is this a problem?
2. If Herzberg thinks that an employee's base wage and salary is little more than a hygiene factor, why do university students normally rate money as their number one motivator?

15.3 Process theories of motivation

LEARNING OBJECTIVE 15.3 What are the process theories of motivation and why is self-efficacy so important?

Although the details vary, each of the content theories described in the previous section can help managers better understand individual differences and deal positively with workforce diversity. Another set of theories, the process theories, adds to this understanding. The equity, expectancy and goal-setting theories each offer advice and insight on how people actually make choices to work hard or not, based on their individual preferences, the available rewards and possible work outcomes.

Equity theory

The equity theory of motivation is best known through the work of J. Stacy Adams.[22] It is based on the logic of social comparisons and the notion that perceived inequity is a motivating state. That is, when people believe that they have been unfairly treated in comparison to others, they will be motivated to eliminate the discomfort and restore a perceived sense of equity to the situation. The classic example is pay. The equity question is: In comparison with others, how fairly am I being compensated for the work that I do? According to Adams's equity theory, people who perceive that they are being treated unfairly in comparison with others will be motivated to act in ways that reduce the perceived inequity.

Figure 15.4 shows how the equity dynamic works in the form of input-to outcome comparisons. Equity comparisons are especially common whenever managers allocate extrinsic rewards, such as remuneration, benefits, preferred job assignments and work privileges. The comparison points may be co-workers in the group, workers elsewhere in the organisation and even people employed by other organisations. Perceived inequities occur whenever people feel that the rewards received for their work efforts are unfair, given the rewards others appear to be getting for their work efforts. Adams predicts that people will try to deal with perceived negative inequity, the case where the individual feels disadvantaged in comparison with others, by:

- changing their work inputs by putting less effort into their jobs
- changing the rewards received by asking for better treatment
- changing the comparison points to make things seem better
- changing the situation by leaving the job.

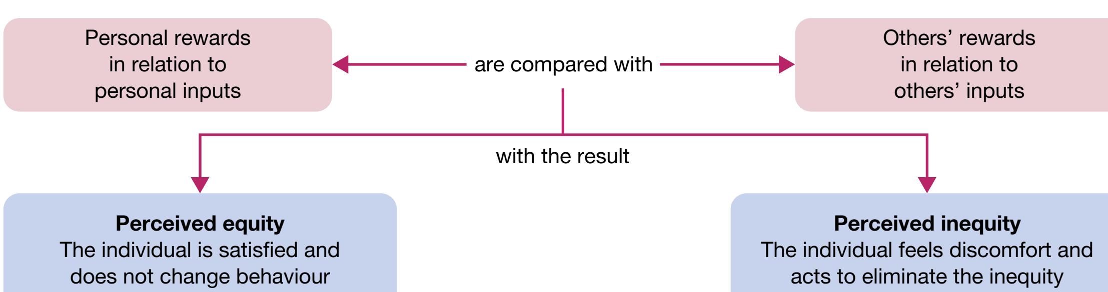

FIGURE 15.4 Equity theory and the role of social comparison

The research on equity theory has largely been accomplished in the laboratory. It is most conclusive with respect to perceived negative inequity. People who feel underpaid, for example, experience a sense of anger. This causes them to try to restore perceived equity to the situation by pursuing one or more of the actions described in the list, such as reducing current work efforts to compensate for the missing rewards or even resigning from the job.[23] By the same token, there is evidence that the equity dynamic occurs among people who feel overpaid. This time the perceived inequity is associated with a sense of guilt. The attempt to restore perceived equity may involve, for example, increasing the quantity or quality of work, taking on more difficult assignments, or working overtime.

Equity theory is another good reminder that people behave according to their perceptions. Here, the issue is the way rewards are perceived by their recipients. What influences individual behaviour is neither the reward's absolute value nor the manager's intentions. Rather, the recipient's perceptions of the reward in its social context determine motivational outcomes. Rewards perceived as equitable should have a positive result on satisfaction and performance; those perceived as inequitable may create dissatisfaction and cause performance problems.

It is every manager's responsibility to ensure that any negative consequences of the equity comparison are avoided, or at least minimised, when rewards are allocated. Informed managers anticipate perceived negative inequities whenever especially visible rewards such as pay or promotions are allocated. Instead of letting equity concerns get out of hand, they carefully communicate the intended value of rewards being given, clarify the performance appraisals on which they are based and suggest appropriate comparison points.

As mentioned earlier, pay is a common source of equity controversies in the workplace, and its significance should never be underestimated. In addition to the general equity issues involved, two additional equity situations deserve special consideration. First is the issue of *gender equity*. Research indicates that average earnings in Australia are around $87 000 for men but only $69 000 for women.[24] Male managers earn around 28.9 per cent more than female managers in equivalent positions.[25] This difference is most evident in occupations traditionally dominated by men, such as the financial and insurance services, but it also includes occupations where females have traditionally held most jobs, such as community and personal service work, and clerical and administrative roles. Second is the issue of *comparable worth*. This is the concept that people doing jobs of similar value based on required education, training and skills (such as nursing and accounting) should receive similar pay. Advocates of comparable worth claim that it corrects historical pay inequities and is a natural extension of the 'equal-pay-for-equal-work' concept. Critics claim that 'similar value' is too difficult to define and that the dramatic restructuring of wage scales would have a negative economic impact on society as a whole.

A growing issue of workplace equity concerns the massive salaries paid to company CEOs and other senior managers. Some employees feel it is simply unfair that their own wage or salary seems so small compared with that of their organisation's leader. This issue will be discussed in more detail later in the chapter.

Expectancy theory

Victor Vroom introduced to the management literature another process theory of work motivation that has made an important contribution.[26] The expectancy theory of motivation asks a central question: What determines the willingness of an individual to work hard at tasks important to the organisation? In response to this question, expectancy theory suggests that 'people will do what they can do when they want to do it'. More specifically, Vroom suggests that the motivation to work depends on the relationships between the *three expectancy factors* depicted in figure 15.5.

- **Expectancy** is a person's belief that working hard will result in a desired level of task performance being achieved (this is sometimes called effort–performance expectancy).
- **Instrumentality** is a person's belief that successful performance will be followed by rewards and other potential outcomes (this is sometimes called performance–outcome expectancy).
- **Valence** is the value a person assigns to the possible rewards and other work-related outcomes.

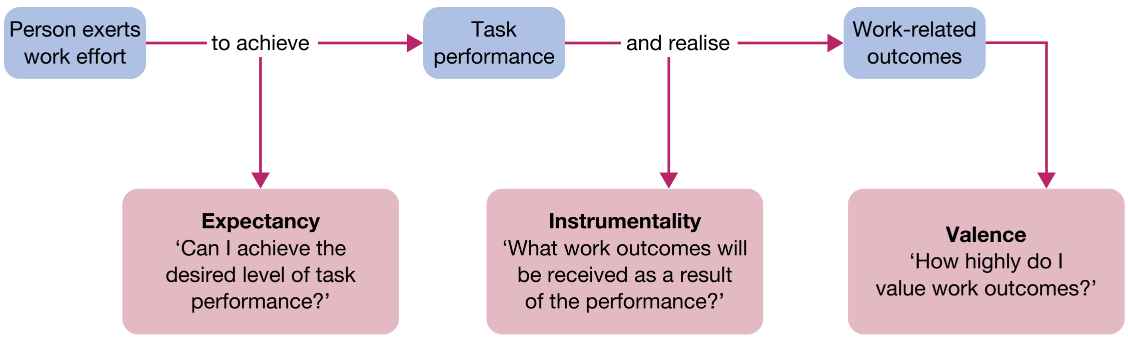

FIGURE 15.5 Elements in the expectancy theory of motivation

Expectancy theory posits that motivation (*M*), expectancy (*E*), instrumentality (*I*) and valence (*V*) are related to one another in a multiplicative fashion: $M = E \times I \times V$. In other words, motivation is determined by expectancy times instrumentality times valence. This multiplier effect among the expectancy factors has important managerial implications. Mathematically speaking, a zero at any location on the right-hand side of the equation (that is, for *E*, *I* or *V*) will result in zero motivation. Managers are thus advised to act in ways that maximise all three components of the equation — expectancy (people must believe that if they try they can perform), instrumentality (people must perceive that high performance will be followed by certain outcomes) and valence (people must value the outcomes). Not one of these factors can be left unattended.

Suppose, for example, that a manager is wondering whether the prospect of earning a promotion will be motivational to a subordinate. A typical assumption is that people will be motivated to work hard to earn a promotion. But is this necessarily true? Expectancy theory predicts that a person's motivation to work hard for a promotion will be low if any one or more of the following three conditions apply. First, *if expectancy is low, motivation will suffer*. The person may feel that he or she cannot achieve the performance level necessary to get promoted. So, why try? Second, *if instrumentality is low, motivation will suffer*. The person may lack confidence that a high level of task performance will result in being promoted. So, why try? Third, *if valence is low, motivation will suffer*. The person may place little value on receiving a promotion. It simply isn't much of a reward. So, once again, why try?

Expectancy theory makes managers aware of such issues. It can help them better understand and respond to different points of view in the workplace. As shown in figure 15.6, the management implications include being willing to work with each individual to maximise his or her expectancies, instrumentalities and valences in ways that support organisational objectives. Stated a bit differently, a manager should work with others to clearly link effort and performance, confirm performance–outcome relationships and reward performance with valued work outcomes.

Goal-setting theory

Another process theory, as described by Edwin Locke, focuses on the motivational properties of task goals.[27] The basic premise of this goal-setting theory is that task goals can be highly motivating — *if* they are properly set and *if* they are well managed. Goals give direction to people in their work. Goals clarify the performance expectations between a supervisor and subordinate, between co-workers, and across subunits in an organisation. Goals establish a frame of reference for task feedback. Goals also provide a foundation for behavioural self-management.[28] In these and related ways, Locke believes goal setting can enhance individual work performance and job satisfaction.

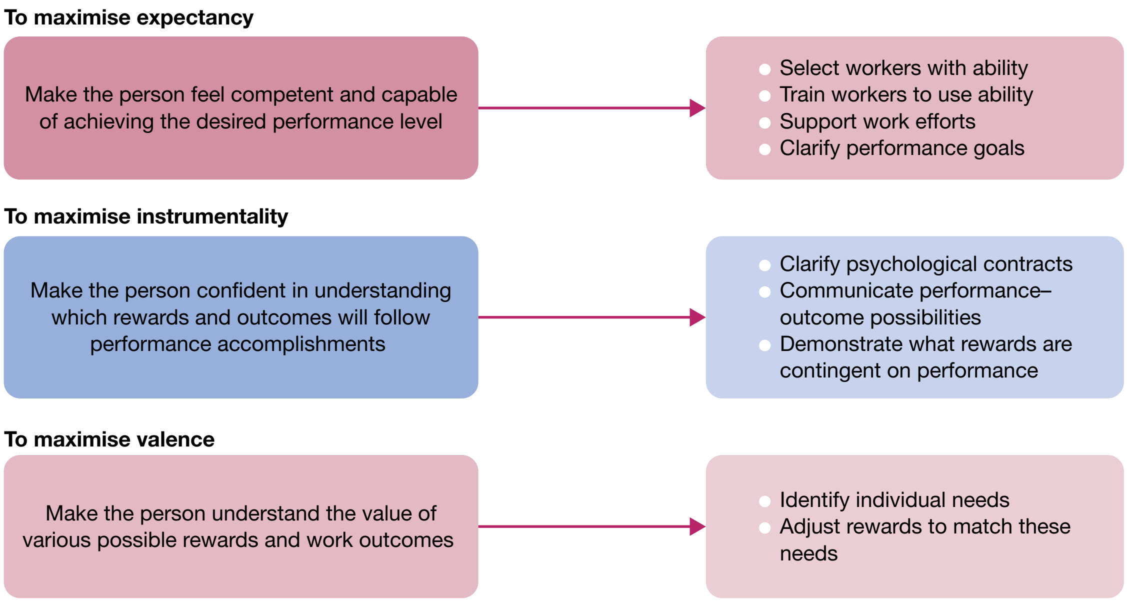

FIGURE 15.6 Managerial implications of expectancy theory

To achieve the motivational benefits of goal setting, research by Locke and his associates indicates that managers and team leaders must work with others to set the right goals in the right ways. The key issues and principles in managing this goal-setting process are described in Manager's notepad 15.1, and 'participation' is an important element. The degree to which the person expected to do the work is involved in setting the performance goals can influence his or her satisfaction and performance. Research indicates that a positive impact is most likely to occur when the participation allows for increased understanding of specific and difficult goals and provides for greater acceptance and commitment to them. Along with participation, the opportunity to receive feedback on goal accomplishment is also essential to motivation.

MANAGER'S NOTEPAD 15.1

How to make goal setting work for you

- *Set specific goals.* They lead to higher performance than generally stated ones, such as 'Do your best'.
- *Set challenging goals*. When viewed as realistic and attainable, more difficult goals lead to higher performance than do easier goals.
- *Build goal acceptance and commitment*. People work harder for goals they accept and believe in; they resist goals forced on them.
- *Clarify goal priorities*. Make sure that expectations are clear as to which goals should be accomplished first and why.
- *Provide feedback on goal accomplishment*. Make sure that people know how well they are doing in respect to goal accomplishment.
- *Reward goal accomplishment*. Don't let positive accomplishments pass unnoticed; reward people for doing what they set out to do.

The concept of *management by objectives* (MBO) is a good illustration of a participative approach to joint goal setting by supervisors and subordinates. The MBO process helps to unlock and apply the motivational power of goal-setting theory. In addition to MBO, managers should be aware of the participation options. It may not always be possible to allow participation when selecting exactly which goals need to be pursued, but it may be possible to allow participation in the decisions about how to best pursue them. Furthermore, the constraints of time and other factors operating in some situations may not allow for participation. In these settings, research suggests that workers will respond positively to externally imposed goals if the supervisors assigning them are trusted and if the workers believe they will be adequately supported in their attempts to achieve them.

Self-efficacy theory

Closely related to both the expectancy and goal-setting approaches to motivation is self-efficacy theory, also referred to as social learning theory. Based on the work of psychologist Albert Bandura, the notion of **self-efficacy** refers to a person's belief that she or he is capable of performing a task.[29] You can think of self-efficacy using terms such as confidence, competence and ability. From a manager's perspective, the major insight of self-efficacy theory is that anything done to boost feelings of confidence, competence and ability among people at work is likely to pay off with increased levels of motivation.

Self-efficacy dynamics

The essence of self-efficacy theory is that, when people believe themselves to be capable, they will be more motivated to work hard at a task. But self-efficacy is not an undifferentiated feeling of confidence, according to Bandura. Rather, it is a capability-specific belief in one's competency to perform a task.

The link between Bandura's ideas, elements of Vroom's expectancy theory, and Locke's goal-setting theory should be clear. With respect to Vroom, a person with higher self-efficacy will have higher expectancy that he or she can achieve a high level of task performance; this increases motivation. With respect to Locke, self-efficacy links with a person's willingness to set challenging performance goals. In both respects, managers who help create feelings of self-efficacy in others should be boosting their motivation to work.

Enhancing self-efficacy

According to Bandura's work, there are four major ways in which self-efficacy can be enhanced.[30] First is enactive mastery — when a person gains confidence through positive experience. The more you work at a task, so to speak, the more your experience builds and the more confident you become at doing it. Second is vicarious modelling — basically, learning by observing others. When someone else is good at a task and we are able to observe how they do it, we gain confidence in being able to do it ourselves. Third is verbal persuasion — when someone tells us or encourages us that we can perform the task. Hearing others praise our efforts and link those efforts with performance successes is often very motivational. Fourth is emotional arousal — when we are highly stimulated or energised to perform well in a situation. A good analogy for arousal is how athletes get 'psyched up' and highly motivated to perform in key competitions.

Positive psychological capital

A concept known as PsyCap, or psychological capital, is defined by Fred Luthans and his colleagues as 'an individual's positive psychological state of development'. This positive state is composed of (1) high personal confidence and self-efficacy in working on a task, (2) optimism about present and future success, (3) hope and perseverance in pursuing goals and adjusting them as needed and (4) resiliency in responding to setbacks and problems.

A briefings report from the Gallup Leadership Institute points out that psychological capital deals with 'who you are' and 'who you are becoming'. They contrast this with human capital ('what you know') and social capital ('who you know'). It also summarises studies that address the measurement of PsyCap, and the impact of PsyCap on work attitudes and performance.

In samples of management students and managers, researchers report success with a training intervention designed to raise the level of PsyCap for participants. When performance measures were taken among the manager samples, increases in performance were associated with the PsyCap gains. In comparing the costs of the training intervention with the performance gains, the researchers calculated the return on investment as 270 per cent. Overall conclusions for this stream of research are that the measurement of PsyCap is reliable and valid, and that PsyCap is positively related to individual performance and satisfaction.[31]

CRITICAL ANALYSIS

1. Many organisations formally advise employees not to divulge details of their remuneration with their co-workers. In terms of equity theory, is this effective advice?
2. Self-efficacy appears to be a very Western-oriented concept, focusing as it does on the individual. Is it possible that more collectivist and group-orientated cultures have a similar concept that focuses on groups? Undertake some research to determine if this is so.

15.4 Reinforcement theory of motivation

LEARNING OBJECTIVE 15.4 What role does reinforcement play in motivation?

The content and process theories described so far use cognitive explanations of behaviour. They are concerned with explaining 'why' people do things in terms of satisfying needs, resolving felt inequities, and/or pursuing positive expectancies and task goals. Reinforcement theory, in contrast, views human behaviour as determined by its environmental consequences. Instead of looking within the individual to explain motivation and behaviour, it focuses on the external environment and the consequences it holds for the individual. The basic premises of the theory are based on what E. L. Thorndike called the **law of effect** — behaviour that results in a pleasant outcome is likely to be repeated; behaviour that results in an unpleasant outcome is not likely to be repeated.[32]

Reinforcement strategies

Psychologist B. F. Skinner popularised the concept of **operant conditioning** as the process of applying the law of effect to control behaviour by manipulating its consequences.[33] You may think of operant conditioning as learning by reinforcement. In management the term is often discussed with respect to **organisational behaviour modification (OB Mod)**, the application of operant conditioning techniques to influence human behaviour in the workplace.[34] The goal of OB Mod is to use reinforcement principles to systematically reinforce desirable work behaviour and discourage undesirable work behaviour (see figure 15.7).

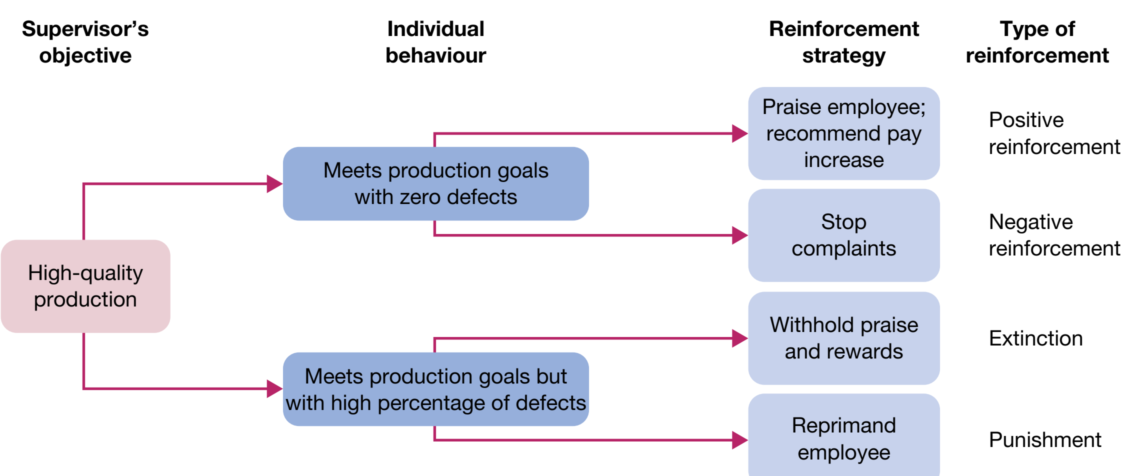

FIGURE 15.7 Applying reinforcement strategies: case of total quality management

Four strategies of reinforcement are used in operant conditioning. **Positive reinforcement** strengthens or increases the frequency of desirable behaviour by making a pleasant consequence contingent on its occurrence. For example, a manager nods to express approval to someone who makes a useful comment during a staff meeting. **Negative reinforcement** increases the frequency of or strengthens desirable behaviour by making the avoidance of an unpleasant consequence contingent on its occurrence. For example, a manager who has been nagging a worker every day about tardiness does not nag when the worker comes to work on time one day. **Punishment** decreases the frequency of or eliminates an undesirable behaviour by making an unpleasant consequence contingent on its occurrence. For example, a manager issues a written reprimand to an employee who reports late for work one day. **Extinction** decreases the frequency of or eliminates an undesirable behaviour by making the removal of a pleasant consequence contingent on its occurrence. For example, a manager observes that a disruptive employee is receiving social approval from co-workers; the manager counsels co-workers to stop giving this approval.

An example of how these four reinforcement strategies can be applied in management is shown in figure 15.7. The supervisor's goal in the example is to improve work quality as part of a total quality management program. Note how the supervisor can use each of the strategies to influence continuous improvement practices among employees. Note, too, that the strategies of both positive and negative reinforcement strengthen desirable behaviour when it occurs. The punishment and extinction strategies weaken or eliminate undesirable behaviours.

Positive reinforcement

Among the reinforcement strategies, positive reinforcement deserves special attention. It should be a central part of any manager's motivational strategy. The multilevel marketing sector is one of the best examples of the successful use of this approach. Amway has long provided recognition pins for its distributors as they reach new levels of success, and companies such as Nutrimetics and Tupperware provide company cars to their best performers.

All managers would do well to understand two important laws of positive reinforcement. First, the *law of contingent reinforcement* states: For a reward to have maximum reinforcing value, it must be delivered only if the desired behaviour is exhibited. Second, the *law of immediate reinforcement* states: The more immediate the delivery of a reward after the occurrence of a desirable behaviour, the greater the reinforcing value of the reward. Managers should use these laws to full advantage in the everyday pursuit of the benefits of positive reinforcement.

The power of positive reinforcement can be mobilised through a process known as **shaping**. This is the creation of a new behaviour by the positive reinforcement of successive approximations to it. The timing of positive reinforcement can also make a difference in its impact. A *continuous reinforcement schedule* administers a reward each time a desired behaviour occurs. An *intermittent reinforcement schedule* rewards behaviour only periodically. In general, a manager can expect that continuous reinforcement will elicit a desired behaviour more quickly than will intermittent reinforcement. Also, behaviour acquired under an intermittent schedule will be more permanent than will behaviour acquired under a continuous schedule. One way to succeed with a shaping strategy, for example, is to give reinforcement on a continuous basis until the desired behaviour is achieved. Then an intermittent schedule can be used to maintain the behaviour at the new level.

DIVERSITY

BHP Billiton: creating opportunities for diversity and inclusiveness

PwC's 2015 Global CEO Survey identifies that Australian CEOs are strongly involved in developing workforce diversity practices and are ahead of developments worldwide. The survey shows that 86 per cent of Australian companies have diversity and inclusiveness strategies, with 92 per cent of their CEOs believing these strategies have improved the financial bottom line. Eighty three per cent of Australian respondents feel that such strategies have improved their brand and corporate reputation. Luke Sayers, PwC Australia's CEO, sheds more light on current workplace diversity practices in Australia by stating 'The philosophical argument about the benefits of a more diverse workforce has been won. What we now need is both genuine improvement in area's like gender, and also a more sophisticated understanding of diversity, one that extends to diversity of cultural experience and skills'. The PwC report goes further, citing that although over half of all graduates are women, only 26 per cent of senior managers and 17 per cent of CEOs are women.

One company that recognises the importance of women in the Australian workplace is the Australian mining giant BHP Billiton. Mike Fraser, BHP Billiton's Human Resource President, describes how they 'are addressing the historical gender imbalance we have seen in our industry by having a particular emphasis on increasing female representation in key operational roles'. In presenting the keynote address at the inaugural Women in Resources Awards in Brisbane in September 2014, Fraser used the context of BHP Billiton's four finalists, including The Exceptional Women in Australian Resources Award to discuss the way diverse workforces improve performance, safety and production in resource companies. Critically, he stated that 'We have found that where our workplaces are more inclusive and collaborative, we achieve superior performance results. Safety results are better, production is more stable, employee engagement is higher and turnover is lower'. He added that 'diversity was not just about gender, but includes different aspects of individual uniqueness including thought, experience, age, disability, nationality, ethnicity, orientation, gender and perspective'.

Mike Fraser points to the particular example of Queensland operations at Daunia and Caval Ridge operations, where a comprehensive commitment to narrowing the gender gap has been made:

> From the start of development of these projects seven years ago, BHP Billiton Mitsubishi Alliance (BMA) committed to create a diverse workforce at Daunia and Caval Ridge with at least 30 per cent female and 5 per cent Indigenous employees. The operations offered training for female employees new to the industry and interested in taking on more responsibility. We are now on track to achieve this goal by 2015 with female employees now making up 25 per cent at Daunia and 20 per cent at Caval Ridge.[35]

QUESTIONS

1. What are the key drivers at BHP Billiton that have allowed for women to be better represented in the workforce?
2. How might Australian corporations benefit on a global stage from their strong workforce diversity programs?

Punishment

As a reinforcement strategy, punishment attempts to eliminate undesirable behaviour by making an unpleasant consequence the result of its occurrence. To punish an employee, for example, a manager may deny the individual a valued reward, such as verbal praise or merit pay, or administer an unpleasant outcome, such as a verbal reprimand or pay reduction. Like positive reinforcement, punishment can be done poorly or it can be done well. Unfortunately, it may often be done poorly. Remember, too, that punishment can be combined with positive reinforcement.

Ethical issues in reinforcement

The use of OB Mod and reinforcement techniques in work settings has produced many success stories of improved safety, decreased absenteeism and tardiness, and increased productivity.[36] But there are also debates over both the results and the ethics of controlling human behaviour. Opponents are concerned that use of operant conditioning principles ignores the individuality of people, restricts their freedom of choice and ignores the fact that people can be motivated by things other than externally administered rewards. Advocates, however, attack these criticisms. They agree that reinforcement involves the control of behaviour, but they argue that control is part of every manager's job. The real question may not be whether it is ethical to control behaviour but whether it is ethical not to control behaviour well enough so that the goals of both the organisation and the individual are well served. Even as research continues, the value of reinforcement techniques seems confirmed. This is especially true when they are combined with the insights of the other motivation theories discussed in this chapter.[37]

CRITICAL ANALYSIS

1. Provide your own example to demonstrate the difference between negative reinforcement and extinction.
2. Some people think that encouraging others is nice but doesn't make up for an increase in salary or a promotion. What do you think?

MANAGER'S NOTEPAD 15.2

The ten foundations of motivation

Moving widely across our theories of motivation, Shawn Doyle argues that managers and leaders should keep the following tips in mind:

- provide a purpose for what people do
- encourage people to be passionate about what they do
- provide continuous opportunities for learning and development
- both have a mentor and act as a mentor
- understand what motivates your people and act on this
- reward their people appropriately for their achievements
- keep the long-term big picture in mind while managing a day at a time
- never allow complacency — continuous improvement is required
- regularly evaluate progress
- aim for balance across life's elements.[38]

15.5 Motivation and remuneration

LEARNING OBJECTIVE 15.5 What are the trends in motivation and remuneration?

By way of summary, figure 15.8 offers an integrative view of motivation that takes advantage of insights from each of the theoretical perspectives discussed so far. It shows how they can be combined into one model of motivational dynamics in the workplace. In this figure motivation leads to effort that, when combined with appropriate individual abilities and organisational support, leads to performance. The motivational impact of any rewards received for this performance depends on equity and reinforcement considerations. Ultimately, satisfaction with rewards should lead to increased motivation to work hard in the future.

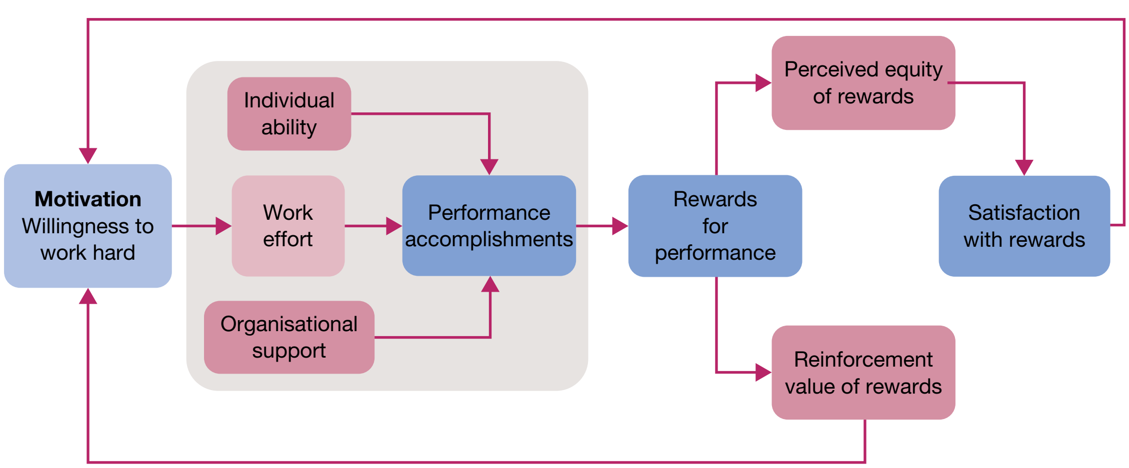

FIGURE 15.8 An integrated approach to motivational dynamics

Of the motivation issues that can be discussed within this framework, perhaps none receives as much attention as the special case of remuneration.[39] There are many advantages, both individual and organisational, to be gained from a truly motivational remuneration scheme. In general, the success of any such system lies in its ability to apply the alternative motivation theories in positive and credible ways. In practice, however, the link between motivation and remuneration is usually very complicated.

Pay for performance

The notion of paying people for their performance is consistent with the equity, expectancy and reinforcement theories.[40] Formally defined, **merit pay** is a remuneration system that awards pay increases in proportion to individual performance contributions. By allocating pay increases in this way, managers are attempting to recognise and positively reinforce high performers and encourage them to work hard for similar accomplishments in the future. They are also attempting to remind low performers of their lack of achievement and send a signal that they must do better in the future.

The concept of merit pay is a logical extension of the motivation theories. In principle, at least, it makes sense to reward people in proportion to their work contributions. Because of the difficulty of actually linking pay with performance in a truly contingent and equitable manner, however, merit pay does not always achieve the desired results. A successful merit pay system must have a solid foundation in agreed-upon and well defined 'performance measures'. Any weakness in the performance appraisal methods can undermine a merit pay system, and lack of consistency in applying merit pay at all levels of the organisation can jeopardise its credibility. There is concern today, for example, that CEO pay isn't adequately linked to performance.

Magazines such as BRW and Fortune regularly report on the issue of CEO remuneration, and it has been the subject of a Productivity Commission report in Australia, which revealed that the average annual remuneration for CEOs of the top 20 companies in Australia is almost $10 million — or 150 times average earnings.[41] The impression of some is that CEOs are well rewarded no matter how well the company performs. For example, after recording a $291 million annual loss, failed telecommunications company One.Tel paid directors Jodee Rich and Brad Keeling a $6.9 million bonus on top of their $500 000 salaries. The bonus was based on the company's sharemarket value at the time, rather than on profits. One.Tel appears to have been struggling during the period in which the bonuses were paid and the company collapsed just months later. When One.Tel's investors, customers, and the general public claimed mismanagement, Rich and Keeling offered to return their bonuses. Their pain may not have been too great, however, since they had earlier shared more than $50 million when James Packer and Lachlan Murdoch bought into the company.[42]

Contrast the One.Tel example with a recent decision made by Nicholas Moore, CEO of the Macquarie Group. After a 52 per cent decline in profits saw Macquarie's net profit decline for the first time in 17 years, Moore gave himself a 99 per cent pay cut, reducing his annual salary from $26.7 million to $290 756. Other Macquarie executives also had their remuneration slashed, with Moore noting that the savage reductions were part of the bank's broader remuneration structure, which directly linked payment to profit. 'My pay-packet and the pay-packets of all Macquarie Group executives are based on the underlying profitability of the organisation', he commented.[43]

Phil Chronican, former CEO of ANZ Bank, claimed that public concern about the very high salaries paid to executives in the finance and banking sectors was misplaced and an example of 'bank bashing'. According to Chronican, executives like himself are subject to potentially short careers at the highest level, and are paid so well because of the risks that they take, the returns they make for shareholders, their heavy responsibility for the welfare of their employees and their obligation to ensure that customer service is of the highest possible quality.[44] On the other hand, business writer David James argues that the salaries paid to banking executives both before and after the global financial crisis reveal a very weak link, if any, between remuneration and organisational performance. Many executives have continued to receive massive salaries and enormous bonuses whether the fortunes of their companies have risen or fallen. James quotes consultancy director Martin Lawrence, whose view is that the argument linking the level of executive remuneration to the size of the organisations being led is, at best, questionable. Says Lawrence, 'You could actually argue that it is easier to run those companies (since) the risk is not a real risk, not in the way ordinary people understand it. In public companies (that is, companies listed on the share market), you become spectacularly wealthy or wealthy; they are the choices'.[45]

Consider also a radical performance-related pay scheme used at one of Australia's largest companies, Wesfarmers. While the company's managing director, Richard Goyder, earned \$6.9 million in 2010, the head of Coles Supermarkets, a company owned by Wesfarmers, received \$15.6 million.[46] The reason for this seems to be that Goyder and his board of directors would rather pay a 'star performer' as much as they need to in order to grow the entire organisation. One would think that Goyder would benefit from this strategy in the longer term via an increase in the value of the many shares that they would hold in the company.

One trend among the efforts to improve pay for performance systems is the use of 'double hurdles'. One hurdle may continue to be traditional performance targets such as defined goals for new sales, customer retention or cost control. An increasingly common second hurdle compares the company's total shareholder return with that of the overall stockmarket or a select group of comparison companies. This ensures that executives are not rewarded simply for achieving targets that other companies may also be achieving in a growing market or a buoyant economy, but for guiding the company to better performance relative to the market and competitors.[47]

Not everyone believes in merit pay. John Whitney, author of *The Trust Factor*, suggests that pay for performance may not work very well. While pointing out that market forces should determine base pay, Whitney believes that organisations can benefit by making the annual merit increase an equal percentage of base salaries from one employee to the next. This communicates a universal sense of importance and helps to avoid frustrations and complaints when merit increases are tied to performance differences. Says Whitney: 'Quibbling over whether someone should get a 4.7 per cent raise or 5.1 per cent is a colossal waste of time'.[48]

GLOBALISATION

LinkedIn goes local in Sydney

Although all human beings yearn for the same fundamental workplace benefits such as good pay, time off work and affiliation with others, organisations operating at a global level face the complex task of motivating employees with a diverse set of backgrounds, cultures and expectations.[49] LinkedIn recognised this challenge in redesigning their Sydney office in 2015.[50]

LinkedIn, the world's leading web-based professional network, originally employed Cliff Rosenberg in 2009 to establish a Sydney office after building a comprehensive Australian membership. Jeff Weiner, LinkedIn's CEO said at the time: 'Establishing our first office in Australia allows us to accelerate our efforts to deliver the best user experience and expand our local partnerships'.[51]

By 2015, Rosenberg had become the managing director of LinkedIn for South-East Asia, Australia and New Zealand, and described how the global giant maintained its emphasis on local development through the redesign of its Sydney office. The focus was to create a 'global office with a local feel'. The 'local feel' was designed to motivate staff by providing an Australian theme, such as kangaroo images on the walls and boardrooms named Strewth and Ozzy. Further changes also included a games arcade, cinema, indoor barbeque and smoothie station.[52] And it is this 'feel' factor the new workplace environment provides that is critical in relationship cultures where employees may be concerned about how they are looked after.[53]

QUESTION

How can global corporations benefit by developing cultural themes in the local setting of their operations? How might managers deliver global goals at local levels?

Incentive remuneration systems

Today, employees at all levels in more and more organisations are benefiting from various special incentive remuneration systems. Examples include pay for knowledge, bonus pay plans, profit-sharing plans, gain-sharing plans and employee share ownership plans.[54] Some companies reward employees with overseas trips. For example, a Taiwanese insurance company rewarded 2000 of its best insurance agents with a three-day visit to Australia. The agents patted Australian animals brought to the Sydney Opera House, visited Koala Park, undertook a Bridge Climb and enjoyed the music of a 60-piece marching band.[55]

As you consider the descriptions that follow, however, remember that any incentive remuneration system will work only as well as its implementation. The well-known remuneration scholar and consultant Edward Lawler, for example, tells of this experience.[56] While consulting for a furniture manufacturer, he became convinced that a 'gain sharing' incentive plan would be helpful and thus advised the factory manager on starting one. The manager proceeded only reluctantly, claiming, 'These guys are already paid enough . . . they should be happy to have a job'. Says Lawler: 'Although the program was somewhat successful, the manager's continuing tendency to call it an "employee bribe program" definitely limited its success'.

Pay for knowledge

In addition to paying for performance, some organisations now emphasise paying for knowledge. A concept called **skills-based pay**, for example, pays workers according to the number of job-relevant skills they master. Many government departments and agencies reward their people in this way. The government of the Australian Capital Territory, for instance, has developed a framework that incorporates more than 200 individual competency units, 21 qualifications and an overall assessment regime that seeks to link rewards to the skills, competencies and qualifications of its employees.[57] Skills-based pay systems are common in self-managing teams where part of the 'self-management' includes responsibilities for the training and certification of co-workers in job skills.

Bonus pay

Bonus pay plans provide one-off or lump-sum payments to employees based on the accomplishment of specific performance targets or some other extraordinary contribution, such as an idea for work improvement. They typically do not increase base salary or wages. Bonuses have been most common at the executive level, but they are now being used more extensively. Bonuses are not always inevitable, and are raised or cut in line with company performance.

Profit sharing

Profit-sharing plans distribute to some or all employees a proportion of profits earned by the organisation during a stated performance period. The exact amount typically varies according to the level of profits and each person's base remuneration and/or length of service. Profit-sharing schemes have long been common in professions such as accounting and law and are becoming increasingly common elsewhere.

Gain sharing

Gain-sharing plans extend the profit-sharing concept by allowing groups of employees to share in any savings or 'gains' realised through their efforts to reduce costs and increase productivity. Specific formulas are used to calculate both the performance contributions and gain-sharing awards. The classic example is the Scanlon plan, which usually results in 75 per cent of gains being distributed to workers and 25 per cent being kept by the company. Recognising that each work situation is different, there is a general move away from predefined formulas to custom-designed approaches that reinforce the link between pay and performance for specific work groups.[58]

Employee share ownership

Employee share ownership plans (ESOPs) involve employees in ownership through the purchase of shares in the companies that employ them. Whereas formal ESOPs are often used as financing schemes to save jobs and prevent business closures, share ownership by employees is an important performance incentive. It can be motivating to have an ownership share in your place of employment. An approach to employee ownership through share options gives the option holder the right to buy shares at a future date at a fixed price. This links ownership directly with a performance incentive, since employees holding share options presumably are motivated to work hard to raise the price of the company's shares. When the price has risen they can exercise their option and buy the shares at a discount, thus realising a financial gain. Share options are most common in senior executive remuneration, but their use is spreading to include lower level employees.

Many of the most admired companies in the Asia–Pacific region offer share options to their workforces. At Flight Centre, more than 50 per cent of all employees bought shares in the company when they were initially offered during 1995. By early 2016, the share price was trading above $35, a significant increase from its listing price of 75 cents. One of the issues to be considered with share options, however, relates to their risk. If a company's shares perform poorly, the options it is offering as a performance incentive are worth less; their motivational value is largely eliminated. When the technology companies experienced a downturn in the stockmarket, for example, many employees were disappointed with incentive pay that was tied to share options. Many firms experienced turnover problems as talented employees resigned to pursue other and more promising opportunities. As a result, there was a resurgence of interest in adding cash bonuses to the incentive remuneration packages. In an industry where human capital is paramount for success, the most progressive employers responded.

This discussion leaves us with the question of whether money motivates more than other incentives such as job satisfaction or the opportunity to develop meaningful relationships at work. There is no final answer. There are as many ways of designing motivation, incentive and reward systems as there are individuals who work under such systems. Dexter Dunphy and Tyrone Pitsis of the University of Technology, Sydney, argue that greed is the most common of the 'seven deadly sins' in Western organisations. Effective managers, they suggest, recognise that they do not make decisions about rewards and incentives in a vacuum. Such decisions should reflect the broader responsibilities of managers to their stakeholders and environments. Considered in this light, our traditional rewards systems are potentially very blunt instruments for creating high-performance organisations and corporate cultures. If we place material rewards at the forefront of employee thinking, we should not be surprised if employee behaviour therefore focuses on what is to be rewarded rather than what is to be desired. For these reasons, becoming the kind of manager who can develop and refine an approach to motivation that reflects the complexity of individuals and organisations is one of the most significant challenges you will face in your career.

COUNTERPOINT

Can extra benefits compensate for money?

Mercer is one of the world's leaders in talent, health, retirement and investments. Their 2014 Australian Benefit's Review found that organisations with effective employee benefit plans reduce their staff turnover to 12 per cent from the general rate of 15 per cent. Their report, based on the findings from 353 organisations, showed that companies with such employee benefit plans provide more equality in the workplace, improved work–life balance and associate benefit with anticipated business outcomes.

Head of Talent for Mercer's Pacific business, Garry Adams, states 'On one level it's simple, when employers give more they get more, but for real business impact, employers need to establish meaningful links between innovative benefits and the desired behaviour of their workers . . . Today's workforce holds the attitudes, values, and goals of four generations, which presents a massive challenge for employers to engage and retain workers to achieve business success.' He goes on to say that way are already seeing a shift away from stock standard competitive benefits and that the trend will continue. The report reveals that a range of benefits that companies are starting to offer include the development of sustainable commute benefits, such a $10 for employees who arrive to work any way other than solo commute, reducing demand for car parks, decreasing the environmental footprint and boosting the health of employees if they get to work by walking or cycling. Other schemes include mental health days, flexible workplaces and earlier finishing on summer days.[59]

QUESTION

Why may multiple benefit programs be effective in reducing staff turnover?

CRITICAL ANALYSIS

1. In order to survive in a very challenging industry Sydney's Belvoir St Theatre operated on a parity pay system between 1984 and 2010. From the general manager to the box-office staff, every employee was paid the same amount.[60] Identify two or three advantages and disadvantages of this rewards system.
2. The average pay of CEOs among leading publicly listed companies increased from 18 times the average adult weekly earnings of all employees to more than 63 times average earnings over a recent 15-year period.[61] Why might this be cause for concern among the broader community?
3. Multinational companies usually keep salaries at similar levels between countries to ensure consistency. On the other hand, the buying power of a dollar and the cost of living can be very different from one country to another. What can multinational companies do to eliminate such inequities?

SUMMARY

15.1 What is motivation?

- Motivation involves the level, direction and persistence of effort expended at work; simply put, a highly motivated person works hard.
- Extrinsic rewards are given by another person; intrinsic rewards derive naturally from the work itself.
- To maximise their motivational impact, rewards should be allocated in ways that respond to both individual and organisational needs.
- The three major types of motivation theories are the content, process and reinforcement theories.

15.2 What are the different types of individual needs?

- Maslow's hierarchy of human needs suggests a progression from lower order physiological, safety and social needs to higher order ego and self-actualisation needs.
- Alderfer's ERG theory identifies existence, relatedness and growth needs.
- Herzberg's two-factor theory points out the importance of both job content and job context factors in satisfying human needs.
- McClelland's acquired needs theory identifies the needs for achievement, affiliation and power, all of which may influence what a person desires from work.
- Managers should respect individual differences and diversity to create motivating work environments.

15.3 What are the process theories of motivation and why is self-efficacy so important?

- Adams's equity theory recognises that social comparisons take place when rewards are distributed in the workplace.
- People who feel unfairly treated are motivated to act in ways that reduce the sense of inequity; perceived negative inequity may result in someone working less hard in the future.
- Vroom's expectancy theory states: Motivation = Expectancy × Instrumentality × Valence.
- Expectancy theory encourages managers to make sure that any rewards offered for motivational purposes are both achievable and individually valued.
- Locke's goal-setting theory emphasises the motivational power of goals; people tend to be highly motivated when task goals are specific rather than ambiguous, difficult but achievable and set through participatory means.
- Self-efficacy has become an increasingly important concept for managers and leaders because it encompasses the contemporary trend towards individuals focusing on their own self-confidence, competence and mastery. By acknowledging the importance of self-efficacy, managers can create work environments in which individuals will choose to motivate themselves.
- By modelling expected behaviours, giving employees the chance to learn new skills in safe environments, encouraging their people, and adding an emotional dimension to their communications, organisational leaders can encourage the development of an individual's feelings of self-efficacy.

15.4 What role does reinforcement play in motivation?

- Reinforcement theory recognises that human behaviour is influenced by its environmental consequences.
- The law of effect states that behaviour followed by a pleasant consequence is likely to be repeated; behaviour followed by an unpleasant consequence is unlikely to be repeated.
- Reinforcement strategies used by managers include positive reinforcement, negative reinforcement, punishment and extinction.
- Positive reinforcement works best when applied according to the laws of contingent and immediate reinforcement.

15.5 What are the trends in motivation and remuneration?

- The area of remuneration provides a good test of a manager's ability to integrate and apply the insights of all motivation theories.
- Pay for performance, in the form of merit pay plans, ties pay increases to improvements in performance.

- Various incentive remuneration programs, such as bonuses, gain sharing and profit sharing, allow workers to benefit materially from improvements in profits and productivity.
- Pay-for-knowledge systems typically link pay to the mastery of job-relevant skills.

KEY TERMS

Expectancy is a person's belief that working hard will result in high task performance.
Extinction discourages a behaviour by making the removal of a desirable consequence contingent on its occurrence.
Extrinsic rewards are provided by someone else.
Higher order needs are esteem and self-actualisation needs in Maslow's hierarchy.
Hygiene factors are found in the job context, such as working conditions, interpersonal relations, organisational policies and salary.
Instrumentality is a person's belief that various outcomes will occur as a result of task performance.
Intrinsic rewards occur naturally during job performance.
The **law of effect** states that behaviour followed by pleasant consequences is likely to be repeated; behaviour followed by unpleasant consequences is not.
Lower order needs are physiological, safety and social needs in Maslow's hierarchy.
Merit pay awards pay increases in proportion to performance contributions.
Motivation accounts for the level, direction and persistence of effort expended at work.
Need for achievement (nAch) is the desire to do something better, solve problems or master complex tasks.
Need for affiliation (nAff) is the desire to establish and maintain good relations with people.
Need for power (nPower) is the desire to control, influence or be responsible for other people.
Needs are unfulfilled physiological or psychological desires.
Negative reinforcement strengthens a behaviour by making the avoidance of an undesirable consequence contingent on its occurrence.
Operant conditioning is the control of behaviour by manipulating its consequences.
Organisational behaviour modification (OB Mod) is the application of operant conditioning to influence human behaviour at work.
Positive reinforcement strengthens a behaviour by making a desirable consequence contingent on its occurrence.
Punishment discourages a behaviour by making an unpleasant consequence contingent on its occurrence.
Satisfier factors are found in job content, such as a sense of achievement, recognition, responsibility, advancement and personal growth.
Self-efficacy is a person's belief that she or he is capable of performing a task.
Shaping is positive reinforcement of successive approximations to the desired behaviour.
Skills-based pay is a system of paying workers according to the number of job-relevant skills they master.
Valence is the value a person assigns to work-related outcomes.

APPLIED ACTIVITIES

1. What types of preferences do people high in the need for achievement bring with them to the workplace?
2. Why is participation important to goal-setting theory?
3. What is motivation to work?

4 What is the managerial significance of Herzberg's distinction between factors in the job content and job context?

5 How can a manager combine the powers of goal setting and positive reinforcement to create a highly motivational environment for workers with high needs for achievement?

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61. Tony Featherstone, 'Carrots Cop Some Stick,' *Business Review Weekly* (27 March – 30 April 2009), pp. 48–52.

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CHAPTER 16

Individuals, job design and stress

LEARNING OBJECTIVES

16.1 What is the meaning of work?
16.2 What are the issues in satisfaction, performance and job design?
16.3 How can jobs be enriched?
16.4 What are alternative work arrangements?
16.5 How can job and workplace stress be managed?

IBM and NAB introduce 'mindfulness' among staff

In 2006, the Melbourne entrepreneur James Tutton, founder of the Moonlight Cinema Group, began to recognise his own children's stress as they prepared for their NAPLAN tests. In response he developed a meditation program called Smiling Mind, which is now used in 4500 Australian schools and some key companies such as IBM Australia and Google. The program applies the concept of 'mindfulness', which Tutton describes as making people more aware of their own emotions and getting people 'to focus on far more positive things than work, work, work and not doing anything else'.

Professor Amanda Sinclair teaches mindfulness as part of the Melbourne Business School MBA program and executive workshops and says that mindfulness is about paying attention and being present in the present moment without judgment. She also describes mindfulness as being about teaching staff about meditation and how to regulate their thoughts. Key aspects of this include slowing down thoughts, staying mindful during meetings and stepping away from the clutter in your head to be fully present in a situation. At the end of the day mindfulness allows for greater productivity, creativity and more harmonious workplaces. It also provides clarity, hence Sinclair suggests that one of the most powerful things we can learn from being mindful is that stress isn't caused by what happens to us, but how we process it and how it influences us. By becoming more aware of the ways of thinking that contribute to stress, we are able to establish coping mechanisms. Mindfulness can help an individual to release the past and live in the present as well as slow the heart rate. As Olivia Downing, mindfulness consultant, says 'Our thoughts often go to the past which can be tainted by guilt and shame, and mindfulness encourages us to turn up and live for the present and for us.'

IBM Australia and New Zealand have been pioneering the use of mindfulness in the corporate sector bringing focus and clarity to employee's tasks. Anna Phillips, IBM's People and Change leader describes how this is achieved through a range of practices to tackle workplace stress and promote positive leadership and resilience, including developing responsive capabilities among HR staff. After significant experimentation with mindfulness in leadership training, not only were management teams healthier but interaction between management and workers was improved. Furthermore, National Australia Bank with its 43 000 employees is also facing growing stress in the workplace. Michela Healey, NAB People, Communications and Governance Group Executive, describes how 'Like any large employer if people are not able to be their best or their work is impacted, that has an impact on service'.

A recent VicHealth funded study further highlights the importance of mindfulness programs within the corporate sector revealing that job strain-attributable depression and stress takes $730 million out of the Australian economy each year. In addition, SafeWork Australia's 2009–10 study showed that mental stress was the highest cost of all workers' compensation. Even more worryingly, the Australian Bureau of Statistics Work-related Injuries Survey 2009–10 revealed that 70 per cent of work-related mental stress sufferers failed to claim workers compensation. The study also shows that since 2010/11 the modern economy is suffering from psychological effects created by 24-7 working environments, around the clock accessibility and tablet and smartphone usage. Peter Cotton, a clinical and organisational psychologist, says the first step must be to identify stress; this could be done by HR personnel who can assess the interaction between staff and management and can tackle stress in a variety of ways beyond just assistance programs and GP visits'.[1]

QUESTIONS

1. How could mindfulness help a company become more efficient and effective? Provide two examples to demonstrate this.
2. What challenges would be faced in introducing mindfulness into an organisation?

Introduction

For managers in organisations of all types and sizes, in both the profit and not-for-profit sectors, a critical pathway towards performance improvement is better mobilising and unlocking the great potential of human talent.[2] The ideal situation is a loyal and talented workforce that is committed to organisational goals and highly motivated to work hard on behalf of the organisation. But saying this is one thing; achieving it is quite another. Even in the best of circumstances the management of human resources is a challenging task. It becomes even more complicated when organisations aggressively seek operating efficiencies by outsourcing more work, restructuring operations, downsizing payrolls, and so on.[3] Further, some organisations and industries are increasingly using tools of surveillance that limit the freedom of employees when the consensus is that empowering individuals and giving them the autonomy and freedom that they need to do their jobs makes for higher productivity and greater job satisfaction. Call centres, fast-food chains and supermarkets are among the leaders in the trend to limit employee discretion in the interest of achieving ever-greater efficiencies in highly competitive markets (thus, acting in the interests of the organisations, not staff).

No-one doubts that every employer must attract, develop and maintain a talented pool of human resources. This is, however, just the starting point. In order for the talent to have an impact on organisational performance, it must be supported, nurtured and allowed to work to its best advantage. All too often it is not, observe Jeffrey Pfeffer and Charles O'Reilly. They believe that too many organisations underperform because they operate with great untapped 'hidden value' in human resources — they fail to take full advantage of the talent they already have available.[4] O'Reilly and Pfeffer criticise organisations ‘with smart, motivated, hard-working, decent people who nevertheless don’t perform very well because the company doesn’t let them shine and doesn’t really capitalise on their talent and motivation’. They also praise true high-performance organisations as ones able to ‘produce extraordinary results from almost everybody’.

This praise frames our inquiry into the topics of this chapter and the next — to learn how to design jobs and build work settings so that almost everybody can produce extraordinary work results. The present chapter considers this challenge in terms of individuals, job design and work stress; the next one focuses on teams and teamwork. A central premise of both chapters, consistent with all of *Management*, is that when the work experience is well designed, people — the essential and irreplaceable human resources of organisations — can both achieve high-performance results and experience a high-quality work life.

16.1 The meaning of work

LEARNING OBJECTIVE 16.1 What is the meaning of work?

What do you think about when you see or hear the word work? Is it a ‘turn-on’ or a ‘turn-off’? Perceptions, personalities, attitudes, emotions and moods all influence individual behaviour at work. When people work under conditions that fail to provide them with respect, their behaviour is more likely to tend towards low performance, poor customer service, absenteeism and even being anti-social. But when people work in supportive settings, more positive work behaviours — higher performance, less withdrawal and dysfunction — are common. Unfortunately, too many people work under conditions that fail to provide them with respect and satisfaction. It does not have to be this way. More and more employers are coming to the same conclusion — people, individuals like you and me, are the foundation for high performance in the workplace. When managers value people and create jobs and work environments that respect people’s needs and potential, everyone gains.

Psychological contracts

Work should involve a positive give and take, or exchange of values, between the individual and the organisation. This sense of mutual benefit is expressed in the concept of a **psychological contract**, which is defined as an informal understanding about what an individual gives to and receives from an organisation as part of the employment relationship.[5] The ideal work situation is one in which the exchange of values in the psychological contract is considered fair. When the psychological contract is broken, however, morale problems easily develop. This problem surfaced in Japan where workers historically had enjoyed high job security and, in return, put in long work hours at great personal sacrifice. But when the Japanese economy experienced difficulty during the Asian financial crisis of the late 1990s and companies cut back on jobs, overall worker morale declined. The psychological contract shared between worker and employer had been damaged.[6]

As shown in figure 16.1, a healthy psychological contract offers a balance between contributions made to the organisation and inducements received in return. A person offers contributions, or valued work activities, such as effort, time, creativity and loyalty. These are among the things that make the individual a desirable resource. *Inducements* are things of value that the organisation gives to the individual in exchange for these contributions. Typical inducements include pay, fringe benefits, training and opportunities for personal growth and advancement. Such inducements should be valued by employees and should make it worthwhile for them to work hard for the organisation.

An Australian management consultant, Tim Baker, argues that our view of the psychological contract should be updated to reflect the modern decline in job security confronting individuals in most industries, as well as the challenges facing organisations in managing employees who are more independent and ambitious than ever before. In response to today's realities, where employees expect to work in a range of organisations and receive progressively greater responsibilities and challenges, organisations should provide greater flexibility in employment, focus on rewarding performance rather than long-term loyalty, and provide work that is stimulating and which offers meaning.[7]

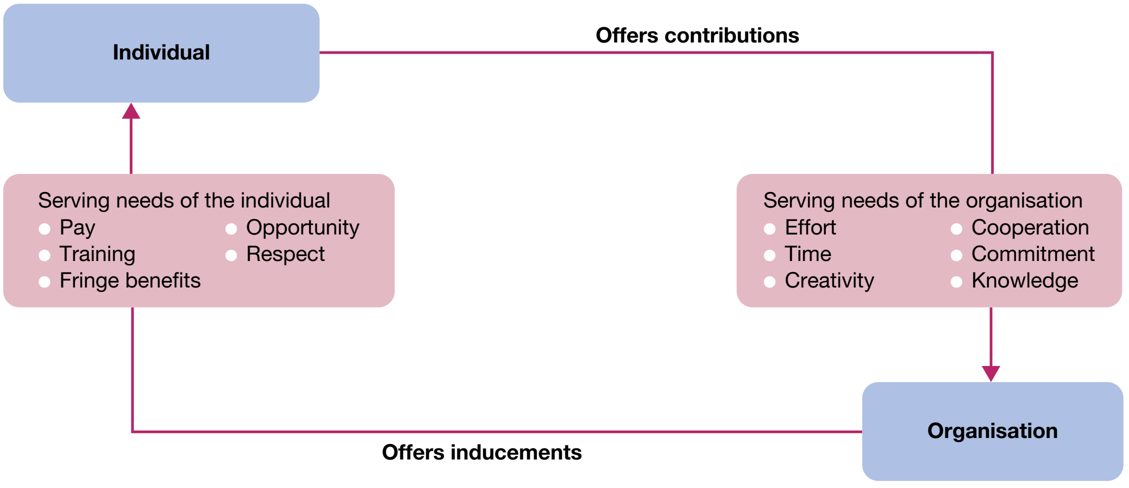

FIGURE 16.1 Components in the psychological contract

Work and the quality of life

The term *quality of work life* (QWL) describes the overall quality of human experiences in the workplace. Most people spend many hours a week, and many years of their lives, at work. What happens to them at work, how they are treated and what their work is like all have an influence on their overall lives. Simply put, the quality of work is an important component in the quality of life for most of us.[8] Anyone who serves as a manager, therefore, must accept that this job carries a high level of social responsibility. The way managers treat people at work may have consequences extending far beyond the confines of the actual work setting. Our experiences at work can and often do spill over to affect our non-work activities and lives, just as our non-work experiences sometimes affect our attitudes and performance at work. Poor management practices can diminish a person's overall quality of life, not just the QWL. Good management, on the other hand, has the potential to enhance both.

Today's managers are increasingly expected to focus their attention on creating work environments within which people can have positive experiences while performing to high levels of expectation. A term relevant in this respect is *work–life balance*, described earlier in this book as the fit between one's job or work responsibilities and their personal or family needs. When job demands start interfering with personal responsibilities and vice versa, stress and performance problems are likely results. Flexible working arrangements are becoming more common as organisations attempt to respond to employees' needs. The government sectors in countries like Australia and New Zealand are increasingly encouraging their staff to pursue alternative working arrangements such as job sharing and telecommuting in an effort to improve the quality of their experience in the workplace.

SOCIAL RESPONSIBILITY

Job satisfaction in China

Improving ethical behaviour in organisations has been strongly associated with elevating corporate social responsibility.[9] Research has also shown that ethical leadership can elicit positive responses from workers.[10] Creating a better quality of life for workers is critically important in creating positive responses from workers or avoiding high levels of burnout and stress. Two Chinese studies show how different organisational and geographical settings can shape employees' workplace experiences.

In one study that a large Chinese chemical company conducted to understand what factors influenced job satisfaction and staff retention, it was found that staff responded well to the company's image, working atmosphere and supervisor's expertise. In addition, staff members were keen for the company to develop wellbeing policies such as job rotation, promotion, staff benefits and compensation. The top nine reasons for staying with the company conformed to Herzberg's hygiene factors and met the basic working conditions for staying with the company. Staff members responded moderately well to the 'thriving facilitation workplace' (thriving being a 'psychological state in which individuals experience both a sense of vitality and learning'[11]) and were proud to be working for the company.[12]

Another study of Chinese community workers compared intrinsic and extrinsic job satisfaction experienced by community health workers in the larger Chinese city of Shenyang with its smaller counterpart Benxi. While workers in both cities expressed a moderate level of satisfaction, the study goes on to report that 'Nine per cent were either very dissatisfied or dissatisfied with their jobs; 16.9 per cent were dissatisfied to moderate; 8.2 per cent were moderate; 59.1 per cent were moderate to not fully satisfied, while 14.9 per cent were very satisfied or satisfied with their jobs'. The study showed that in Shenyang job satisfaction was lower than in Benxi, with the authors suggesting that 'community health workers undergo more stress, burnout and competition in the big city'. While workers in both cities suffered from emotional exhaustion and 'cynicism of burnout', lower job satisfaction in Shenyang is possibly associated with a lack of personal development. The study goes on to conclude that the Shenyang government should provide more opportunity for personal development and, hence, accomplishment. This would increase the intrinsic job satisfaction among staff through community engagement and enable personal creativity.[13]

The two studies reveal the importance of doing the right thing by the workers and shows how ethical considerations are important in enhancing both corporate social responsibility and business performance.

QUESTION

Describe the relationship between job satisfaction and social responsibility. Do the two research studies demonstrate that social responsibility can be good for business? How would ethical leadership improve job satisfaction among workers in each study?

The goal of flexible working arrangements, of course, is to achieve a productive and satisfying balance of career and family pursuits. The themes of this chapter all relate in one way or another to this goal, with many examples of how progressive employers can increase employee involvement through better job designs and become more family friendly through alternative work schedules and stress-management assistance.

If a better work–life balance is to be achieved, employers must consider the demands they are placing on their people. A 2008 survey of Australian employees engaged in knowledge work roles in sectors such as information technology, accounting and the law found that the typical knowledge worker spends more than 48 hours per week in the office, almost 6 hours a week commuting to and from work, over 4 hours a week doing extra work for their employers while at home and 2 hours a week in career development activities. When chores at home, childcare and eldercare are added, only 11 hours per week remain for leisure activities.[14] As a result, more and more Australians have sought to work from home to balance their work–life commitments. A 2013 survey by McRindle Research, however, found that 58 per cent of homeworkers sought greater social interaction and face-to-face contact.[15] Although organisational commitment to helping people achieve a better work–life balance seems to be growing, corporate cultures and individual values and goals make this one of the toughest management challenges of the 21st century.

CRITICAL ANALYSIS

1. It has been argued that the psychological contract should be updated to reflect the fact that many contemporary jobs are characterised more by insecurity than security. It could be further argued that with today's challenging business environment, the psychological contract has become virtually redundant. What do you think?
2. Whatever its merits, many people do not appear to value work–life balance. Entrepreneurs working to build their businesses, workaholics and those employed in organisational cultures that value 'presenteeism' come to mind. Is this necessarily wrong?

16.2 Satisfaction, performance and job design

LEARNING OBJECTIVE 16.2 What are the issues in satisfaction, performance and job design?

A job is a collection of tasks performed in support of organisational objectives. The process of **job design** is one of creating or defining jobs by assigning specific work tasks to individuals and groups. Job design uses the insights of motivation theories discussed in the chapter on motivation and rewards to help accomplish two major goals — high levels of both job satisfaction and job performance. Jobs can and should be designed so that satisfaction and performance go hand in hand. One without the other is simply insufficient to meet the high standards expected of today's workplace. There is no reason that you cannot experience personal satisfaction while making high-performance work contributions.

Job satisfaction

One measure of QWL is **job satisfaction**.[16] This is the degree to which an individual feels positively or negatively about various aspects of the job. We have all heard someone criticised for having a 'bad attitude'. In the present context, job satisfaction is an important attitude that can and does influence behaviour at work. The question becomes: How can we develop job satisfaction and positive work attitudes? In answering this question, satisfaction with such things as pay, tasks, supervision, co-workers, work setting and advancement opportunities must be considered. These are all facets of job satisfaction that can be handled through job design in the attempt to improve attitudes and raise the QWL.

Researchers know that there is a strong relationship between job satisfaction and *absenteeism*. Workers who are more satisfied with their jobs attend more regularly; they are absent less often than those who are dissatisfied. There is also a relationship between job satisfaction and *turnover*. Satisfied workers are more likely to stay and dissatisfied workers are more likely to quit their jobs. Both of these findings are important, since absenteeism and turnover are costly in terms of the additional recruitment and training that are needed to replace workers, as well as in the productivity lost while new workers are learning how to perform to expectations.

Closely related to job satisfaction are two other concepts with implications for the QWL. **Job involvement** is defined as the extent to which an individual is dedicated to a job. Someone with high job involvement, for example, would work beyond expectations to complete a special project.

Organisational commitment is defined as the loyalty of an individual to the organisation itself. People with high organisational commitment identify strongly with the organisation and take pride in considering themselves members.

There appears to be a link between organisational commitment and job satisfaction. Professor Amanda Sinclair of the Melbourne Business School argues that many jobs in areas such as retail, banking and call centres have been stripped of their ability to provide intrinsic satisfaction to employees, limiting the potential of these jobs to foster organisational commitment. She says that because of factors such as 'unachievable targets, queues that get longer, [and] co-workers who hardly know one another' there is little time for employees in these areas to communicate. She argues that such jobs lead to even keen employees becoming both less productive and less committed.[17]

A survey of 1000 Australian workers found that although 70 per cent had a positive attitude to at least some aspects of their work lives, 22 per cent found their work uninteresting and 20 per cent worried about their career prospects. Interestingly, levels of workplace dissatisfaction as recorded in the survey tended to increase with the age of workers. In addition, another survey of 2400 workers undertaken by Leadership Management Australia found that 40 per cent of employees indicated only low levels of commitment to their jobs.[18]

In an effort to provide job satisfaction, managers should always seek to find the real reasons for job dissatisfaction rather than relying too superficially on the comments of workers. Managers and students of management regularly indicate that higher pay and rewards will maximise job satisfaction, but monetary rewards may not be the answer.[19] A survey of Australia's best employers undertaken by Hewitt Associates found that although their levels of remuneration and benefits were competitive, the companies were seen as attractive by employees because of their ability to provide 'engagement' with employees through challenging work assignments, flexibility in work arrangements and regular training. Having said this, the results of surveys of employee engagement in Australia are mixed, at best. A study undertaken by the Queensland branch of the Australian Institute of Management found that, while 37 per cent of employees surveyed indicated that they were engaged (defined as 'enthused and in gear') in their work, 17 per cent of survey participants were actively disengaged from their work.[20]

It is argued by some that material comforts can never fully satisfy people in the workplace or elsewhere since people are 'human beings' with the need for relationships rather than merely 'human resources'.[21] Managers risk workers becoming bored and dissatisfied unless they pay attention to potential satisfiers for individuals and teams. It may be useful, for instance, to inject a sense of fun into the workplace. Without going too far, this could range from allowing staff to play the occasional game on their computers to giving employees the freedom to decorate their own office space.[22]

Job satisfaction in the Asia–Pacific region

Levels of job satisfaction in other parts of the Asia–Pacific are not dissimilar to those indicated by research findings in Australia and New Zealand. However, significant differences exist between nations, with employees in Japan and Hong Kong, for instance, being more likely to express dissatisfaction with staffing issues and with managers changing work objectives and priorities too frequently. By comparison, employees in the Philippines and Malaysia are generally more positive across a range of job satisfaction indicators. This is not to say that working conditions and morale are necessarily worse in Japan and Hong Kong, but may be due to cultural differences in relation to work expectations.[23]

Employees in the United States claim higher levels of job satisfaction. A survey undertaken by the Society for Human Resource Management indicated that 86 per cent of employees were satisfied with their jobs, including 41 per cent who stated that they were very satisfied.[24] Again, however, we should be cautious about making conclusions about such surveys. Perhaps people in the United States expect job satisfaction and then convince themselves that their jobs are satisfying in order to create a self-fulfilling prophecy.

Throughout the Asia–Pacific region, increasing numbers of executives are turning to coaches and mentors to help them achieve job satisfaction. Danielle Luton, co-founder of Richard Luton Properties, one of Australia's fastest growing companies for several years, attributes much of her organisation's success to the coaching she obtains. Luton compares her coach to the judges on the television show *Australian Idol*, since he provides honest, focused advice rather than just telling her what she wants to hear. Effective business coaches help employees focus on their own and their organisation's goals, provide motivation and inspiration, and give encouragement, support and constructive feedback. When these are improved, people naturally feel more satisfied with themselves and with their jobs.

Middle-level executives, in particular, may find coaches and mentors to be of particular value in improving their job satisfaction. Only 40 per cent of 1400 middle managers in 9 countries across Asia, Europe and the United States stated that they were satisfied with their jobs. Primary reasons for this dissatisfaction included concern that their organisations were poorly run, the fact that many saw their own future prospects for promotion as extremely limited and personal concern that they were struggling to manage their work–life balance.[25]

GLOBALISATION

Similarities in job satisfaction in Malaysian and Indonesian organisations

A Malaysian research study has investigated job satisfaction among faculty members in two leading Malaysian universities. Using Herzberg's two-factor theory, ten key factors contributing to job satisfaction were investigated. The study showed that salary and policy and administration were most important in creating job satisfaction. This was surprising as Herzberg's theory presents these factors as hygiene factors (conditions that create job dissatisfaction). In addition, it was found that all of Herzberg's motivators such as achievement, recognition, the work itself, responsibility, advancement and growth were related to dissatisfaction.[26]

Similar findings from a 2015 study at PT. Dada, a medium-sized exporting business in Indonesia, show that although work discipline, motivation and job satisfaction have a positive effect on organisational commitment, they are closely associated with Herzberg's hygiene factors, such as work conditions and salary. The study reveals that although work discipline is high, absenteeism low and self-motivation moderately good, the researchers found that job satisfaction would be higher if working conditions and salary, such as providing adequate overtime pay, were improved — that is, by recognising the hygiene factors as motivators.[27]

Nonconformity with the contemporary Herzberg model may suggest that the job satisfaction is dependent upon cultural sensitivities and the concept may not necessarily be applied beyond Western cultural settings. This has significant ramifications for human resources operations in global corporations.

QUESTION

Why should global corporations pay attention to local cultures in designing job rewards? What are the key motivators that would satisfy you most in the workplace? How would this differ from the South-East Asian examples above?

Individual performance

It is one thing for people to come to work; it is quite another for them to perform at high levels on the job. **Job performance** is the quantity and quality of tasks accomplished by an individual or group at work. Performance, as is commonly said, is the 'bottom line' for people at work. It is a cornerstone of productivity, and it should contribute to the accomplishment of organisational objectives. As earlier examples have suggested, however, some workers achieve a sense of personal satisfaction from their jobs and others do not; some perform at high levels of accomplishment, others do not. The test of a manager's skill is to discover what work means to other people and then to create job designs that help them to achieve satisfaction along with high performance.

Consider the insights of the individual performance equation:

$$\text{Performance} = \text{Ability} \times \text{Support} \times \text{Effort}$$

The logic of this equation is straightforward and very practical. If high performance is to be achieved in any work setting, the individual contributor must possess the right abilities (the *capacity* to perform), work hard at the task (the *willingness* to perform) and have the necessary support (the *opportunity* to perform).[28] All three factors are important and necessary; failure to provide for any one is likely to cause performance losses and establish limited-performance ceilings.

Performance begins with ability

Ability counts. As the basic foundation of aptitudes and skills, it establishes an individual's capacity to perform at a high level. This is the central issue in human resource management. Proper employee selection brings people with the right abilities to a job; poor selection does not. Good training and development keep people's skills up to date and their jobs relevant; poor or insufficient training does not.

The goal of maintaining and increasing the ability of workers in every job should be central to all human resource development initiatives and policies. The best managers never let a job vacancy or training opportunity pass without giving it serious attention. The best managers make sure every day that all jobs under their supervision are staffed properly with talented people. By renewing and redoubling their commitments to the ability factor and best practices in human resource management, managers can make substantial contributions to performance development.

Performance requires support

The support factor in the individual performance equation can be easily neglected in day-to-day management practice. But such oversight comes at a high cost. Even the most capable and hard-working individual will not achieve the highest performance levels unless proper support is available. Support creates a work environment rich in opportunities to apply people's talents to maximum advantage. To fully realise their abilities, workers need sufficient resources, clear goals and directions, freedom from unnecessary rules and job constraints, appropriate technologies and performance feedback. Providing these and other forms of direct work support is a basic managerial responsibility. Doing it correctly, however, requires a willingness to get to know the jobs to be done and the people doing them. The best information on the need for support, of course, comes from the workers themselves. Wouldn't it be nice to hear more managers say the following in everyday conversations with their subordinates: How can I help you today?

Performance involves effort

Effort — the willingness to work hard at a task — is an irreplaceable component of the high-performance workplace. Even the most capable workers won't achieve consistent high performance unless they are willing to try hard. But the decision by anyone to work hard or not rests squarely on the shoulders of the individual. This is the ultimate test of motivation theories.

All any manager (or teacher, or parent) can do is try to create the conditions under which the answer to the all-important question — 'Should I work hard today?' — is more often 'Yes!' than 'No!' Frankly, the most powerful and enduring 'Yes' is the one driven by forces within the individual — intrinsic motivation — rather than by outside initiatives such as supervisory appeals, offers of monetary reward or threats of punishment. Good managers understand this reality as they design jobs for people in organisations.

DIVERSITY

The Australian Network on Disability: recognising disability as a diversity issue

Diverse groups where diversity management and cross-cultural communication strategies are used experience greater creativity and less stressful and unproductive conflicts.[29] The growing trend of diversity management programs being developed in Australia to take advantage of such benefits is exemplified by the strong industry support for the Australian Network on Disability, a not-for-profit organisation. The organisation claims that 20 per cent of Australians suffer from disability, which affects two million working Australians.[30]

Companies involved in supporting the organisation include Platinum and Silver members, such as the top four Australian banks, Telstra, IBM, Australia Post, PricewaterhouseCoopers, Woolworths and Origin Energy, and Bronze members, such as Macquarie Bank, the Diversity Council of Australia and the Human Rights Commission. Westpac, a founder of the network has revealed that 12 per cent of their employees have disability of some type. Jane Councel, Head of Diversity and Flexibility for Westpac, reflects that serving the customer also means bringing the best skill sets together regardless of disability, which she states is 'not cost prohibitive' and that 'the whole reason we're so focused on diversity and inclusion is because we want to reflect the community that we serve. If you look at the incidence of disability and cultural diversity, having a diverse workplace means we can provide the best service to our customers'. While targets to employ people with disability may be promoted by advocates such as Graeme Innes (Federal Disability Discrimination Commissioner), Peter Wilson (Chairperson of the Australian Human Resources Institute) contests that targets are just something to show progress in annual reports.[31] Insights into more meaningful recruitment strategies have shown that targeting the demographic characteristic (such as disability) is less successful than focusing efforts on deep-level differences such as a person's attitudes or values.[32]

QUESTION

Why are leading Australian companies driving initiatives to enable employees with disability to thrive in the workplace? What do you believe would be the challenges facing such organisations?

Job design alternatives

Job design is in many ways an exercise in 'fit'. A good job design provides a good fit between the individual worker and the task requirements. To explore this notion further, consider a short case.[33] Datapoint Corporation manufactures a line of personal computers. Jackson White has just been employed by Datapoint. He is a competent person who enjoys interpersonal relationships. He also likes to feel helpful or stimulating to others. How do you think he will react to each of the following job designs?

In *Job 1*, Jackson reports to a workstation on the computer assembly line. A partially assembled circuit board passes in front of him on a conveyor belt every 90 seconds. He adds two pieces to each board and lets the conveyor take the unit to the next workstation. Quality control is handled at a separate station at the end of the line. Everyone gets a 10-minute break in the morning and afternoon and a 30-minute lunch period. Jackson works by himself in a quiet setting.

In *Job 2*, Jackson works on the same assembly line. Now, however, a circuit board comes to his station every 12 minutes, and he performs a greater number of tasks. He adds several pieces to the board, adds a frame and installs several electric switches. Periodically, Jackson changes stations with one of the other workers and does a different set of tasks on earlier or later stages of the same circuit board. In all other respects, the work setting is the same as in the first job described.

In *Job 3*, Jackson is part of a team responsible for completely assembling circuit boards for the computers. The team has a weekly production quota but makes its own plans for the speed and arrangement of the required assembly processes. The team is also responsible for inspecting the quality of the finished boards and for correcting any defective units. These duties are shared among the members and are discussed at team meetings. Jackson has been selected by the team as its factory liaison. In addition to his other duties, he works with people elsewhere in the factory to resolve any production problems and achieve factory-wide quality objectives.

These three job design alternatives are identified in figure 16.2 as job simplification, job rotation and enlargement, and job enrichment, respectively. Each varies in how specialised the division of labour becomes — that is, in how narrowly job tasks are defined. Although not every one of these designs may be a good choice to maximise Jackson White's performance and satisfaction, each has a role to play in the modern workplace.

	Job simplification	**Job rotation and enlargement**	**Job enrichment**
Job scope — number and variety of tasks	narrow	wide	wide
Job depth — extent of planning, controlling responsibility	low	low	high
Task specialisation — division of labour	high	moderate	low

FIGURE 16.2 A continuum of job design alternatives

Job simplification

Job simplification involves standardising work procedures and employing people in well-defined and highly specialised tasks. This is an extension of the scientific management approach discussed in the chapter on the ethical dimensions of management. Simplified jobs are narrow in *job scope* — that is, the number and variety of different tasks a person performs. Jackson White's first job on the assembly line was highly simplified. He isn't alone. Many employees around the world earn their living working at highly simplified tasks. The most extreme form of job simplification is **automation**, or the total mechanisation of a job.

The logic of job simplification is straightforward. Because the jobs don't require complex skills, workers should be easier and quicker to train, less difficult to supervise and easy to replace if they leave. Furthermore, because tasks are well defined, workers should become good at them while performing the same work over and over again. Consider the case of the fast-food sector. Of every dollar Australians spend on food, 33 cents is spent on meals out and fast food — significant, if still behind the US average of about 48 cents of every dollar. The fast-food sector focuses on minimising costs to ensure maximum efficiency. This occurs through a reliance on the principles of scientific management (see the chapter on the historical foundations of management) to ensure that every job is as simple as efficiency demands dictate. Jobs have been simplified to ensure that they can be filled by relatively low-skilled workers who are paid relatively low wages. Jobs in every McDonald's outlet, for instance, must conform to the requirements of station observation checklists (SOCs) that provide guidance on everything from the need for hygiene to the presentation of customer orders.

Problems can arise in highly simplified jobs. Productivity can suffer as unhappy workers drive up costs through absenteeism and turnover, and through poor performance caused by boredom and alienation. Although simplified jobs appeal to some people, disadvantages can develop with the structured and repetitive tasks. For example, in the Datapoint case, Jackson White's social need is thwarted in Job 1 because the assembly line prevents interaction with co-workers. We would predict low satisfaction, occasional tardiness and absenteeism, and boredom, which may cause a high error rate. White's overall performance could be just adequate enough to prevent him from being fired. This is hardly sufficient for a computer maker trying to maintain a high-performance edge in today's competitive global economy.

Job rotation and job enlargement

One way to move beyond simplification in job design is to broaden the scope through **job rotation** — increasing task variety by periodically shifting workers between jobs involving different task assignments. Job rotation can be done on a regular schedule; it can also be done periodically or occasionally. The latter approach is often used in training to broaden people's understanding of jobs performed by others. Another way to broaden scope is **job enlargement**, increasing task variety by combining two or more tasks that were previously assigned to separate workers. Often these are tasks done immediately before or after the work performed in the original job. Figure 16.3 shows how such *horizontal loading* — pulling pre-work and/or later work stages into the job — can be used to enlarge jobs. In this job design strategy the old job is permanently changed through the addition of new tasks.

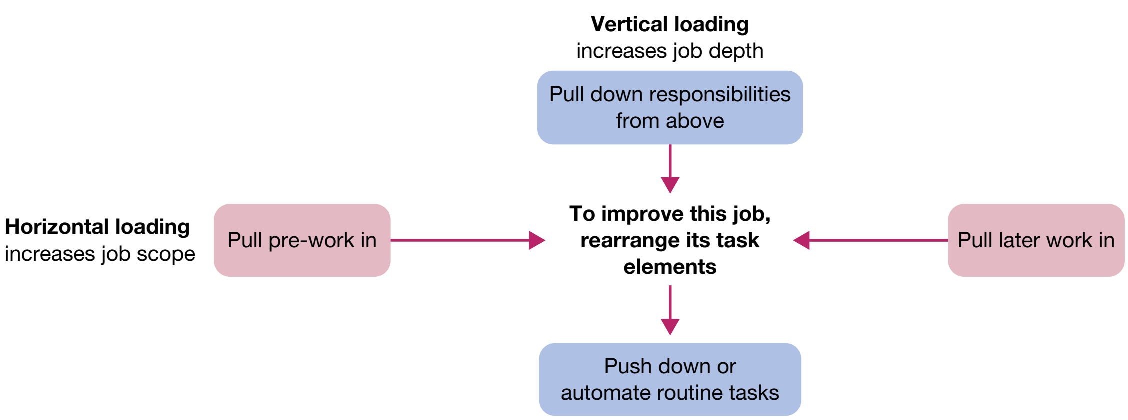

FIGURE 16.3 How to improve job design by horizontal and vertical loading

Jackson White's second job on the modified assembly line is an example of job enlargement with occasional job rotation. Instead of doing only one task, he now does three. Also, he occasionally switches jobs to work on a different part of the assembly. Because job enlargement and rotation can reduce some of the monotony in otherwise simplified jobs, we would expect an increase in White's satisfaction and performance. Satisfaction should remain only moderate, however, because the job still does not respond completely to his social needs. Although White's work quality should increase as boredom is reduced, some absenteeism is likely.

Job enrichment

Frederick Herzberg, whose two-factor theory of motivation was discussed earlier in the text, questions the true value of horizontally loading jobs through enlargement and rotation. 'Why', he asks, 'should a worker become motivated when one or more meaningless tasks are added to previously existing ones or when work assignments are rotated among equally meaningless tasks?' He says, 'If you want people to do a good job, give them a good job to do'.[34] He argues that this is best done through **job enrichment**, the practice of building more opportunities for satisfaction into a job by expanding its content.

In contrast to job enlargement and rotation, job enrichment focuses not just on job scope but also on *job depth* — that is, the extent to which task planning and evaluating duties are performed by the individual worker rather than the supervisor. As depicted in figure 16.3, changes designed to increase job depth are sometimes referred to as *vertical loading*. Herzberg's recommendations for enriching jobs through vertical loading are found in Manager's notepad 16.1.[35] There are some elements of job enrichment in Job 3 in the Datapoint case. Jackson White works in a team responsible for task planning and evaluation, as well as actual product assembly. The job provides opportunities to satisfy his social needs, and allows for added challenge from acting as the team's factory liaison. Higher performance and satisfaction are the predicted results.

MANAGER'S NOTEPAD 16.1

Job enrichment checklist

- *Check 1* Remove controls that limit people's discretion in their work.
- *Check 2* Grant people authority to make decisions about their work.
- *Check 3* Make people understand their accountability for performance results.
- *Check 4* Allow people to do 'whole' tasks or complete units of work.
- *Check 5* Make performance feedback available to those doing the work.

Some companies are seeking to re-enrich jobs that have long been progressively simplified. Wollongong-based industrial company Thomas & Coffey recognises the need to retain good staff for as long as possible and pursues several strategies to enrich jobs. Apprentices, for instance, are made aware of future opportunities to assume supervisory and management roles at the company, and are given the skills and training to progressively evolve beyond their core trade responsibilities. Many complete introductory management training courses during the period of their apprenticeship.[36]

CRITICAL ANALYSIS

1. How can organisational leaders ensure that the fit between individuals and jobs is optimised?
2. While it may offer speed and efficiency, job simplification only seems to be a recipe for mindless repetition, boredom and routine. If this is true, shouldn't we forget about job simplification all together as job design strategy?

16.3 Directions in job enrichment

LEARNING OBJECTIVE 16.3 How can jobs be enriched?

Job enrichment is an important strategy, with the potential to improve individual performance and satisfaction in the new workplace. But modern management theory takes job enrichment a step beyond the suggestions of Frederick Herzberg. Most importantly, it adopts a contingency perspective and recognises that job enrichment may not be best for everyone. Among the directions in job design, the core characteristics model developed by J. Richard Hackman and his associates offers a way for managers to create jobs, enriched or otherwise, that best fit the needs of people and organisations.[37]

Core characteristics model

The model described in figure 16.4 offers a diagnostic approach to job enrichment. Five core job characteristics are identified as task attributes of special importance. A job that is high in the core characteristics is considered enriched; the lower a job scores on the core characteristics, the less enriched it is.

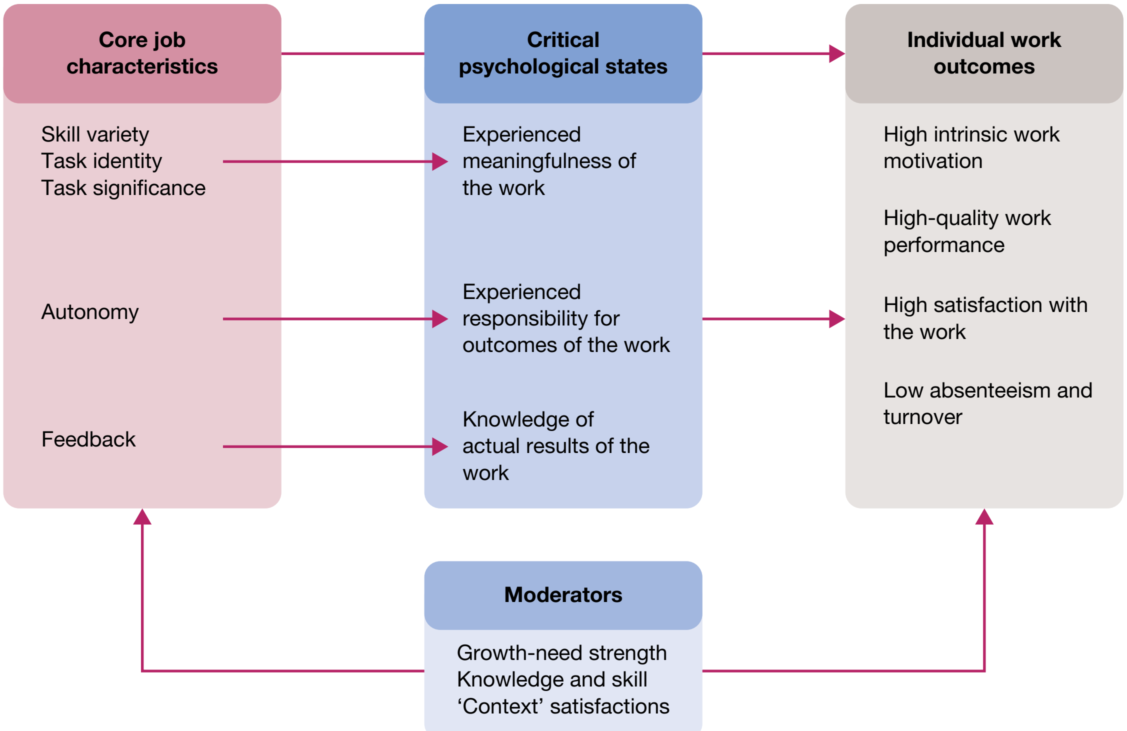

FIGURE 16.4 Core job characteristics and individual work outcomes

Source: Adapted from J. Richard Hackman and Greg R. Oldham, Work Redesign (Reading, MA: Addison-Wesley, 1980), p. 90.

There are five core job characteristics:

1. *skill variety* — the degree to which a job requires a variety of different activities to carry out the work and involves the use of a number of different skills and talents of the individual
2. *task identity* — the degree to which the job requires completion of a 'whole' and identifiable piece of work; that is, one that involves doing a job from beginning to end with a visible outcome
3. *task significance* — the degree to which the job has a substantial impact on the lives or work of other people elsewhere in the organisation or in the external environment
4. *autonomy* — the degree to which the job gives the individual substantial freedom, independence and discretion in scheduling the work and in determining the procedures to be used in carrying it out
5. *feedback from the job itself* — the degree to which carrying out the work activities required by the job results in the individual obtaining direct and clear information on the results of his or her performance.

According to figure 16.4, this model of job design views job satisfaction and performance as being influenced by three critical psychological states of the individual: experienced meaningfulness of the work, experienced responsibility for the outcomes of the work, and knowledge of actual results of work activities. These psychological states, in turn, are influenced by the presence or absence of the five core job characteristics. In true contingency fashion, however, the core characteristics will not affect all people in the same way. Generally speaking, people who respond most favourably to enriched jobs will have strong higher order needs and appropriate job knowledge and skills. They will also be otherwise satisfied with job context. One of the key contingency or moderator variables in the model is **growth-need strength**, described in Alderfer's ERG theory as the degree to which an individual seeks psychological growth in his or her work. The expectation is that people with strong growth needs will respond most positively to enriched jobs.

When job enrichment is a good job design choice, Hackman and his colleagues recommend five ways to improve the core characteristics. First, you can *form natural units of work*. Make sure that the tasks people perform are logically related to one another and provide a clear and meaningful task identity. Second, try to *combine tasks*. Expand job responsibilities by pulling together into one larger job a number of smaller tasks previously done by others. Third, *establish client relationships*. Put people in contact with others who, as clients inside and/or outside the organisation, use the results of their work. Fourth, *open feedback channels*. Provide opportunities for people to receive performance feedback as they work and to learn how performance changes over time. Fifth, *practise vertical loading*. Give people more control over their work by increasing their authority to perform the planning and controlling previously done by supervisors.

ETHICS

Helping business identify mental stressors

Between 2004 and 2014 psychological disorders associated with workplace environments accounted for 95 per cent of all mental disorders. Not only are psychological disorders recognised as a form of mental illness by the Australian worker's compensation laws but due to the long layoff times experienced by workers suffering from workplace stress, they are also expensive to businesses and the broader Australian economy.[38]

In 2012, Safe Work Australia joined the People at Work Project, who provide a free psychosocial risk assessment process for businesses. The assessment identifies workplace features that affect workers health and wellbeing, with an emphasis placed on risks to psychological health. Funded by the Australian Research Council and partner organisations, People at Work is a research collaboration between the Queensland University of Technology, Australian National University, Workplace Health and Safety Queensland, WorkSafe Victoria, Comcare, WorkCover New South Wales and Beyondblue. The aim of People at Work is to provide 'a nationally consistency non-commercial psychosocial risk assessment tool and associated procedures'. More broadly the organisation provides a national database across states, sectors, industries, occupations and employment status, conducts an analysis of Australian trends in psychosocial risk factors, researches ways to reduce stress factors created in relationships between supervisors and employees and looks to identify and manage psychosocial health risks. The outcome of the project has been to significantly reduce conflict and stress in the workplace. So far, in the early phase of the project the most important findings have been the cognitive overload felt by employees and the poor level of engagement concerning organisational change.[39]

In 2014 People at Work published a case study demonstrating how these issues manifest within the corporate division of an Australian public agency. Across the geographically broadly spread organisation, workplace absenteeism and high turnover had become problematic, as has work-related injuries due to high demands and low resources. In response the organisation adopted the People at Work assessment tool, which included completing the People at Work survey, consulting on outcomes, taking action and undertaking a full review. The results were published on the staff intranet and embedded in the human resource systems to ensure the ongoing monitoring of psychological issues in the workplace.[40]

QUESTION

Why would managers benefit from identifying mental stressors in their workplace? Would the People at Work approach work in a workplace environment you have experienced?

Technology and job enrichment

An important issue of job enrichment involves the impact of technology on job design.[41] The managerial challenge is quite clear: job design should proceed with the goal of increasing productivity through integrated **sociotechnical systems**. These are job designs that use technology to best advantage while still treating people with respect and allowing their human talents to be applied to their fullest potential.[42] The continuing inroads made by computers into the workplace are changing structures, workflows and the mix of skills needed in many settings. Consider the special case of *robotics* — the use of computer-controlled machines to completely automate work tasks previously performed by hand. Such automation of work is the most extreme form of job simplification and has both its limits and critics. On the positive side, technology offers an opportunity to take over many routine tasks previously assigned to individuals and thereby frees human talents for more enriched job assignments. In this and other ways, technology use and job enrichment can be complementary strategies.

Questions and answers on job enrichment

Is it expensive to implement job enrichment? Job enrichment can be costly. The cost grows as the required changes in technology, workflow and other facilities become more complex.

Will people demand more pay for doing enriched jobs? Herzberg believes that if people are being paid truly competitive wages (i.e. if pay dissatisfaction does not already exist), the satisfactions of performing enriched tasks will be adequate compensation for the increased work involved. But a manager must be cautious on this issue. Any job-enrichment program should be approached with recognition that pay may be an issue for the people involved.[43]

Should everyone's job be enriched? No, contingency counts. The people most likely to respond favourably to job enrichment are those seeking higher order or growth-need satisfactions at work and who have the levels of training, education and ability required to perform the enriched job.

CRITICAL ANALYSIS

1. Since job enrichment can be expensive to implement, why is it used?
2. The core characteristics model appears theoretically sound, but how might it be implemented in practice? Nominate a job and provide suggestions as to how each of the core job characteristics could be enhanced so that the job becomes enriched.

16.4 Alternative work arrangements

LEARNING OBJECTIVE 16.4 What are alternative work arrangements?

Not only is the content of jobs changing for people in today's workplace, the context is changing too. Among the more significant developments is the emergence of a number of alternative ways for people to schedule their work time. This is especially important as employers deal with work–life balance issues affecting today's highly diverse workforce. Many are finding that alternative work schedules can help attract and retain the best workers. It is popular in this sense to talk about a new and more 'flexible' workplace in which alternative work schedules such as the compressed work week, flexible working hours, job sharing, telecommuting and part-time work are increasingly common.

There seems to be a growing imbalance in work values for which alternative work arrangements provides an increasingly popular response. John Buchanan of the University of Sydney has found that more than 30 per cent of full-time workers say they would like to work fewer hours, while many part-time workers would prefer longer hours.[44]

The compressed work week

A **compressed work week** is any work schedule that allows a full-time job to be completed in less than the standard five days of seven- to eight-hour shifts. A common form is the '4–40', that is, accomplishing 40 hours of work in four 10-hour days. One advantage of the 4–40 schedule is that the employee receives three consecutive days off from work each week. This benefits the individual through more leisure time and lower commuting costs. The organisation should also benefit through lower absenteeism and any improved performance that may result. Potential disadvantages include increased fatigue and family adjustment problems for the individual, and increased scheduling problems, possible customer complaints and union objections for the organisation.

In the Australian minerals and mining sector, many workers operate under a fly-in/fly-out system, which involves flying into the mines for an intense period of work before flying out for rest and to spend time with their families. The most common pattern is for workers to fly into a site and work 12-hour shifts on 14 consecutive days, then return home for a 7-day break before beginning the cycle again. The shifts during the 14 days of work are generally split between 7 days of day shift and 7 days of night shift. Though the work is paid well and many employees view this kind of remote work as a challenge, studies indicate that there is a high divorce rate among workers and there are often difficulties in maintaining relationships in such conditions.[45]

Flexible working hours

The term **flexible working hours**, also called *flexitime* or *flextime*, describes any work schedule that gives employees some choice in the pattern of their daily work hours. A sample flexible working schedule offers choices of starting and ending times, such as the program depicted in figure 16.5. Employees in this example work four hours of 'core' time, or the time they must be present at work. In this case, core time falls between 9 and 11 am and 1 and 3 pm. They are then free to choose another four work hours from 'flexitime' blocks. Such flexible schedules give employees greater autonomy while ensuring that they maintain work responsibility. Early risers may choose to come in earlier and leave earlier, while still completing an 8-hour day; late sleepers may choose to start later in the morning and leave later. In between these extremes are opportunities to attend to personal affairs, such as dental appointments, home emergencies, visits to children's schools and so on.

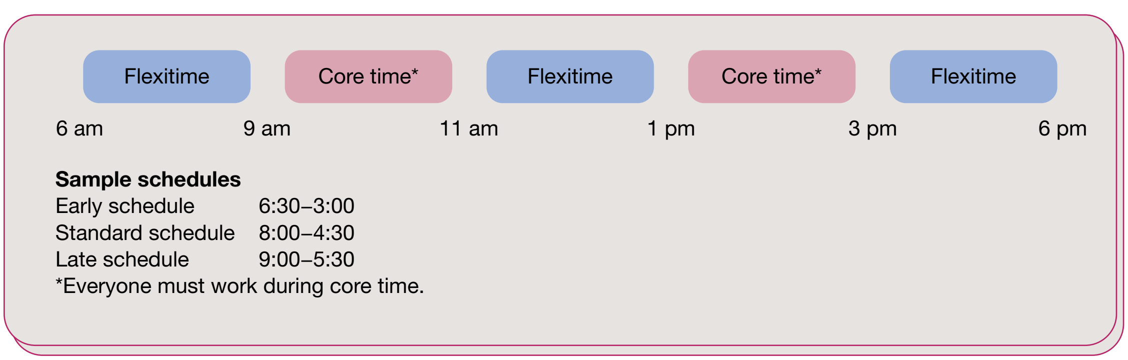

FIGURE 16.5 A sample flexible working hours schedule

A 2014 Galaxy survey has shown that Australian employers are not taking flexible work arrangements seriously. Even though 72 per cent of the Australians surveyed said they would like more flexible working arrangements, only 44 per cent of employees currently have flexible arrangements. In addition, employees recognised the opportunity to work the saved commute times, an average of 51.4 minutes a day, while 73 per cent of older employees suggested they would stay in the workplace longer if offered more flexible working arrangements. Lindsay Brown, Regional Director Mobility Apps for Citrix (the company who commissioned the study) says ‘The harsh reality is the majority of organisations do not trust their employees to be as productive at home as they do in the office, even though the economic and social benefits offer a compelling argument that we can no longer ignore’. This is even though, as Mr Brown claims, flexible work arrangements have the potential to add an extra 2.1 million work years to the national productivity resource — equalling $134.8 billion, or 1.3 per cent of Australian GDP.[46]

The advantages of flexible working hours are especially important to members of a diverse workforce. By offering flexibility, organisations can attract and hold employees with special non-work responsibilities. The work schedule is important to many dual-career couples, who face the complications of managing careers and other responsibilities, including parenting. Single parents with young children and employees with aged-care responsibilities also find it very attractive to have the option of adjusting work schedules to allow for other obligations to be met. The added discretion that flexitime provides may also encourage workers to have more positive attitudes towards the organisation.

Job sharing

Another important development for today’s workforce is **job sharing**, whereby one full-time job is split between two or more persons. Job sharing often involves each person working half of the day, but it can also be done on weekly or monthly sharing arrangements. When it is feasible for jobs to be split and shared, organisations can benefit by employing talented people who would otherwise be unable to work. The qualified specialist who is also a parent may be unable to stay away from home for a full workday but may be able to work half a day. Job sharing allows two such people to be employed as one. Although there are sometimes adjustment problems, the arrangement can be good for all concerned.

During this period of challenging conditions for businesses, many organisations have developed job-sharing strategies as a means of avoiding downsizing via the reduction of workforce numbers. Holden, Toyota and Ford introduced three- and four-day working weeks at their Australian plants in order to cut costs, while maintaining morale. At accounting firm PricewaterhouseCoopers, 5000 employees were asked to take 10 to 15 days of unpaid leave in an effort to achieve a similar outcome.[47]

Job sharing is sometimes viewed sceptically by those who don’t believe two workers can perform a shared job as productively as one person alone. However, when such concerns were investigated at Lotus Development Corporation early in the life of its job-sharing program, the results turned out to be just the opposite. When performance was studied, none of the initial nine teams of job sharers had to apologise to anybody. They were among the top performers in annual merit pay appraisals.[48]

Job sharing should not be confused with a more controversial concept called *work-sharing*. This involves an agreement between employees who face lay-offs or terminations to cut back their work hours so they can all keep their jobs. Instead of losing 20 per cent of a firm’s workforce to temporary lay-offs in an unexpected business downturn, for example, a work-sharing program cuts everyone’s hours by 20 per cent to keep them all employed. This allows employers to retain trained and loyal workers even when forced to temporarily economise by reducing labour costs. For employees whose seniority might otherwise protect them from lay-off, the disadvantage is lost earnings. For those who would otherwise be terminated, however, it provides continued work — albeit with reduced earnings — and with a preferred employer. A survey of 500 Australian businesses found that many were creatively dealing with the challenge of remaining profitable during the ‘global financial crisis induced’ economic downturn. More than 40 per cent had frozen salaries and bonuses, 17 per cent had reduced the remuneration of senior executives, 14 per cent had cut salaries and bonuses and 14 per cent had established work-sharing/job-sharing opportunities.[49]

Telecommuting

Another significant development in work scheduling is the growing popularity of a variety of ways for people to work away from a fixed office location. This includes alternatives ranging from self-employment and entrepreneurship based at home, to using the latest in computer and information technology to maintain a 'virtual' office that travels from point to point with you. **Telecommuting** is a work arrangement that allows at least some scheduled work hours to be completed outside of the office, with work-from-home one of the options. Often this is facilitated by computer links to clients or customers and a central office.

Telecommuting frees the jobholder from the normal constraints of commuting, fixed hours, special work attire and even direct contact with supervisors. It is popular, for example, among computer programmers and is found increasingly in such diverse areas as marketing, financial analysis and administrative support. New terms are becoming associated with telecommuting practices. We speak of *hotelling* when telecommuters come to the central office and use temporary office facilities; we are immersed in a world of *telemarketing* where customers are contacted and orders taken by service personnel working in diverse locations; and we often refer to *virtual offices* that include everything from an office at home to mobile workspace in cars and trucks.

Overall, there is no doubt that telecommuting is with us to stay as an important aspect of the continually developing workplace.[50] Along with it, predictably, come potential advantages and disadvantages from a job design and management perspective. When asked what they like about these alternatives, telecommuters tend to report increased productivity, fewer distractions, the freedom to be their own boss and the benefit of having more time for themselves. On the negative side, they cite working too much, having less time to themselves, difficulty separating work and personal life, and having less time for family.[51] Other considerations for the individual include feelings of isolation and loss of visibility for promotion. Managers, in turn, may be required to change their routines and procedures to accommodate the challenges of supervising people from a distance. Such problems tend to be magnified in situations where employees feel forced into these work arrangements rather than opting for them voluntarily.[52] One telecommuter's advice to others is 'You have to have self-discipline and pride in what you do, but you also have to have a boss that trusts you enough to get out of the way'.[53] Manager's notepad 16.2 offers several guidelines for how to make telecommuting work for you.[54]

MANAGER'S NOTEPAD 16.2

How to make telecommuting work for you

- Treat telecommuting like any work day; keep regular hours.
- Limit non-work distractions; set up a private space dedicated to work.
- Establish positive routines and work habits; be disciplined.
- Report regularly to your boss and main office; don't lose touch.
- Seek out human contact; don't become isolated.
- Use technology: instant messaging, intranet links, net meetings.
- Keep your freedoms and responsibilities in balance.
- Reward yourself with time off; let flexibility be an advantage.

A study of 79 telecommuters employed by large Australian organisations provides some interesting findings about the positive benefits and negative effects of telecommuting. In terms of the job characteristics model introduced earlier in this chapter, although the majority of those surveyed reported that they had some autonomy and flexibility in terms of their work schedule, only half of the employees thought that they had control of their workload, discretion in how they performed their work, and the ability to predict what they would be required to do from day to day. They generally believed their work to be significant, and viewed it as requiring skill, creativity, attention and awareness. Those surveyed also thought that they received appropriate feedback and reward for their efforts. Whereas most were comfortable with their working relationships, some felt psychologically isolated from their organisation and work colleagues. Work overload was a commonly identified problem for the telecommuters, resulting in difficulty in taking advantage of one of the key perceived benefits of telecommuting — achieving a balance between work and family responsibilities. In addition, many of the survey's respondents thought that telecommuting could impact negatively on their future career development. The study concluded that although there are potential benefits of telecommuting, including flexibility and variety, the problems noted by some telecommuters such as overload, inappropriate supervision and poor work–family balance, indicate that telecommuting 'cannot be seen as the ideal work form for all'.[55]

A study conducted in New Zealand found broadly similar results.[56] Interestingly, non-telecommuting staff were significantly more positive about the potential benefits of telecommuting than telecommuters. For instance, 75 per cent of non-telecommuters thought that telecommuting would improve their ability to balance work and family commitments; however, only 56 per cent of telecommuters were positive about telecommuting's ability to achieve this balance. Among the recommendations of the study are that those companies serious about integrating telecommuting should establish a formal work – personal life balance policy, undertake regular staff satisfaction surveys and implement training courses to help staff maximise the potential benefits of telecommuting.

Jenne Tzavaras is one person who can vouch for the benefits of telecommuting. Working from an office in Colombo, Sri Lanka, she continues to serve law firm DLA Phillips Fox in her role as a partner heading the company's insurance and risk-management group. Tzavaras moves location as her husband's role with a multinational corporation changes, and returns to her Sydney office for a week every two months to maintain physical contact with her clients and colleagues.[57]

Part-time and casual work

The growing use of part-time and casual workers is another striking employment trend. The number of casual workers has doubled over the last two decades, as organisations have pursued more flexible workforces in the face of increasingly complex and dynamic business environments. In 2013, over 2 million of Australia's workers were employed on a casual basis. Female casual workers represented 26.7 per cent and male casual workers 21.2 per cent of the total Australian workforce. Most notably, 39 per cent of all casual workers were found to be under 25 years of age.[58] Many casual and part-time employees would like to work additional hours.

Part-time work is permanent employment where the work is done on a schedule less than the standard working week and does not qualify the individual as a full-time employee. Employees holding part-time positions have a continuing agreement of employment and are generally entitled to a proportion of salary and benefits consistent with the number of hours worked.[59]

Casual work is a type of part-time employment where there is no agreement or promise of ongoing employment or availability to work. Casual employees are often employed during peak times when an organisation's workload is too high for its permanent workforce, or they may be hired during periods when permanent employees are ill or unavailable. Casual workers may work full-time hours during a particular period; however, most will work less than this, with availability of one to three days per week being common. Casual employees usually receive a salary loading in lieu of other benefits such as paid holidays and paid sick days.[60] Some employers use casual workers on a long-term basis to supplement the permanent workforce.

Casual work has increased in importance in recent years, with more than half of all new jobs created in Australia since 1988 being casual roles. Many casual employees have uncertainty about how much they will earn from one week to the next, and around one-third of all casuals indicate that they would like to work longer hours.[61]

A number of industries rely heavily on part-time and casual workers. Retail outlets such as Kmart employ an army of casual employees during the busy Christmas period as well as for stocktakes and sales, and during these times some of the casual workers might work full-time hours. Up to 90 per cent of workers in the fast-food sector are employed on a part-time or casual basis. This enables store managers to adjust labour costs according to demand (i.e. to have many workers on during the peak lunch and dinner periods, but not during the quiet periods in between).[62] It is possible to hire on a part-time or casual basis everything from executive support, such as a chief financial officer, to such special expertise as engineering, computer programming and market research.

Because casual workers can be easily hired and/or terminated and their hours can be adjusted in response to changing needs, many employers like the flexibility to control costs and deal with cyclical demand. On the other hand, some employers worry that casual workers lack the commitment of permanent workers and may lower productivity. Perhaps the most controversial issue of the casualisation of the workforce relates to the different treatment that casual workers may receive from employers. They may miss out on important benefits available to permanent staff and may also miss out on some of the social aspects of work. Of course, casual workers also lack security and stability of income. There is no doubt that many casual and part-time workers would like to achieve full-time status with their employers. On the other hand, some full-time workers would prefer to work fewer hours.

In a study undertaken by the Productivity Commission, around one-third of male part-time workers and a quarter of female part-time workers stated that they would prefer to work additional hours over and above their current workloads. Women re-entering the workforce and retirees aged over 60 have entered the part-time workforce in significant numbers in recent years, thus assuming work that may have previously gone to those looking to add to their existing hours of work.[63]

SOCIAL RESPONSIBILITY

Work–life balance in Australia

A University of London study focusing on Irish high-tech companies has found that the development of flexible work arrangements may significantly contribute to innovation and creativity in the IT sector. Nearly a quarter of all employees were women whose family responsibilities conflicted with the difficult demands of the IT sector being global such as working across time-zones, weekends and keeping abreast of rapid technological change. This caused women in particular to miss out on children's activities, leisure time and hobbies, to have interrupted sleeping patterns, to suffer the effects of stress and exhaustion on personal relationships, to work when feeling unwell and experience reduced quality of life. The biggest impact on women's work–life balance were long commute times, so it is not surprising that the study found that reducing working weeks and allowing working from home provided a positive effect on innovation and creativity, and reduced stress and conflict between colleagues.[64]

Although work–life balance has been shown to reduce stress and conflict and promote innovation and creativity, Australia is only ranked 29 of 35 leading countries, according to the OECD Better Life Index and people work significantly longer hours (1693 hours per year) than the OECD average (1176 hours per year). Nevertheless, Australians still feel that they have a good quality of life and are 'more satisfied with their lives than the OECD average, with 84 per cent of people saying they have more positive experiences in an average day (feelings of rest, pride in accomplishment, enjoyment, etc) than negative ones (pain, worry, sadness, boredom, etc.). This figure is higher than the OECD average of 80 per cent'.[65]

QUESTION

Would more flexible working arrangements (as discussed in the Irish study) benefit Australian organisations? Why do Australians feel more satisfied with their lives than the OECD average even though they work longer hours than many other countries?

16.5 Job stress

LEARNING OBJECTIVE 16.5 How can job and workplace stress be managed?

Flexibility in work scheduling can go a long way towards helping with the pressures and tensions of achieving a satisfactory work–life balance. However, it is also necessary to recognise and consider an important fact of working life. The jobs that people are asked to perform, and the relationships and circumstances under which they have to do them, are often causes of significant stress. Formally defined, **stress** is a state of tension experienced by individuals facing extraordinary demands, constraints or opportunities.[66] Any look towards your future work career would be incomplete without considering stress as a challenge that you are sure to encounter along the way — and a challenge that you must be prepared to help others learn to deal with.

With the ever present and ever changing demands of working in the contemporary economy, it is not surprising that people are experiencing more stress in their daily lives. In his book *The Future of Success*, for example, Robert Reich says that even though there is much to celebrate in modern working life, its 'rewards are coming at the price of lives that are more frenzied, less secure, more economically divergent, more socially stratified'.[67] At centre stage in this milieu stands job stress and its implications for the managerial role. Consider this statement by a psychologist working with top-level managers who have alcohol abuse problems: 'All executives deal with stress. They wouldn't be executives if they didn't. Some handle it well, others handle it poorly'.[68]

There are high costs associated with handling stress poorly. A report completed by the Inspire Foundation and Ernst & Young estimates that mental illness in males aged under 25 costs the Australian economy $3.27 billion a year. In addition, the National Survey of Mental Health and Wellbeing found that over 45 per cent of all Australians experience some form of mental illness at least once during their lives.[69] Researchers from Queen's University in Northern Ireland studied 142 cases of suicide among young men, and concluded that 45 per cent of the cases could be classified as 'executive stress', where the men were affected by severe workplace stress for which they had not sought medical help.[70]

Consistent with this finding, more than half of managers surveyed in Australia and the United Kingdom indicated that their long working hours impacted negatively on their health and wellbeing. In addition to the physical symptoms of irritability, sleep loss and heartburn, 45 per cent of all the respondents stated that their overwork actually contributed to lower levels of productivity.[71] In fact, over 20 per cent of Australian workers are reported to work more than 50 hours a week.[72]

Figure 16.6 presents a model of stress that indicates its major sources or causes and its consequences.

Sources of stress

The things that cause stress are called **stressors**. Whether they originate directly in the work setting or in personal and non-work situations, they all have the potential to influence one's work attitudes, behaviour and job performance.

Work factors have an obvious potential to create job stress. Today, we often experience such stress in long hours of work, excessive emails, unrealistic work deadlines, difficult bosses or co-workers, and unwelcome or unfamiliar work. It is associated with excessively high or low task demands, role conflicts or ambiguities, poor interpersonal relations, or career progress that is too slow or too fast. As noted elsewhere in this chapter, a great deal of stress can arise when there is a mismatch between people and their jobs and work environment. An introvert working in a job where outgoing, extroverted behaviour is required may quickly find the job to be highly stressful. Similarly, a work environment characterised by low morale and job insecurity could rapidly 'infect' employees who may otherwise be high performers.[73]

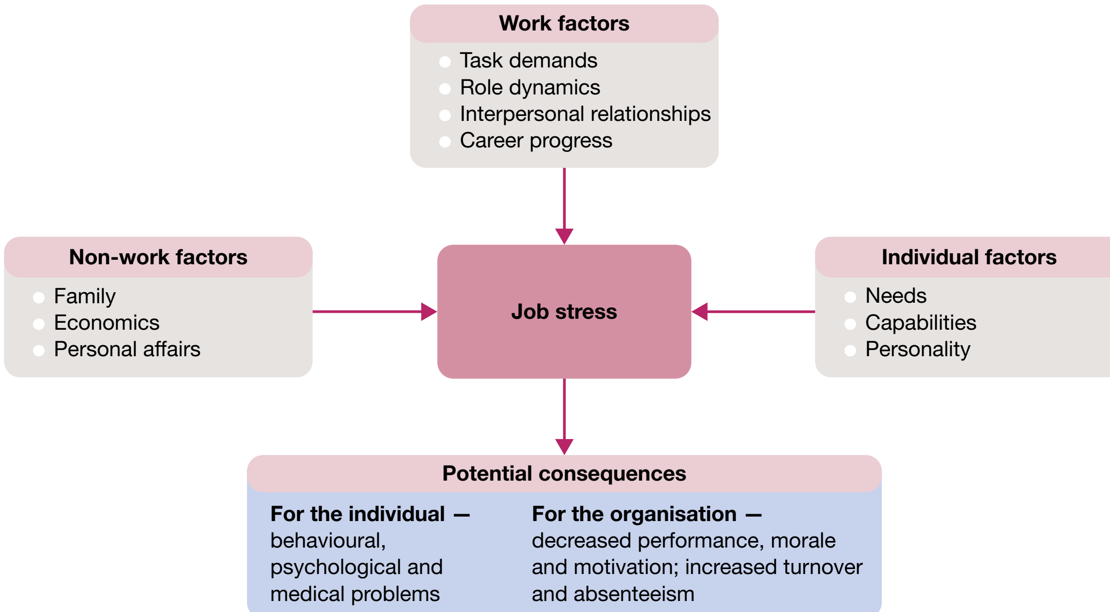

FIGURE 16.6 Potential consequences of work, non-work and personal stressors for individuals and organisations

A study undertaken by researchers at Macquarie University found that 'my future career' was first among the top five everyday concerns of Australians of all ages, genders and backgrounds. Commentator Richard Denniss made note of the overwhelming focus on work and careers among those aged between 28 and 35 in the study. He suggested that the pressures are two-fold — employees are worried about their job security, and the lengths they have to go to get ahead.

> People feel anxious that other people appear to be working longer and harder than them, because at 11 pm their colleague will send out an email copying in everyone in the office so that everyone knows they are still working late at night.[74]

Where and when work is performed can be significant work-related contributors to stress. For instance, over half of the mining industry employees in Western Australia work on 'fly-in fly-out' rosters in which they travel to their remote workplace for periods of seven days to a month (or more) before returning home for a break and then doing it all over again. Some employees are 'on call' and only contacted when work is available for them. One oil driller on $150 000 a year sat at home for six months of a one-year period while waiting for the message that he was needed on-site. The Perth-based wife of one miner, Nicole Ashby, told a parliamentary inquiry about the impacts of fly-in fly-out employment that 'it's hard to explain to a two-year-old that dad's at work, he's on an oil rig, and he's not coming back for four weeks'.[75] It's not only the friends and family left behind who pay the costs of fly-in fly-out rosters. The employees themselves live in 'manufactured' communities when not on the job, lack opportunities to relax and recreate, and may not integrate into the local community, even when stationed near substantial country towns.[76]

Stress tends to be high during periods of work overload, when office politics are common, and among persons working for organisations undergoing staff cutbacks and downsizing. This latter situation and lack of 'corporate loyalty' to the employee can be especially stressful to employees who view themselves as 'career' employees and who are close to retirement age. Two of the common work-related stress syndromes are (1) *set up to fail*, where the performance expectations are impossible or the support is totally inadequate for the task, and (2) *mistaken identity*, where the individual ends up in a job that doesn't match talents or that he or she simply doesn't like.[77]

Various personal factors are also sources of potential stress for people at work. Such individual characteristics as needs, capabilities and personality can influence how one perceives and responds to the work situation. Researchers identify a **Type A personality** that is high in achievement orientation, impatience and perfectionism. Type A people are likely to create stress in circumstances that others find relatively stress-free. In this sense, Type A people bring stress on themselves. The stressful behaviour patterns of Type A personalities include the following:[78]

- always moving, walking and eating rapidly
- impatient, hurrying others, disliking waiting
- doing, or trying to do, several things at once
- feeling guilty when relaxing
- trying to schedule more in less time
- using nervous gestures such as a clenched fist
- hurrying or interrupting the speech of others.

Finally, stress from *non-work factors* can have spillover effects that affect the individual at work. Stressful life situations including such things as family events (e.g. the birth of a new child), economics (e.g. a sudden loss of extra income) and personal affairs (e.g. a preoccupation with a bad relationship) are often sources of emotional strain. Depending on the individual and his or her ability to deal with them, preoccupation with such situations can affect people's work and add to the stress of work–life conflicts.

Consequences of stress

The discussion of stress so far may give the impression that it always acts as a negative influence on our lives. Stress actually has two faces — one constructive and one destructive.[79] The relationship between these types of stress and performance is shown in figure 16.7. The model demonstrates that, up to a point, moderate levels of stress can be healthy as they move us towards performing at our best. Above these levels, however, stress can become a destructive force in our lives.

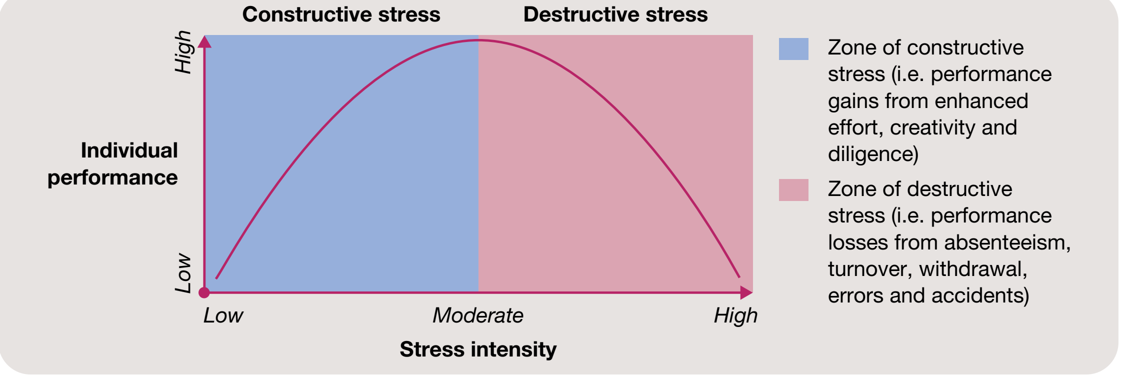

FIGURE 16.7 How stress intensity affects individual performance

Consider the analogy of a violin.[80] When a violin string is too loose, the sound produced by even the most skilled player is weak and raspy. When the string is too tight, the sound gets shrill and the string might even snap. However, when the tension on the string is just right — neither too loose nor too tight — beautiful sound is created. With just enough stress, in other words, performance is optimised.

The same argument tends to hold in the workplace. **Constructive stress** acts in a positive way for the individual and/or the organisation. It occurs in moderation and proves energising and performance enhancing.[81] The stress is sufficient to encourage increased effort, stimulate creativity and enhance diligence in a person's work, while not overwhelming the individual and causing negative outcomes. Individuals with a Type A personality, for example, are likely to work long hours and to be less satisfied with poor performance. For them, challenging task demands imposed by a supervisor may elicit higher levels of task accomplishment. Even non-work stressors such as new family responsibilities may cause them to work harder in expectation of greater financial rewards.

Just like tuning the violin string, however, achieving the right balance of stress for each person and situation is difficult. The question is: When is a little stress too much stress? **Destructive stress** is dysfunctional for the individual and/or the organisation. It occurs as intense or long-term stress that, as shown in figure 16.8, overloads and breaks down a person's physical and mental systems. Destructive stress can lead to **job burnout** — a form of physical and mental exhaustion that can be incapacitating both personally and with respect to one's work. Productivity can suffer as people react to very intense stress through turnover, absenteeism, errors, accidents, dissatisfaction and reduced performance. Today as well, there is increased concern for another job consequence of excessive stress, workplace rage — overtly aggressive behaviour towards co-workers and the work setting in general. Lost tempers are a common example — the unfortunate extremes are tragedies involving physical harm to others.[82] Depression may also result from the impacts of destructive stress. A study undertaken by the University of Melbourne estimated that stressful jobs were the primary cause of depression among 21 000 employees in Victoria.[83] This may understate the true reality of depression, since, whatever its causes, estimates of up to six million lost working days per year make its prevalence more like an epidemic than a mere disruption to organisational performance.[84]

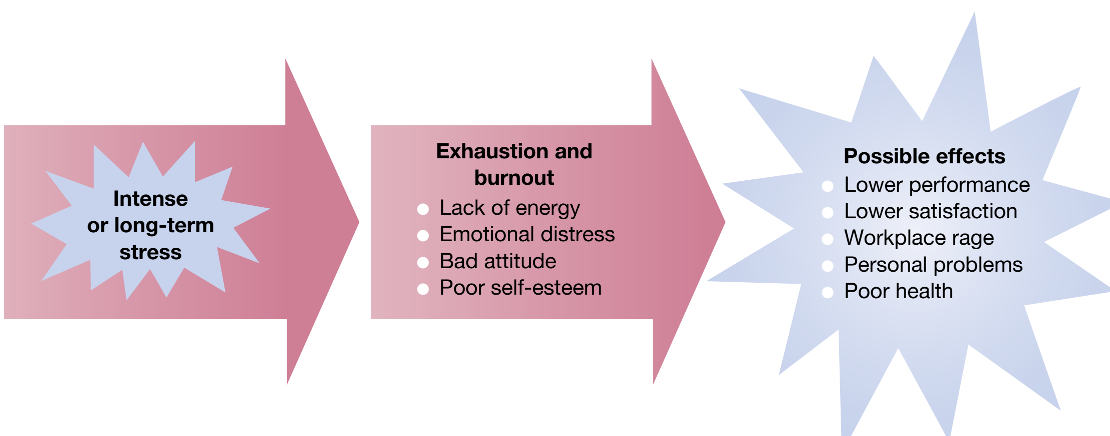

FIGURE 16.8 Potential negative consequences of a destructive job stress–burnout cycle

Medical research is also concerned that too much stress can reduce resistance to disease and increase the likelihood of physical and/or mental illness. It may contribute to health problems such as hypertension, ulcers, substance abuse, overeating, depression and muscle aches, among others.[85] Also important to understand is that excessive work stress can have spillover effects on someone's personal life. A study of dual-career couples found that one partner's work experiences can have psychological consequences for the other — as one person's work stress increases, the partner is likely to experience stress, too.[86] The bottom line here is that any stress we experience at work is contagious — it can affect our family and friends.

Stress management strategies

There are at least four reasons managers should also be skilled at dealing with workplace stress.[87] The first is *humanitarianism*. To the extent that managerial awareness and action can enhance employee health, managers have a humanitarian responsibility to do so. The fact that very few managers seem capable of such humanitarian behaviour is a real cause for concern. According to a recent Australian survey, almost one in every four employees who categorised their manager as a poor performer said that they took sick days when they weren't sick at all purely because they hated their boss![88] The second is *productivity*. Healthy employees are absent less often, make fewer errors and must be replaced less frequently than less healthy ones. The third is *creativity*. People in poor health tend to be less creative and are less likely to take reasonable risks than their healthy counterparts. The fourth is *return on investment*. When poor health reduces or removes the individual's contribution to the organisation, return on the time and money invested in human resources is lost.

Managers should be alert to signs of excessive stress in themselves and the people with whom they work. The multiple and varied symptoms of excessive stress include changes in work attitudes and performance as well as personal restlessness, irritability and stomach upsets. The best stress management alternative is to prevent it from reaching excessive levels in the first place. Stressors emerging from personal and non-work factors must be recognised so that action can be taken to prevent them from adversely affecting the work experience. Family difficulties may be relieved by a change of work schedule, or the anxiety they cause may be reduced by an understanding supervisor.

Among the work factors with the greatest potential to cause excessive stress are role ambiguities, conflicts and overloads. *Role clarification* through a management by objectives (MBO) approach can work to good advantage here. By bringing the supervisor and subordinate together in face-to-face task-oriented communications, MBO offers an opportunity to spot stressors and take action to reduce or eliminate them. Another issue is often a poor fit between individual abilities and aspirations and job demands. In this case job redesign may be helpful to better configure task requirements. Alternatively, changing jobs altogether can help achieve the desired person–job fit. People can also be encouraged to maintain adequate self-awareness and take a realistic approach to their responsibilities.

Sometimes others need help to combat the tendency of 'working too much'. They need to be reminded not to forgo holidays, or not to work excessive overtime, for example. Many organisations provide special help in the form of *employee assistance programs*. These programs help employees deal with special problems that may be adding excessive stress to their lives, such as personal financial problems, difficulties with childcare or aged care, substance abuse and so on. In organisations undergoing downsizing, lay-offs or cutbacks, it is important to understand the *survivor syndrome* — stress experienced by people who remain but fear for their jobs in the future. As more organisations experience this phenomenon, they are responding with programs to help those employees who remain employed to cope better after major staff cutbacks have occurred.

Personal wellness is a term used to describe the pursuit of one's physical and mental potential through a personal health promotion program.[89] This form of *preventive stress management* recognises the individual's responsibility for enhancing his or her personal health through a disciplined approach to such things as smoking, alcohol use, maintaining a nutritious diet, and engaging in a regular exercise and physical fitness program. The essence of personal wellness is a lifestyle that reflects a true commitment to health.

Personal wellness makes a great deal of sense as a personal stress-management strategy. Those who aggressively maintain their personal wellness are better prepared to deal with the inevitable stresses of work and work–life conflicts. They may be able to deal with levels of workplace stress that are higher than others can tolerate; they may also have more insight into the personal wellness needs of their subordinates. Indeed, many organisations are now formally sponsoring wellness programs for employees. Among the health promotion activities typically offered are smoking control, health risk appraisals, back care, stress management, exercise/physical fitness, nutrition education, high blood pressure control and weight control. The expectations are that investments in such programs benefit both the organisation and its employees. Failing to recognise the importance of stress management can contribute to serious mental health problems. There is evidence to suggest that too much stress can contribute to longer term mental problems.[90]

A recent audit of Melbourne's Council House 2 (CH2), an office building rated at six stars for its green design and focus on sustainability, found that employee productivity and happiness rose after relocation to CH2. These positive outcomes were attributed to the building's use of natural light and low-energy light fittings, the installation of LCD computer monitors, and the provision of bicycle parking, showers and changing rooms. For Melbourne's Lord Mayor, John So, the results were 'outstanding'.[91] While major companies including Woolworths, Computershare, ING and Ernst & Young have installed company gyms in recent years, psychologist James Dimmock notes that many employees may not take advantage of such facilities if they are worried about how colleagues may evaluate and judge their bodies.[92]

The national body tasked with educating the community about the destructive impacts of depression, beyondblue, has trained tens of thousands of Australian employees in identifying and responding to depression in their lives and in the lives of their colleagues and friends. A researcher from the Queensland University of Technology, Michael Hilton, estimates the cost of untreated depression as being around $10 000 per employee. Thankfully, much of this cost can be recovered if sufferers receive appropriate treatment.[93]

Ultimately, the keys to personal stress management throughout a career rest with knowing how to help yourself. It is fitting, therefore, to end this discussion with Manager's notepad 16.3 and its useful guidelines for coping with workplace stress.[94]

MANAGER'S NOTEPAD 16.3

Six ways to cope with workplace stress

1. *Take control of the situation*. Do your best, know your limits and avoid unrealistic deadlines.
2. *Pace yourself*. Plan your day to do high-priority things first, but stay flexible and try to slow down.
3. *Open up to others*. Discuss your problems, fears and frustrations with those who care about you.
4. *Do things for others*. Think about someone else's needs, and try to help satisfy those needs.
5. *Exercise*. Engage in regular physical activity as recommended by your doctor.
6. *Balance work and recreation*. Schedule time for recreation, including holidays from your work.

CRITICAL ANALYSIS

1. Employees with Type A personalities tend to experience greater stress than those with calm and even temperaments. On the other hand, several Type A characteristics are often viewed as essential to giving the appearance of high levels of workplace achievement. How can these realities be reconciled?
2. In an increasingly competitive and high-pressure business environment, instances of workplace rage will inevitably increase. How can managers minimise the potential for such rage in organisations?

SUMMARY

16.1 What is the meaning of work?

- Work is an activity that produces value for people; it is something people do to 'earn a living'.
- Work is an exchange of values between individuals who offer contributions such as time and effort to organisations that offer monetary and other inducements in return.
- A healthy psychological contract occurs when a person believes that his or her contributions and inducements are in balance. It is one component in a high quality of work life (QWL).
- QWL is an important issue in creating opportunities for positive work–life balance.

16.2 What are the issues in satisfaction, performance and job design?

- Job design is the process of creating or defining jobs by assigning specific work tasks to individuals and groups.
- Jobs should be designed so workers enjoy high levels of both job performance and job satisfaction.
- The high-performance equation states: Performance = Ability × Support × Effort.
- Job simplification creates narrow and repetitive jobs consisting of well-defined tasks with many routine operations, such as the typical assembly-line job.
- Job enlargement allows people to perform a broader range of simplified tasks. Job rotation allows people to transfer between different jobs of similar skill levels on a rotating basis.
- Job enrichment results in more meaningful jobs that involve more autonomy in decision-making and broader task responsibilities.

16.3 How can jobs be enriched?

- The diagnostic approach to job enrichment involves analysing jobs according to five core characteristics: skill variety, task identity, task significance, autonomy and feedback.
- Jobs deficient in one or more of these core characteristics can be redesigned to improve their level of enrichment.
- Jobs can be enriched by forming natural work units, combining tasks, establishing client relationships, opening feedback channels and vertically loading to give workers more planning and controlling responsibilities.
- Job enrichment does not work for everyone. It works best for people with a high growth-need strength — the desire to achieve psychological growth in their work.

16.4 What are alternative work arrangements?

- Alternative work schedules can make work hours less inconvenient and enable organisations to respond better to individual needs and personal responsibilities.
- The compressed work week allows a full-time work week to be completed in fewer days.
- Flexible working hours allow people to adjust the starting and ending times of their daily schedules.
- Job sharing allows two people to share one job.
- Telecommuting allows people to work at home or in mobile offices through computer links with their employers and/or customers.
- An increasing number of people work on part-time schedules. More and more organisations are employing part-timers or casual workers to reduce their commitments to full-time positions.

16.5 How can job and workplace stress be managed?

- Stress occurs as the tension accompanying extraordinary demands, constraints or opportunities.
- Stress can be destructive or constructive — a moderate level of stress typically has a positive impact on performance.
- Stressors are found in a variety of work, personal and non-work situations.
- For some people, having a Type A personality creates stress as a result of continual feelings of impatience and pressure.
- Stress can be effectively managed through both prevention and coping strategies, including a commitment to personal wellness.

KEY TERMS

Automation is the total mechanisation of a job.

Casual work is a type of part-time employment where there is no agreement or promise of ongoing work. Casual employees may be employed during peak business periods to supplement a permanent workforce and to provide management with greater flexibility in managing labour.

A **compressed work week** allows a full-time job to be completed in less than five days.

Constructive stress acts in a positive way to increase effort, stimulate creativity and encourage diligence in one's work.

Destructive stress impairs the performance of an individual.

Flexible working hours give employees some choice in the pattern of daily work hours.

Growth-need strength is the desire to achieve psychological growth in one's work.

Job burnout is physical and mental exhaustion that can be incapacitating personally and with respect to work.

Job design is the allocation of specific work tasks to individuals and groups.

Job enlargement increases task variety by combining into one job two or more tasks previously assigned to separate workers.

Job enrichment increases job depth by adding work planning and evaluating duties normally performed by the supervisor.

Job involvement is defined as the extent to which an individual is dedicated to a job.

Job performance is the quantity and quality of task accomplishment by an individual or group.

Job rotation increases task variety by periodically shifting workers between jobs involving different tasks.

Job satisfaction is the degree to which an individual feels positively or negatively about a job.

Job sharing splits one job between two people.

Job simplification involves employing people in clearly defined and very specialised tasks.

Organisational commitment is defined as the loyalty of an individual to the organisation.

Part-time work is a form of permanent employment in which the worker works for less than the full-time working week.

Personal wellness is the pursuit of your full potential through a personal health promotion program.

A **psychological contract** is the set of expectations held by an individual about working relationships with the organisation.

A **sociotechnical system** integrates technology and human resources in high-performance systems.

Stress is a state of tension experienced by individuals facing extraordinary demands, constraints or opportunities.

Stressors are the things that cause stress.

Telecommuting involves working at home or other places using computer links to the office.

A **Type A personality** is a person oriented towards extreme achievement, impatience and perfectionism.

APPLIED ACTIVITIES

1. What is a 'healthy' psychological contract?
2. What difference does growth-need strength make in the job enrichment process?
3. Why is it important for a manager to understand the Type A personality?
4. Why might an employer not be interested in offering employees the option of working on a compressed work week schedule?
5. Tony Cheah just attended a management development program in which the following 'high-performance equation' was discussed:

$$\text{Performance} = \text{Ability} \times \text{Support} \times \text{Effort}$$

As a factory manager, he is interested in implementing the concept. He plans to hold a meeting for all his team leaders to explain the implications of this equation. If you were Tony, how would you explain the importance of each performance factor — ability, support, effort — and how would you explain the significance of the multiplication signs in the equation?

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CHAPTER 17

Teams and teamwork

LEARNING OBJECTIVES

17.1 How do teams contribute to organisations?
17.2 What are current trends in the use of teams?
17.3 How do teams work?
17.4 How do teams make decisions?
17.5 What are the challenges of high-performance team leadership?

Telstra and Cisco create a new approach to teamwork

Telstra is Australia's principal telecommunication and information provider, with 16.7 million mobile services customers, 7.3 million fixed-voice services and 3.1 million retail fixed broadband services by 2016. The company also has a presence in 15 other countries, including China, and is committed to digitally connecting businesses, government, communities and individuals.[1] Some of the challenges Telstra faced in meeting this goal were the need to improve ways to communicate and collaborate — existing email technologies being too slow and often without context — and enable more effective team collaboration.[2] Therefore, in 2015 Telstra adopted Cisco's new service Spark, which allows collaborative teamwork via a 'chat service' rather than through the slower use of emails.

Spark, the new software application, enables users to work from any mobile device as well as desktops. The application aids teamwork through chatrooms, voice and video calls, virtual meetings and screen sharing, and can manage 25 callers in a single video call. Telstra's unified communications director, Boris Corluka, said 'the platform had been designed to have the look and feel of a consumer platform, because that is what employees are demanding now.[3] Now that Telstra are using Spark, a Telstra senior product manager, Akash Jattan, describes how team members can be more forthcoming in Spark stating that 'with Spark I say it as it is . . . It takes me about 30 percent less time than composing an email'. The ease by which Spark also allows sharing of photos and whiteboard sessions also contributes to the efficiency of collaboration, 'The information in a Spark team room provides the context for the conversation . . . Outcomes have improved, and meetings that used to take me an hour can now take 20 minutes'. [4] All in all, the Telstra–Cisco relationship enables a new approach to teamwork in a faster pace digital age.

QUESTIONS

1. How might the use of digital resources aid or hinder the development of team relationships?
2. Would team relationships be improved by the faster flow of information provided by digital technologies?

Introduction

Henriette Rothschild, the Melbourne-based director of international management consultancy Hay Group, notes that focused and strong leadership teams become particularly crucial to organisational survival during tough times, observing: 'The so-called "Lone Ranger CEO" is losing credibility. A leadership team can prove invaluable when making complex decisions in light of share-price meltdowns, profit erosion, inflation and increased public scrutiny on management performance.'[5]

The contemporary workplace is rich in teams and teamwork. In building high performance organisations driven by speed, innovation, efficiency, spontaneity and continuous change, harnessing the great potential of teams and teamwork is a part of the process. The overall goal is always to create work environments within which the full talents of people are enthusiastically mobilised in support of organisational goals. The human capital of organisations must be nurtured and developed both at the level of the individual contributor and at the level of the work group or team, our present concern. But even as we recognise that finding the best ways to use teams as performance resources is an increasingly important managerial task, the ability to successfully lead through teamwork is not always easy to achieve.

The words *group* and *team* elicit both positive and negative reactions in the minds of many people. As noted by Australian writer Adele Ferguson, teams can represent the very best or the very worst, although most teams are probably somewhere between these two extremes:

> Teams are appealing because they hold out the promise of something along the lines of the family unit: caring, sharing, loving and committed. The belief is that the ideal team is a miracle of autonomous cross-functional efficiency. It shares knowledge and creates solutions. It cuts costs and is close to the customer. Put simply, teams increase productivity, improve communication and improve processes.

She goes on to say that the rules for work have been changing. Employees are being assessed by their ability to work in a team, affecting who is hired, promoted, or let go. Ferguson suggests that supporters of the 'dream team' forget that drawbacks, such as rivalry and bitchiness, also occur. Individuals can be caught between wanting to belong and wanting to be recognised for their own merits. These elements often serve to subvert the 'dream team'.[6]

17.1 Teams in organisations

LEARNING OBJECTIVE 17.1 How do teams contribute to organisations?

Most tasks in organisations are well beyond the capabilities of individuals alone — they can only be accomplished by people working together in teams. Especially in this age of intellectual capital and knowledge work, true managerial success will be earned in substantial part through success at mobilising, leading and supporting high-performing teams. The new organisational designs and cultures require it, as does any true commitment to empowerment and employee involvement.[7] There is no doubt that teams are indispensable to the new workplace. The question for managers and team leaders, and the guiding theme of this chapter, thus becomes: how do we make sure that teams and teamwork are used to everyone's best advantage?

Before proceeding, let's be specific about the terminology. A **team** is a small group of people with complementary skills, who work together to accomplish shared goals while holding themselves mutually accountable for performance results.[8] **Teamwork** is the process of people working together to accomplish these goals.

Challenges of teamwork

Figure 17.1 shows four important roles that managers must perform in order to fully master the challenges of teams and teamwork. These roles, along with examples, are: *supervisor* — serving as the appointed head of a formal work unit; *facilitator* — serving as the peer leader and networking hub for a special task force; *participant* — serving as a helpful contributing member of a project team; and *coach* — serving as the external sponsor of a problem-solving team staffed by others. In all of these settings, performance results will depend on both understanding how teams operate and actively helping them succeed.

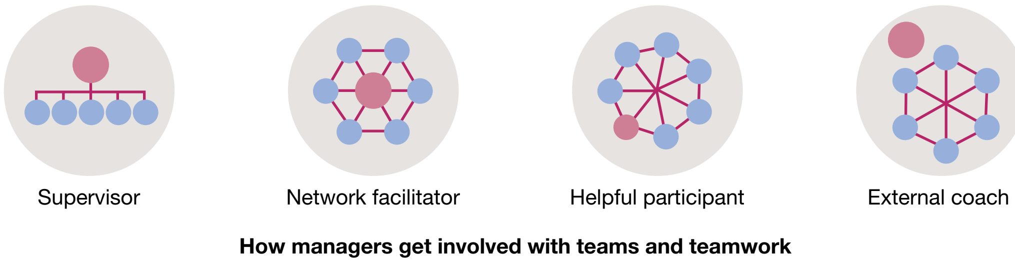

FIGURE 17.1 Team and teamwork roles for managers

Experience has taught all of us that teams and teamwork are not problem-free. Who hasn't heard people complain about having to attend what they consider to be another 'time-wasting' meeting? [9] And who hasn't encountered **social loafing** — the presence of 'free-riders' who slack off because responsibility is diffused in teams and others are present to do the work?[10] Things don't have to be this way. The time we spend in groups can be productive and satisfying, but to make it so we must understand the complex nature of groups and their internal dynamics.[11]

An important skill is knowing *when* a team is the best choice for a task. Another is knowing *how* to work with and manage the team to best accomplish that task. Take social loafing as an example. What can a leader or other concerned team member do when someone is free-riding? It's not easy, but the problem can be handled. Actions can be taken to make individual contributions more visible, reward individuals for their contributions, make task assignments more interesting, and keep group size small so that free-riders are more visible and subject to peer pressure and leader evaluation.[12]

As we proceed, keep in mind other problems encountered when we work in teams. Personality conflicts are commonplace. Individual differences in personality and work style can disrupt the team. Tasks are not always clear. Ambiguous agendas and/or ill-defined problems can cause teams to work too long on the wrong things. Not everyone is always ready to work. Sometimes the issue is motivation, but it may be due to conflicts with other work deadlines and priorities. It may also be caused by a lack of team organisation and/or progress. Time is wasted when meetings lack purpose and when members come unprepared. Effective teams have members who perform a variety of roles. As well as the leadership function, teams need people who can record their progress, provide new ideas and manage conflicts. These and other difficulties can turn the great potential of teams into frustration and failure.

Clearly, teams are hard work. But, they are also worth it.

Synergy and the usefulness of teams

A major reason that teams are worth the effort is **synergy** — the creation of a whole that is greater than the sum of its parts. Teamwork in our society makes available everything from aircraft to the internet to music videos. It all happens because of synergy, the bringing together of individual talents and efforts to create things. Synergy occurs when a team uses its membership resources fully and thereby achieves through collective action far more than could otherwise be achieved. This is an important advantage for organisations facing the uncertainties and demands of increasingly complex operating environments.

Teams are also useful in other ways. They can be very beneficial for their members. Being part of a team can have a strong influence on individual attitudes and behaviours. When the experience is positive, working in and being part of a team helps satisfy important individual needs. Sometimes these are needs that may be difficult to meet in the regular work setting. Thus, teams can be very good for both organisations and their members. They are an indispensable human resource whose usefulness in the work setting includes:

- more resources for problem-solving
- improved creativity and innovation
- improved quality of decision-making
- greater commitments to tasks
- higher motivation through collective action
- better control and work discipline
- more individual need satisfaction.[13]

Formal and informal groups

The teams officially recognised and supported by the organisation for specific purposes are **formal groups**. They are part of the formal structure and are created to fulfil a variety of essential operations. A good example is the work group consisting of a manager and subordinates, and responsible for the continuing performance of tasks important to the organisation. Work groups exist in various sizes and go by different labels. They may be called *departments* (e.g. market research department), *units* (e.g. product assembly unit), *teams* (e.g. customer service team) or *divisions* (e.g. office products division), among other possibilities. In all cases, they are the building blocks of organisation structures. Indeed, in Rensis Likert's classic view of organisations, they are interlocking networks of groups in which managers and leaders serve important 'linking pin' roles.[14] Each manager or leader serves both as a superior in one functional group and as a subordinate in the next higher level group. When the resulting vertical and horizontal links are well managed, they help integrate the diverse activities and accomplishments of teams throughout an organisation.

Standing in contrast to the formal groups just described are the **informal groups** that are also present and important in every organisation. These informal groups are not recognised on organisation charts and are not officially created to serve an organisational purpose. They emerge as part of the informal structure and from natural or spontaneous relationships among people. You might recognise these as *interest groups* in which workers band together to pursue a common cause or special position, such as a concern for poor working conditions. Some emerge as *friendship groups* that develop for a wide variety of personal reasons, including shared non-work interests. Others emerge as *support groups* in which the members basically help one another do their jobs.

Informal groups may also include people from outside the immediate organisation. For instance, increasingly complex Australian tax laws are encouraging accountants with small practices to develop informal alliances with friendly, often larger firms, who can share expertise and knowledge. Small practices may use the services of a tax barrister based at a larger practice to provide written advice or representation for a client.[15] Two points about informal groups are especially important for managers to understand. First, informal groups are not necessarily bad. Indeed, they can have a positive impact on work performance. In particular, the relationships and connections made possible by informal groups may actually help speed the workflow or allow people to 'get things done' in ways not possible within the formal structure. Second, informal groups can help satisfy social needs that members find otherwise thwarted or not met in the formal work setting. Among other things, members of informal groups often find that the groups offer social satisfactions, security, support and a sense of belonging.

CRITICAL ANALYSIS

1. John works in the marketing department of a sports clothing company as a product development specialist. He joined the company mainly because of his love of sports and has recently set up a sports group that meets on the weekend. What types of groups does John belong to in each case? Why is each group an important contributor to improving organisational performance?
2. What skill sets must John have to succeed in these types of groups? How can such skills be developed?

17.2 Trends in the use of teams

LEARNING OBJECTIVE 17.2 What are current trends in the use of teams?

The trend toward greater empowerment in organisations has been associated with developments that extend the use of teams beyond the formal group or work team described earlier.[16] This is supported by more recent research in China which showed that decentralisation improves team empowerment.[17] In previous chapters, for example, we noted the growing use of cross-functional teams to improve integration. A variety of employee involvement teams, including quality circles, are also increasingly commonplace as managers seek to expand opportunities for broad-based participation in workplace affairs. Developments in information technology are also creating further opportunities for people to work together in computer-mediated or virtual teams.

Committees

A **committee** brings people together outside of their daily job assignments to work in a small team for a specific purpose. The task agenda is typically narrow, focused and ongoing. Membership changes over time as the committee remains in existence. Committees are led by a designated head or chairperson, who is held accountable for performance results. Organisations usually have a variety of permanent or standing committees dedicated to a wide variety of concerns — diversity and compensation are two common examples.[18]

At retailer David Jones, a management committee meets regularly to consider issues relating to how well they are implementing the company's strategy. The committee, consisting of the chief executive officer (CEO) and senior executives, also oversees all of the organisation's administrative processes.

Project teams and task forces

Task forces or project teams perform important work for the organisation, but exist only temporarily. Importantly, the task assignments for project teams and task forces are very specific; completion deadlines are also clearly defined. Once the project or task is completed, the team disbands. On long-running projects, the membership of the team may change over time. Creativity and innovation are very important. Project teams, for example, might be formed to develop a new product or service, redesign an office layout or provide specialised consulting for a client.[19] Like committees, project teams and task forces bring together people from various parts of an organisation to work on common problems. They bring to the team special skills and expertise critical to its purpose. In order to achieve the desired results, any project team or task force must be carefully established and then well run. Some guidelines for managing projects and task forces are found in Manager's notepad 17.1.[20]

MANAGER'S NOTEPAD 17.1

Guidelines for managing projects and task forces

- Select appropriate team members who will be challenged by the assignment, who have the right skills and who seem able to work well together.
- Clearly define the purpose of the team to ensure that members and important outsiders know what is expected, why, and on what timetable.
- Carefully select a team leader who has good interpersonal skills, can respect the ideas of others and is willing to do what needs to be done.
- Periodically review progress to ensure that all team members feel collectively accountable for results, and that they receive performance feedback.

Cross-functional teams

Organisational design today emphasises adaptation and horizontal integration.[21] It emphasises problem-solving and information sharing. It tries to eliminate the functional chimneys problem — the tendency of workers to remain within their functions and restrict communication with other parts of an organisation. **Cross-functional teams**, whose members come from different functional units and parts of an organisation, are indispensable to the fulfilment of these design goals.

Typically, the members of a cross-functional team come together to work on a specific problem or task with the needs of the whole organisation in mind. They are expected to share information, explore new ideas, seek creative solutions and meet project deadlines. Importantly, they are expected not to be limited by narrow functional concerns and demands. Rather, the team members collectively and individually are to think and act cross-functionally and in the best interests of the total system.

Employee involvement teams

Another development in today's organisations is the use of **employee involvement teams**. These are groups of workers who meet on a regular basis outside of their formal assignments, with the goal of applying their expertise and attention to important workplace matters. The general purpose of employee involvement teams is continuous improvement. Using a problem-solving framework, the teams try to bring the benefits of employee participation to bear on a wide variety of performance issues and concerns.

Another popular form of the employee involvement team is the **quality circle**, a volunteer group of people who discuss workplace and service improvements and suggest these ideas to their managers. They relate mainly to the quality of output or services to boost organisational performance and enhance staff motivation. They operate continuously to control organisation-wide activities and involve all organisational members.[22] Quality circles became popular with some companies in Western countries, in part because of their place in Japanese management. Along with other types of involvement teams, they are now found in organisations where empowerment and participation are valued as keys to high performance.

Virtual teams

A newer form of group that is increasingly common in today's organisations is the **virtual team**, sometimes called a *computer-mediated group* or *electronic group network*.[23] This is a team of people who work together and solve problems largely through computer-based rather than face-to-face interactions. The chapter on information and decision-making highlighted the role of new technology in today's organisations. Among the many developments, the sophistication of networking technologies and groupware programs is highly significant. As organisations become increasingly global in their operations and perspectives, the opportunity to use virtual teams whose members are physically dispersed, even among locations around the world, is highly advantageous.

The use of intranets and special software support for computerised meetings is changing the way many committees, task forces and other problem-solving teams function.[24] Working in virtual environments, team members consider problems and seek consensus on how to best deal with them. This is just like any team in respect to what gets done. How things get done, however, is different for virtual teams. This can be a source of both problems and advantages, which should be understood by managers considering the use of virtual teams in daily affairs.

Problems in virtual teamwork can occur when the members have difficulty establishing good working relationships. Relations among team members can become depersonalised as the lack of face-to-face interaction limits the role of emotions and non-verbal cues in the communication process.[25] But virtual teams also have many advantages. They can save time and travel expenses. They can allow members to work collectively in a time-efficient way, and without interpersonal difficulties that might otherwise occur — especially when the issues are controversial. Virtual teams can also be easily expanded to include additional experts (as needed), and the discussions and information shared among team members can be stored online for continuous updating and access.

Developing insights on virtual teams suggests that following some basic guidelines can help ensure that the advantages outweigh the disadvantages. The critical ingredients relate to the creation of positive impressions and the development of trust among team members who lack face-to-face meeting opportunities. Firstly, virtual teams should begin with social messaging that allows the exchange of information to personalise the process. Secondly, virtual team members should be assigned clear roles so that they can focus while working alone and also know what others are doing. Thirdly, virtual team members must bring to the team positive attitudes that support a willingness to work hard to meet team goals.[26]

Ideally, the virtual team members should have at least one opportunity to meet face-to-face as the team is established. This allows members to develop a better understanding of their colleagues and more rapidly build trust and protocols for positive communications. Although potentially costly, increasing numbers of organisations believe the benefits from such meetings outweigh the costs.

TECHNOLOGY

Social work in Australia: virtual teams offer supervision

Social welfare in rural Australia is being hampered by high levels of turnover and burnout among social workers and problems retaining and recruiting staff. Limitations in supervision and professional development have exacerbated these difficulties. Amanda Nickson, a lecturer in social work and human services at James Cook University in Queensland, undertook a 12-month research trial to investigate how peer supervision in virtual teams may operate in rural and remote Australia.

Seven themes emerged from the research: professional association, support, education, reflection on practice, structure and process, technology, and the challenges of time, preparation and priority.

Nickson found that traditional social work supervision models had withered in workplaces across rural, remote and regional Australia to the extent that 80 per cent of participants had not received any supervision. A small minority were supervised by health professionals acting in an administrative capacity rather than in a manner that affected social work interventions.

Her research found that the use of basic technologies such as conference telephone calls allowed for effective virtual supervision as many participants in remote and rural areas lacked access to reliable video technology and internet connections. She describes how participants benefited from 'a clear structure and process' that 'contributed to a safe space where peers could share and reflect on successes and challenges in practice, discuss ethical dilemmas, receive feedback and ideas from trusted colleagues, give and receive support, learn, and experience connection with fellow like-minded social workers' when working virtually.

Over the 12-month period the virtual teams that adhered to the 'structure and process' approach lasted the year of monthly supervision sessions compared to teams without such an organised approach, who failed after only a few months.

Overall, Nickson's research showed that virtual teams provide a conduit for peer supervision of professionals working in rural or remote Australia. Furthermore, virtual teams promote the retention of social workers in these regions and can be applied to the supervision of virtual teams in city environs.[27]

QUESTION

If you were the manager of a remote team how would you use technologies to shape the structure and processes of your team? What rules would you use to maintain these structures and processes?

International teams

Employees are increasingly being asked to become members of **international teams**, particularly if they are undertaking an overseas assignment or working within a multinational company. International teams comprise members of different nationalities, and so the real challenge is to manage the cultural differences so that the team performs effectively.

International teams have arisen in response to a number of contemporary pressures on organisations. Globalisation has encouraged the view that companies in many industries, such as pharmaceuticals and motor vehicles, should take advantage of the opportunity to have a presence in international markets, and this usually requires that people work together across two or more countries. Many organisations are pursuing international strategic alliances, mergers, acquisitions or joint ventures. International teams are often established to help manage the new organisational structures created from these moves. In addition, the increased scientific and environmental complexities of many of the issues confronting today's organisations demand that the best expertise is used, no matter where it is located within the organisation, and the rise of better communications and IT makes interacting with colleagues in different locations far easier than in the past, as was noted in the previous discussion of virtual teams.

Issues arising from cultural differences can easily derail the performance of international teams, whether these differences involve language, understanding, communication styles, or the simple fact that members of the team may be located in different countries. For instance, a Hong Kong Chinese manager working in Hong Kong for a British-owned bank stated: 'When I went to Australia, I had to learn to interrupt or else I would never have spoken at all.'[28]

Few managers from 'doing' and 'action-oriented' cultures such as the North American, British, Australian, New Zealand and Scandinavian cultures are comfortable with the reality that teams that work first on their personal interactions start slowly, plan carefully and often speed up exponentially as they move further into their work. Managers from these cultures can easily become frustrated if they find their team colleagues working methodically and systematically when all they want to do is 'dive in' and move as quickly as possible.

Many companies use skilled facilitators to maximise the effectiveness of their international teams. These facilitators can help international teams move more quickly towards high performance by using appropriate support processes such as undertaking regular team reviews and helping teams to clearly specify their key goals and targets.[29]

Self-managing work teams

In a growing number of organisations the *functional team* consisting of a first-level supervisor and his or her immediate subordinates is disappearing. It is being replaced with a new organisational form built from the foundation of **self-managing work teams**. Sometimes called *autonomous work groups*, these are teams of workers whose jobs have been redesigned to create a high degree of task interdependence and who have been given authority to make many decisions about how they go about doing the required work.[30]

It is reported that one of the keys to Barack Obama's election as US President was the evolution of a grassroots support organisation — comprising millions of North Americans — who organised themselves into self-managing teams based on their shared passion for the presidential candidate. Management writer David James argues that such a spontaneous organisation would be unlikely to occur in Australia, whether in politics or elsewhere, because of the preferences of the nation's managers to pursue more authoritarian styles of leadership.[31]

Self-managing teams operate with participative decision-making, shared tasks and responsibility for many of the managerial tasks performed by supervisors in more traditional settings. The 'self-management' responsibilities include planning and scheduling work, training members in various tasks, sharing tasks, meeting performance goals, ensuring high quality and solving day-to-day operating problems. In some settings, the team's authority may even extend to 'hiring' and 'firing' its members when necessary.

A key feature is *multi-tasking*, in which team members each have the skills to perform several different jobs. As shown in figure 17.2, typical characteristics of self-managing teams are as follows.

- Members are held collectively accountable for performance results.
- Members have discretion in distributing tasks within the team.
- Members have discretion in scheduling work within the team.
- Members are able to perform more than one job on the team.
- Members train one another to develop multiple job skills.
- Members evaluate one another's performance contributions.
- Members are responsible for the total quality of team products.

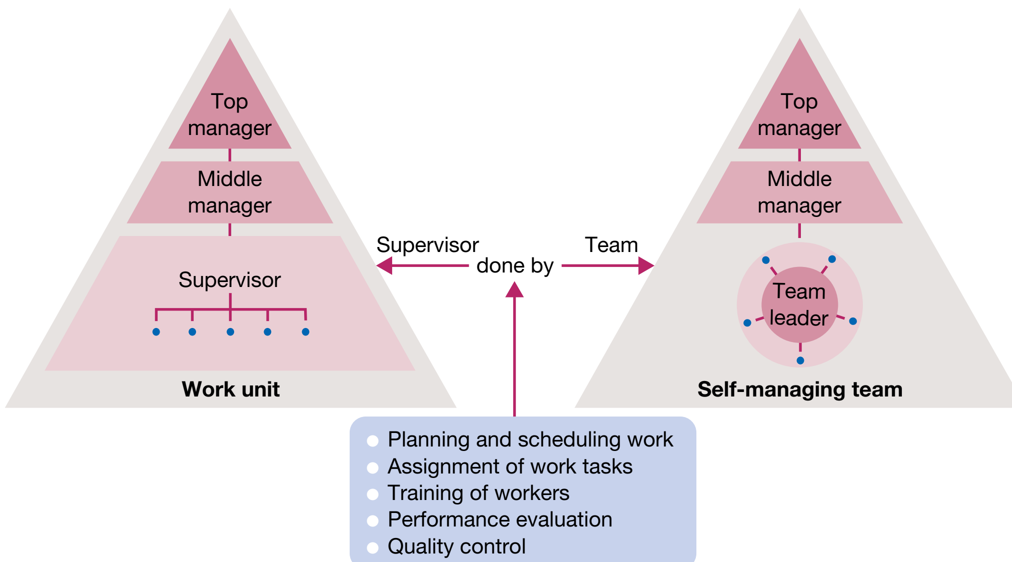

FIGURE 17.2 Organisational and management implications of self-managing work teams

The structural implications of self-managing teams are also shown in figure 17.2. Members of a self-managing team report to higher management through a team leader rather than a formal supervisor, making the role of first-line supervisor unnecessary. This is an important change in the traditional structure because each self-managing team handles the supervisory duties on its own, and each team leader handles the upward reporting relationships. High-level managers to whom self-managing teams report must learn to work with teams rather than individual subordinates. This can be a difficult challenge for some managers who are used to more traditional operating methods. As the concept of self-managing teams spreads globally, researchers are examining the receptivity of different cultures to self-management concepts.[32] Such cultural dimensions as high power distance and individualism, for example, may generate resistance that must be considered when implementing this and other team-based organisational practices.

Within a self-managing team the emphasis is always on participation. The leader and members are expected to work together not only to do the required work but also to make the decisions that determine how the work gets done. A true self-managing team emphasises team decision-making, shared tasks, high involvement and collective responsibility for accomplished results. The expected advantages include better performance, decreased costs and higher morale. Of course, these results are not guaranteed. Managing the transition to self-managing teams from more traditional work settings isn't always easy — the process requires leadership committed to both empowerment and a lot of support.

A study of self-managing teams in New Zealand found that the major benefits arising from their introduction were increased employee morale and motivation, increased employee knowledge gained from the experience of working in teams, improved quality and productivity, and the development of better solutions for problems. There were a number of reasons for the success of self-managing teams, including the provision of appropriate resources and information, the use of effective communication, sponsorship from senior management and empowerment to ensure that the teams were truly self-managing. Major problems encountered by self-managing teams included overdependence on the leader by other team members, team members feeling that consensus was sometimes 'imposed', and complacency occurring when the team 'rested on its laurels'.[33]

One solution suggested in response to these problems is the creation of **chartered teams**. Developed by Harold Resnick, a chartered team is a self-managing team that creates and relies on a performance contract to guide its behaviour. This contract — which will include details of the team's core purpose, membership, mission, linkages to other parts of the organisation, boundaries, responsibilities, measurements, operating guidelines, and endorsement from the individual or group to which it reports — is communicated with others in the organisation to formally provide the team with clarity in its own operations, and to ensure that it receives sufficient support and resourcing from others in the organisation. Resnick argues that without attention to these dimensions of team development and operation, most self-managing teams will eventually succumb to vagueness in direction and become beset by interpersonal conflicts.[34]

The use of self-managing work teams appears to vary by industry sector and business size. An Australian study found that although most small and medium-sized Australian organisations have implemented teams — chiefly to enable employees to participate in decisions and in order to achieve higher workplace productivity — few had become more than semiautonomous in operation. In other words, most teams in small and medium-sized businesses have emerged naturally, based on existing work groups. Few have been deliberately designed to function as self-managing work teams.[35]

COUNTERPOINT

Reward the team or the individual?

In 2015 researchers based at the University of Sydney and Western Sydney University in Australia, in collaboration with researchers at Leicester University in England, discovered that rewarding team performance delivers better outcomes than individual bonus rewards. The researchers found that 'poor performers may not be free riders or shirkers but may be essential to the effective functioning of the group. We call them self-sacrificers and believe their role is underappreciated and misunderstood' and that they also 'play an important role in boosting the performance of others'.[36] You have probably run across such people in your own work groups, the nice guy who helps everyone else but whose own work may suffer. If they get sacked the group falls apart. These people don't seem to have attracted much research attention in real groups, but they should. It was found that this group is critical for creating the environment in which high-performing individuals can operate.[37]

The researchers used biological theories to understand group versus individual selection, notably drawn from experiments to improve breeds of egg-laying hens. Traditionally the best egg-laying hens were used to create breeds of hens that increased egg production but produced a hostile environment of 'mean bad birds'. Taking an alternative approach William Muir bred whole groups of hens taken from the top laying cages. In response 'kind friendly chickens' were able to produce higher quality eggs.[38]

The UK and Australian researchers describe how they 'applied these ideas to work groups by building computer models that allowed us to consider all types of group situations'. By using over 14 000 computer-game simulations that mimicked diverse group settings, the researchers were able to assess individual and group rewards dynamics. The researchers concluded that 'Group rewards generate the top-performing individuals because of supportive group ecology, a mix of strategies that supports and sustains them. Individual rewards produce non-cooperative groups of individuals bent on exploiting each other. No strategy, like tit-for-tat dominates, and different mixes of strategies can emerge to support high performing groups'.[39]

Reporting in Business Insider Australia, John Ryan, CEO of the prestigious US-based Center for the Creative Leadership, discusses how group success has more meaning than individual accomplishments and creates trust and positive group cultures.[40] In this environment Monica Patrick identifies the advantages of group performance rewards; they improve morale, increase communication, provide a more focused vision, enable individual improvement and better relationships. She explains, in particular, how everyone in the group improves, as top performers lend assistance to slower workers, helping them achieve the group goals.[41]

One company in Australia that recognises the need to reward group work is Asciano. The company employs some 10 000 personnel across its Australian logistics, haulage and forestry operations and states in its employee benefits manual that 'Through daily, monthly, quarterly and annual recognition, we want to create a culture where we are recognising those individuals and teams who consistently demonstrate our values and are pro-actively contributing to building a more collaborative organisation'.[42]

QUESTION

What kind of team rewards would improve team performance? How would these rewards provide the environment for top achievers to thrive?

CRITICAL ANALYSIS

1. Why are self-managing teams necessary in companies operating in turbulent market environments?
2. If you managed a team in markets that are changing rapidly how would you empower team members to respond swiftly?

17.3 Team processes and diversity

LEARNING OBJECTIVE 17.3 How do teams work?

Regardless of its form and purpose, any team must achieve three key results — *perform tasks, satisfy members* and *remain viable for the future*.[43] On the performance side, a work group or team is expected to transform resource inputs (such as ideas, materials and objects) into product outputs (such as a report, decision, service or commodity) that have some value to the organisation. The members of a team should also be able to experience satisfaction from both these performance results and their participation in the process. And in respect of future viability, the team should have a social and work climate that makes members willing and able to work well together in the future, again and again as needed.

What is an effective team?

An **effective team** is one that achieves and maintains high levels of both task performance and member satisfaction, and retains its viability for future action.[44] Figure 17.3 shows how any team can be viewed as an open system that transforms various resource inputs into these outcomes. Among the important inputs are such things as the organisational setting, the nature of the task, the team size and the membership characteristics.[45] Each of these factors plays a role in setting the stage for group performance.

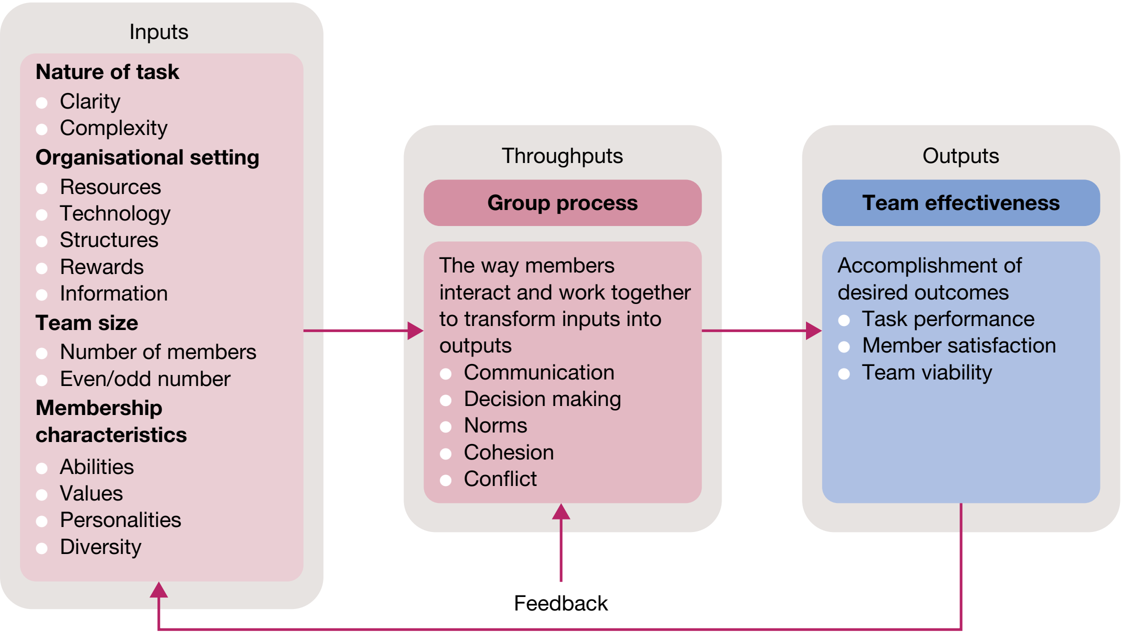

FIGURE 17.3 An open-systems model of work team effectiveness

Group inputs

The *nature of the task* is always important. It affects how well a team can focus its efforts and how intense the group process needs to be to get the job done. Clearly defined tasks make it easier for team members to focus their work efforts. Complex tasks require more information exchange and intense interaction than do simpler tasks. The *organisational setting* can also affect how team members relate to one another and apply their skills towards task accomplishment. A key issue is the amount of support provided in terms of information, material resources, technology, organisation structures, available rewards and spatial arrangements.

Increasingly, for example, organisations are being architecturally designed to directly facilitate teamwork. Junkee Media (formerly Sound Alliance), a company that has created popular music websites like www.fasterlouder.com.au and www.inthemix.com.au, is located in a funky converted warehouse in Sydney's trendy inner-city Surry Hills, encourages staff to start their day at 10 am, has a casual dress code, provides free concert tickets to staff and stages an annual staff table tennis competition. As one employee said 'It's easier to get to work if the hours are from 10 am to 6 pm, and it's a better place to be if everyone's open and clear that we're all heading in the same direction'. The evidence suggests that the company's teams achieve high performance, since it was recognised as one of the Great Places to Work in Australia in 2009.[46]

Team size affects how members work together, handle disagreements and reach agreements. The number of potential interactions increases as teams increase in size and communications become more congested. Teams larger than about six or seven members can be difficult to manage for the purpose of creative problem-solving. When voting is required, teams with odd numbers of members are often preferred so as to prevent 'ties'. In all teams, the *membership characteristics* are important. Teams must have members with the right abilities or skill mix to master and perform tasks well. They must also have values, personalities and diversity appropriate to the task that are sufficiently compatible for everyone to work well together.

Group process

Although having the right inputs available to a team is important, it is not a guarantee of effectiveness. What is called **group process** counts too. Group process is the way the members of any team actually work together as they transform inputs into outputs. The process aspects of any group or team include how well members communicate with one another, make decisions and handle conflicts, among other things. When process breaks down and the internal dynamics fail in any way, team effectiveness can suffer. This team effectiveness equation is a helpful reminder:

$$\text{Team effectiveness} = \text{Quality of inputs} + (\text{Process gains} - \text{Process losses})$$

Team diversity

Team diversity, in the form of different values, personalities, experiences, demographics and cultures among the membership, can present significant group process challenges. The more homogeneous the team — the more similar the members are to one another — the easier it is to manage relationships. As team diversity increases, so too does the complexity of interpersonal relationships among members. But with the complications also come special opportunities. More heterogeneous teams (teams with more diversity among members), have a greater variety of available ideas, perspectives and experiences that can add value to problem-solving and task performance.

In teamwork, as with organisations at large, the diversity lesson is very clear. There is a lot to gain when membership diversity is valued and well managed. The process challenge is to maximise the advantages of team diversity while minimising its potential disadvantages. In the international arena, for example, research indicates that culturally diverse work teams have more difficulty learning how to work well together than do culturally homogeneous teams.[47] That is, they tend to struggle more in the early stages of working together. However, once the process challenges are successfully mastered, the diverse teams eventually prove to be more creative than the homogeneous ones.

Some clues about why diversity can make for better team outcomes have been provided in some recent research undertaken by Rebecca Mitchell and Brendan Boyle of the University of Newcastle. They argue that cultural diversity will generally equate with cognitive diversity, or different ways of thinking, and that the presence of such differing perspectives will potentially generate new ideas, new solutions and new knowledge. In addition, since diversity will generally create greater potential for conflict as the worldviews and philosophies of team members collide, team leaders will need to exert significant effort to ensure that emotional displays within the group are kept to manageable levels.[48]

Although we often think of diversity in multicultural terms, diversity within teams can also relate to age, gender and status within the organisation, as well as to other differences. An interesting study by Elizabeth George and Prithviraj Chattopadhyay of the Australian Graduate School of Management demonstrates how challenging the management of diversity within teams can be. They found that permanent employees preferred to work in teams with other permanent employees rather than with temporary workers, and men preferred to work in teams in which the majority of members were also male. In contrast, women preferred to work in teams with men, and temporary workers preferred to serve in teams comprising mainly permanent employees. George and Chattopadhyay conclude that this may be due to the perceived advantages gained in working with people of higher organisational status (in the view of women and temporary workers). Permanent employees and men may consciously or subconsciously steer away from working in teams with colleagues of a perceived lower status.[49]

DIVERSITY

Working in multicultural teams

Academic literature has suggested that teams made up of members from different countries may perpetuate 'cultural differences' and may lead to a diversity of working behaviours and expectations. Recent research by Juliet Bourke, consulting partner at Deloitte Australia delved into the issue of working in a multicultural team by asking deeper questions relating to individual personality, the influence of racial background and team dynamics.

The research was conducted by establishing a three-month project in New South Wales, Australia. A project team was assembled, comprising seven members. The aim was to capture the perspectives of the Spanish team leader and team members from Australia, Japan, the United States and Germany, as well as the Australian client. Particular focuses of the research were the perceptions of each individual behaviour (such as whether the perception related to their home country or their personality), teamwork experiences (positive or negative), the manner by which effective interactions were enabled and what the challenging concerns were.

The interviewees all concluded that the diversity of the project team allowed for positive outcomes to both task performance and process outcomes (i.e. overall team cohesiveness) but perhaps not as is commonly discussed in academic literature.

Bourke describes the four key insights drawn from the interviews.

1. Cultural and/or personality diversity is in the eye of the beholder.
2. Cultural diversity can positively contribute to people's professional and personal enjoyment of the project, as well as a project's outcome.
3. Cultural diversity can indirectly encourage project members to rethink their usual working habits and expectations, behave with fewer assumptions about the 'right' way to address an issue and promote linguistic clarity.
4. The dominance of cultural diversity among team members reduces the bias to interact with people who have common characteristics and create a unique bond.

Juliet goes on to explain that:

> . . . cultural diversity had a positive impact on team performance, both in terms of output and team interactions. In the words of the client 'the team has been more productive and less stressed — when I compare them to employees in other places. I think they have worked longer hours because they are valued and appreciated. They have given 150% and have stretched themselves. Plus they have been upfront about issues – so open channels of communication'.[50]

QUESTION

If you were in a multicultural team of people from different cultures and ethnicities, what would be the effect on the team if all team members were of the same age group?

Stages of team development

A synthesis of research on small groups suggests that there are five distinct phases in the life cycle of any team:

1. *forming* — a stage of initial orientation and interpersonal testing
2. *storming* — a stage of conflict over tasks and working as a team

3. *norming* — a stage of consolidation around task and operating agendas
4. *performing* — a stage of teamwork and focused task performance
5. *adjourning* — a stage of task completion and disengagement. [51]

Forming stage

The forming stage involves the first entry of individual members into a team. This is a stage of initial task orientation and interpersonal testing. As individuals come together for the first time or two, they ask a number of questions: What can or does the team offer me? What will I be asked to contribute? Can my needs be met while my efforts serve the task needs of the team?

In the forming stage, people begin to identify with other members and with the team itself. They are concerned about getting acquainted, establishing interpersonal relationships, discovering what is considered acceptable behaviour and learning how others perceive the team's task. This may also be a time when some members rely on or become temporarily dependent on another member who appears 'powerful' or especially 'knowledgeable'. Such things as prior experience with team members in other contexts and individual impressions of organisation philosophies, goals and policies may also affect member relationships in new work teams. Difficulties in the forming stage tend to be greater in more culturally and demographically diverse teams.

Storming stage

The storming stage of team development is a period of high emotionality. Tension often emerges between members over tasks and interpersonal concerns. There may be periods of outright hostility and infighting. Coalitions or cliques may form around personalities or interests. Subteams form around areas of agreement and disagreement involving group tasks and/or the manner of operations. Conflict may develop as individuals compete to impose their preferences on others and to become influential in the group's status structure.

Important changes occur in the storming stage as task agendas become clarified and members begin to understand one another's interpersonal styles. Here attention begins to shift towards obstacles that may stand in the way of task accomplishment. Efforts are made to find ways to meet team goals while also satisfying individual needs. Failure in the storming stage can be a lasting liability, whereas success in the storming stage can set a strong foundation for later team effectiveness.

Norming stage

Cooperation is an important issue for teams in the norming stage. At this point, members of the team begin to coordinate as a working unit and tend to operate with shared rules of conduct. The team feels a sense of leadership, with each member starting to play useful roles. Most interpersonal hostilities give way to a precarious balancing of forces as norming builds initial integration. Harmony is emphasised, but minority viewpoints may be discouraged.

In the norming stage, members are likely to develop initial feelings of closeness, a division of labour and a sense of shared expectations. This helps protect the team from disintegration. Holding the team together may become even more important than successful task accomplishment.

Performing stage

Teams in the performing stage are more mature, organised and well functioning. This is a stage of total integration in which team members are able to deal in creative ways with both complex tasks and any interpersonal conflicts. The team operates with a clear and stable structure, and members are motivated by team goals.

The main challenges of teams in the performing stage are to continue refining the operations and relationships essential to working together as an integrated unit. Such teams need to remain coordinated with the larger organisation and adapt successfully to changing conditions over time. A team that has achieved total integration will score highly on the team maturity criteria, such as those in the checklist in figure 17.4.[52]

	Very poor			Very good	
1. Trust among members	1	2	3	4	5
2. Feedback mechanisms	1	2	3	4	5
3. Open communications	1	2	3	4	5
4. Approach to decisions	1	2	3	4	5
5. Leadership sharing	1	2	3	4	5
6. Acceptance of goals	1	2	3	4	5
7. Valuing diversity	1	2	3	4	5
8. Member cohesiveness	1	2	3	4	5
9. Support for each other	1	2	3	4	5
10. Performance norms	1	2	3	4	5
	Where you don't want to be			Where you do want to be	

FIGURE 17.4 Criteria for assessing the maturity of a team

Adjourning stage

The final stage of team development is adjourning, when team members prepare to achieve closure and disband. It is especially common for temporary groups that operate in the form of committees, task forces and project teams. Ideally, the team disbands with a sense that important goals have been accomplished. Members are acknowledged for their contributions and the group's overall success. This may be an emotional time, and disbandment should be managed with this possibility in mind. For members who have worked together intensely for a period of time, breaking up the close relationships may be painful. In all cases, the team would like to disband with members feeling they would work with one another again sometime in the future.

Norms and cohesiveness

A **norm** is a behaviour expected of team members.[53] It is a 'rule' or 'standard' that guides their behaviour. When violated, a norm may be enforced with reprimands and other sanctions. In the extreme, violation of a norm can result in a member being expelled from a team or socially ostracised by other members. The *performance norm*, which defines the level of work effort and performance that team members are expected to contribute, is extremely important. It can have positive or negative implications for team performance and organisational productivity. In general, work groups and teams with positive performance norms are more successful in accomplishing task objectives than are teams with negative performance norms. Other important team norms relate to such things as helpfulness, participation, timeliness, quality and innovation.

Because a team's norms are largely determined by the collective will of its members, it is difficult for a manager or designated leader simply to dictate which norms will be adopted. Instead, the concerned manager or team leader must help and encourage members to develop norms that support organisational objectives. During forming and storming steps of development, for example, norms relating to membership issues such as expected attendance and levels of commitment are important. By the time the stage of performing is reached, norms relating to adaptability and change become most relevant. Guidelines for *how to build positive norms* are as follows.

- Act as a positive role model.
- Reinforce the desired behaviours with rewards.

- Control results by performance reviews and regular feedback.
- Train and orient new members to adopt desired behaviours.
- Recruit and select new members who exhibit the desired behaviours.
- Hold regular meetings to discuss progress and ways of improving.
- Use team decision-making methods to reach agreement.[54]

Norms vary in the degree to which they are accepted and adhered to by team members. Conformity to norms is largely determined by the strength of **cohesiveness**, defined as the degree to which members are attracted to and motivated to remain part of a team.[55] People in a highly cohesive team value their membership and strive to maintain positive relationships with other team members. They experience satisfaction from team identification and interpersonal relationships. Because of this, highly cohesive teams are good for their members. They can also be very good for organisations, but not always. It all depends on the performance norm that the cohesiveness is paired with.

A basic rule of group dynamics is: *The more cohesive the team, the greater the conformity of members to team norms*. This has important implications for team performance. Look at figure 17.5. When the performance norm of a team is positive, high cohesion and the resulting conformity to norms has a beneficial effect on overall team performance. This is a 'best case' scenario for both the manager and the organisation. Competent team members work hard and reinforce one another's task accomplishments while experiencing satisfaction with the team. But when the performance norm is negative in a cohesive team, high conformity to the norm can have undesirable results. The figure shows this as a 'worst case' scenario where team performance suffers from restricted work efforts by members. Between these two extremes are mixed situations of moderate to low performance.

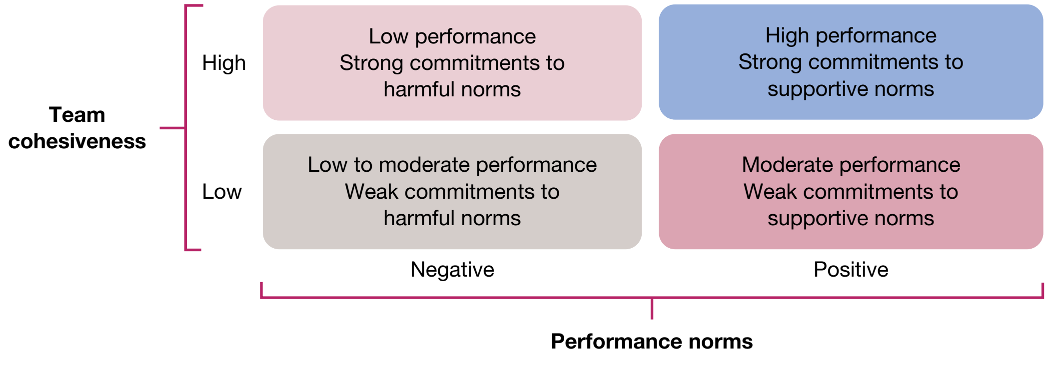

FIGURE 17.5 How cohesiveness and norms influence team performance

To achieve and maintain the best case scenario shown in figure 17.5, managers should be skilled at influencing both the norms and cohesiveness of any team. They will want to build and maintain high cohesiveness in teams whose performance norms are positive. Guidelines on *how to increase cohesion* include the following.

- Induce agreement on team goals.
- Increase membership homogeneity.
- Increase interactions among members.
- Decrease team size.
- Introduce competition with other teams.
- Reward team rather than individual results.
- Provide physical isolation from other teams.

Task and maintenance needs

Research on the social psychology of groups identifies two types of activities that are essential if team members are to work well together over time.[56] **Task activities** contribute directly to the team's performance purpose, whereas **maintenance activities** support the emotional life of the team as an ongoing social system. Although a person with formal authority, such as a chairperson or supervisor, will often handle them, the responsibility for both types of activities should be shared and distributed among all team members. Any member can help lead a team by taking actions that help satisfy its task and maintenance needs. This concept of *distributed leadership in teams* thus makes every member continually responsible for recognising when task and/or maintenance activities are needed and then stepping in to provide them.

Figure 17.6 offers useful insights on distributed leadership in teams. Leading through task activities involves making an effort to define and solve problems and apply work efforts in support of accomplishing tasks. Without relevant task activities, such as initiating agendas, sharing information and other activities listed in the figure, teams will have difficulty accomplishing their objectives. Leading through maintenance activities helps strengthen and perpetuate the team as a social system. When the maintenance activities such as encouraging others and reducing tensions are performed well, good interpersonal relationships are achieved and the ability of the team to stay together over the longer term is ensured.

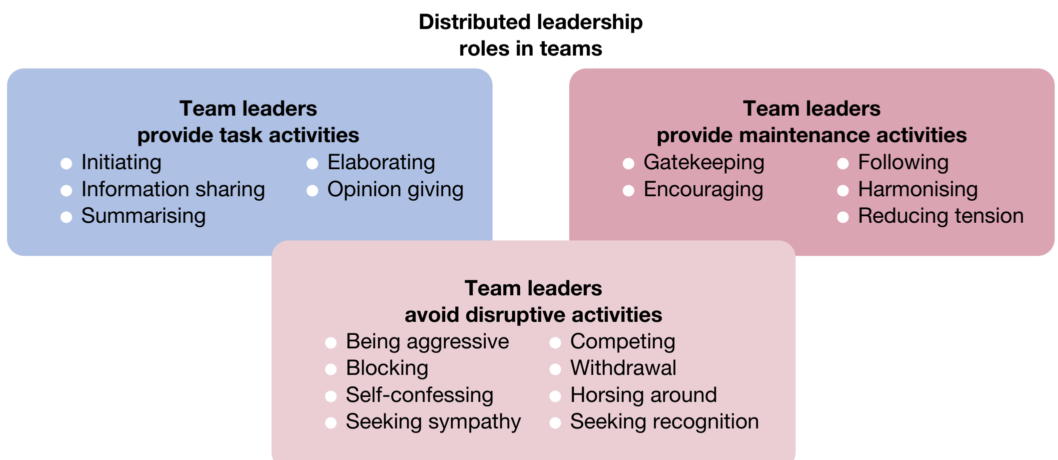

FIGURE 17.6 Distributed leadership helps teams meet task and maintenance needs

Both team task and maintenance activities stand in distinct contrast to the *dysfunctional activities* also described in figure 17.6. Activities such as withdrawing and horsing around are usually self-serving to the individual member. They detract from, rather than enhance, team effectiveness. Unfortunately, very few teams are immune to dysfunctional behaviour by members. Everyone shares in the responsibility for minimising its occurrence and meeting the distributed leadership needs of a team by contributing functional task and maintenance behaviours.

Communication networks

Figure 17.7 depicts three interaction patterns and communication networks that are common in teams.[57] When teams are interacting intensively and their members are working closely together on tasks, close coordination of activities is needed. This need is best met by a **decentralised communication network** in which all members communicate directly with one another. Sometimes this is called the *all-channel* or *star communication network*. At other times and in other situations, team members work on tasks independently, with the required work being divided up among them. Activities are coordinated and results pooled by a central point of control. Most communication flows back and forth between individual members and this hub or centre point. This creates a **centralised communication network**, as shown in the figure. Sometimes this particular network is called a *wheel* or *chain communication structure*.

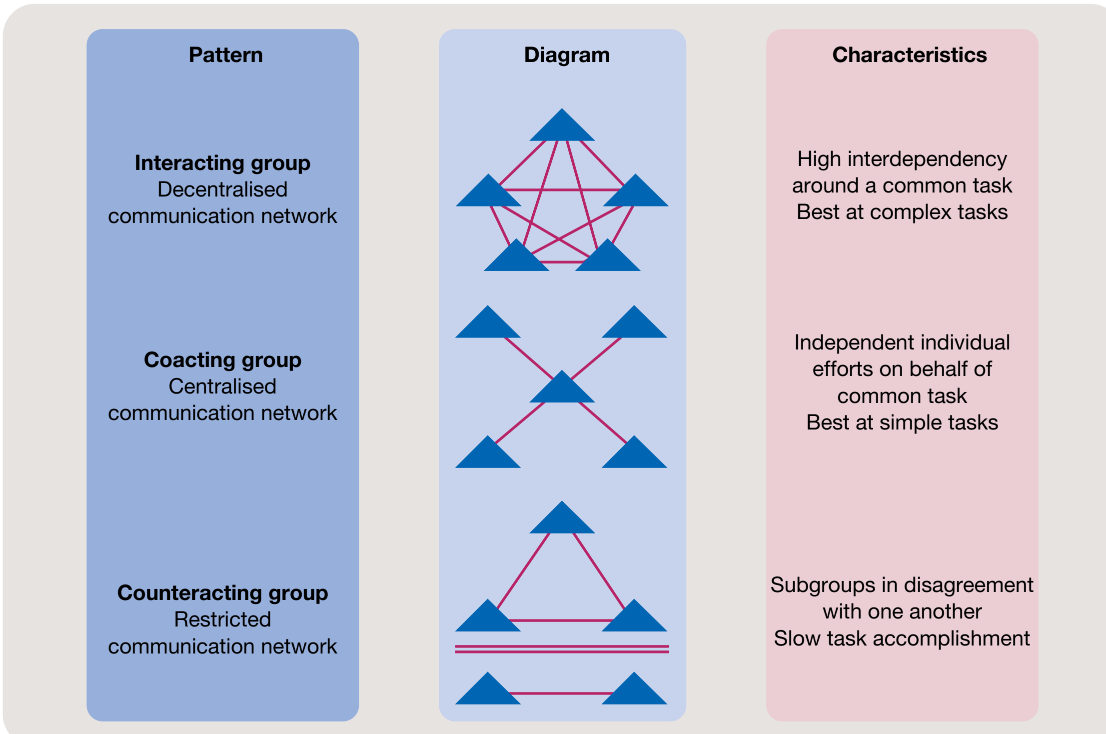

FIGURE 17.7 Interaction patterns and communication networks in teams

Source: © John R. Schermerhorn Jr, James G. Hunt and Richard N. Osborn, *Organizational Behavior*, 6th edn (New York: Wiley, 1997), p. 351. This material is used by permission of John Wiley & Sons, Inc.

When teams are composed of subgroups experiencing issue-specific disagreements, such as a temporary debate over the best means to achieve a goal, the resulting interaction pattern involves a restricted communication network. Here, the polarised subgroups contest one another and may engage in antagonistic relations. Communication between the subgroups is often limited and biased, with the result that problems can easily occur.

The best teams use communication networks in the right ways, at the right times, and for the right tasks. In general, centralised communication networks seem to work better on simple tasks.[58] These tasks require little creativity, information processing and problem-solving, and lend themselves to more centralised control. They tend to be performed faster and more accurately by coacting groups. The reverse is true for more complex tasks, where interacting groups do better. Here, the decentralised networks work well, since they are able to support the more intense interactions and information sharing required to perform under such task conditions. Interacting groups tend to be the top performers when tasks get complicated. When subgroups have difficulty communicating with one another, task accomplishment typically suffers, for the short run at least. If the team is able to restore good communication between subgroups, it can benefit from the creativity and critical evaluation that typically accompanies conflict. If the subgroups drift further and further apart, negative dynamics set in and the team may suffer long-term damage.

CRITICAL ANALYSIS

1. The number of members in each team is usually determined by executives. Given the importance of working with other people of competence, shouldn't team members decide on how big their team should be? Justify your answer.
2. Given the conflicts that can arise in the storming stage, many organisational activities would arguably be better performed by individuals. What do you think?

17.4 Decision-making in teams

LEARNING OBJECTIVE 17.4 How do teams make decisions?

Decision-making, discussed extensively in the chapter on environment and diversity, is the process of choosing between alternative courses of action. It is one of the most important group processes. It is also complicated by the fact that decisions in teams can be made in several different ways.

How teams make decisions

Edgar Schein, a respected scholar and consultant, notes that teams make decisions by at least six methods: lack of response, authority rule, minority rule, majority rule, consensus and unanimity.[59] In *decision by lack of response*, one idea after another is suggested without any discussion taking place. When the team finally accepts an idea, all others have been bypassed and discarded by simple lack of response rather than by critical evaluation. In *decision by authority rule*, the leader, manager, committee head or some other authority figure makes a decision for the team. This can be done with or without discussion and is very time efficient. Whether the decision is a good one or a bad one, however, depends on whether the authority figure has the necessary information, and on how well this approach is accepted by other team members. In *decision by minority rule*, two or three people are able to dominate or 'railroad' the team into making a mutually agreeable decision. This is often done by providing a suggestion and then forcing quick agreement by challenging the team with such statements as 'Does anyone object? . . . Let's go ahead, then'. People's experiences of teams vary widely, and the decisions made by these teams can be both good and bad. The quality of team decisions can reflect the quality of the processes for making the decision, the qualities of team members or, sometimes, plain good luck.

One of the most common ways teams make decisions, especially when early signs of disagreement arise, is *decision by majority rule*. Here, formal voting may take place, or members may be polled to find the majority viewpoint. This method parallels the democratic political system and is often used without awareness of its potential problems. The very process of voting can create coalitions; that is, some people will be 'winners' and others will be 'losers' when the final vote is tallied. Those in the minority — the 'losers' — may feel left out or discarded without having had a fair say. They may be unenthusiastic about implementing the decision of the 'majority', and lingering resentments may impair team effectiveness in the future.

Teams are often encouraged to follow *decision by consensus*. This is when discussion leads to one alternative being favoured by most members and the other members agree to support it. When a consensus is reached, even those who may have opposed the chosen course of action know that they have been heard and have had an opportunity to influence the decision outcome. Consensus, therefore, does not require unanimity. But it does require that team members are able to argue, engage in reasonable conflict, and yet still get along with and respect one another.[60] And it requires there to be opportunity for any dissenting members to speak — and to feel they have been listened to.

A *decision by unanimity* may be the ideal state of affairs. Here, all team members agree on the course of action to be taken. This is a 'logically perfect' method for decision-making in teams, but it is also extremely difficult to attain in actual practice. One of the reasons that teams sometimes turn to authority decisions, majority voting or even minority decisions, in fact, is the difficulty of managing the team process to achieve consensus or unanimity.

Assets and liabilities of group decisions

The best teams do not limit themselves to just one decision-making method. Instead, they vary methods to best fit the problems at hand, in true contingency management fashion. A very important team leadership skill is the ability to help a team choose the 'best' decision method — one that provides for a timely and quality decision and one to which the members are highly committed. This reasoning is consistent with the Vroom–Jago leader-participation model.[61] This model describes how leaders should use the full range of individual, consultative and group decision methods as they resolve daily problems. To do this well, however, team leaders must understand the potential assets and potential liabilities of group decisions.[62]

The potential *advantages of group decision-making* are significant. Because of this, the general argument is that team decisions should be sought whenever time and other circumstances permit. Team decisions make greater amounts of information, knowledge and expertise available to solve problems. They expand the number of action alternatives that are examined, and they help groups to avoid tunnel vision and tendencies to consider only a limited range of options. Team decisions increase the understanding and acceptance of outcomes by members. And, importantly, team decisions increase the commitments of members to follow through to implement the decision once it has been made. Simply put, team decisions can result in quality decisions that all members of the team work hard to make successful.

The potential *disadvantages of group decision-making* largely trace to the difficulties that can be experienced in group processes. In a team decision there may be social pressure to conform. Individual members may feel intimidated or compelled to go along with the apparent wishes of others. There may be minority domination, where some members feel forced or 'railroaded' to accept a decision advocated by one vocal individual or small coalition. Also, the time required to make team decisions can sometimes be a disadvantage. As more people are involved in the dialogue and discussion, decision-making takes longer. This added time may be costly, even prohibitively so, in certain circumstances.[63]

Groupthink

A high level of cohesiveness can sometimes be a disadvantage during decision-making. Members of very cohesive teams feel so strongly about the group that they may not want to do anything that might detract from feelings of goodwill. This may cause them to publicly agree with actual or suggested courses of action while privately having serious doubts about them. Strong feelings of team loyalty can make it hard for members to criticise and evaluate one another's ideas and suggestions. Unfortunately, there are times when desires to hold the team together at all costs and avoid disagreements may result in poor decisions.

Psychologist Irving Janis calls this phenomenon **groupthink**, the tendency for highly cohesive groups to lose their critical evaluative capabilities.[64] You should be alert to the following symptoms of groupthink when they occur in your decision-making teams.

- *Illusions of invulnerability*. Members assume the team is too good for criticism or beyond attack.
- *Rationalising unpleasant and disconfirming data*. Members refuse to accept contradictory data or to thoroughly consider alternatives.
- *Belief in inherent group morality*. Members act as though the group is inherently right and above reproach.
- *Stereotyping competitors as weak, evil and stupid*. Members refuse to look realistically at other groups.
- *Applying direct pressure to deviants to conform to group wishes*. Members refuse to tolerate anyone who suggests the team may be wrong.
- *Self-censorship by members*. Members refuse to communicate personal concerns to the whole team.
- *Illusions of unanimity*. Members accept consensus prematurely, without testing its completeness.
- *Mind guarding*. Members protect the team from hearing disturbing ideas or outside viewpoints.

If you encounter groupthink, Janis suggests taking action along the lines shown in Manager's notepad 17.2.

MANAGER'S NOTEPAD 17.2

How to avoid groupthink

- Assign the role of critical evaluator to each team member; encourage a sharing of viewpoints.
- Do not, as a leader, seem partial to one course of action; do absent yourself from meetings at times to allow free discussion.
- Create subteams to work on the same problems and then share their proposed solutions.
- Have team members discuss issues with outsiders and report back on their reactions.
- Invite outside experts to observe team activities and react to team processes and decisions.
- Assign one member to play a 'devil's advocate' role at each team meeting.
- Hold a 'second-chance' meeting after consensus is apparently achieved to review the decision.

Creativity in team decision-making

Among the potential benefits that teams can bring to organisations is increased creativity. Two techniques that are particularly helpful for creativity in decision-making are brainstorming and the nominal team technique.[65] Both can now be pursued in computer-mediated or virtual team discussions, as well as in face-to-face formats.[66]

In *brainstorming*, teams of five to ten members meet to generate ideas. Brainstorming teams typically operate within the following guidelines.

- *All criticism is ruled out*. Judgement or evaluation of ideas must be withheld until the idea-generation process has been completed.
- *'Freewheeling' is welcomed*. The wilder or more radical the idea, the better.
- *Quantity is important*. The greater the number of ideas, the greater the likelihood of obtaining a superior idea.
- *Building on one another's ideas is encouraged* — participants should suggest how ideas of others can be turned into better ideas, or how two or more ideas can be joined into still another hybrid idea.

By prohibiting criticism, the brainstorming method reduces fears of ridicule or failure on the part of individuals. Ideally, this results in more enthusiasm, involvement and a freer flow of ideas among members. But there are times when team members have very different opinions and goals. The differences may be so extreme that a brainstorming meeting might deteriorate into antagonistic arguments and harmful conflicts. In such cases, a *nominal group technique* could help. This approach uses a highly structured meeting agenda to allow everyone to contribute ideas without the interference of evaluative comments by others. It allows for many alternatives to be generated and evaluated without inhibitions or hostilities.

The basic steps for running a nominal group session are easy to implement. Participants are first asked to work alone and respond in writing with possible solutions to a stated problem. Ideas are then shared in round-robin fashion without any criticism or discussion; all ideas are recorded as they are presented. Ideas are next discussed and clarified in round-robin sequence, with no evaluative comments allowed. Next, members individually and silently follow a written voting procedure that allows for all alternatives to be ranked in priority order. Finally, the last two steps are repeated as needed to further clarify the process.

CRITICAL ANALYSIS

1. What individual skills are needed for effective brainstorming? Would different psychological traits among team members aid or hinder the brainstorming process?
2. How would the pairing of individuals to create initial ideas benefit nominal groups?

17.5 Leading high-performance teams

LEARNING OBJECTIVE 17.5 What are the challenges of high-performance team leadership?

When we think of the word 'team', sports teams often come to mind. And we know these teams certainly have their share of problems. Members slack off or become disgruntled — even world-champion teams have losing streaks — and the most highly talented players sometimes lose motivation, quibble with other team members and lapse into performance slumps. When these things happen, the owners, managers and players are apt to take corrective action to 'rebuild the team' and restore what we have called team *effectiveness*. Work teams are similar. Even the most mature work team is likely to experience problems over time. When such difficulties arise, structured efforts at team building can help.

The team-building process

Team building is a sequence of planned activities used to gather and analyse data on the functioning of a team and to implement constructive changes to increase its operating effectiveness.[67] Most systematic approaches to team building follow the steps described in figure 17.8. The cycle begins with the awareness that a problem may exist or may develop within the team. Members then work together to gather and analyse data so that the problem is finally understood. Action plans are made by members and collectively implemented. Results are evaluated in similar fashion by team members working together. Any difficulties or new problems that are discovered serve to recycle the team-building process.

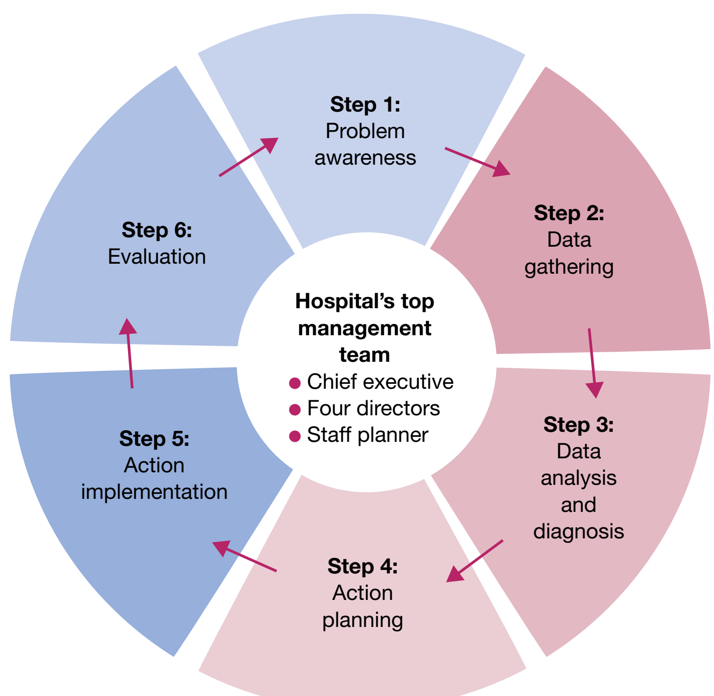

FIGURE 17.8 Steps in the team-building process: case of the hospital top management team

Consider the following scenario.

> A management consultant received a call from a hospital's human resource manager. The HR manager indicated that a new hospital chief executive felt that the hospital's top management team lacked cohesiveness and was not working well together as a team. The consultant agreed to facilitate a team-building activity for the hospital's managers that would include a day-long retreat at a nearby resort hotel. The

process began when the consultant conducted interviews with the chief executive and other members of the hospital's executive team. During the retreat, the consultant reported these results to the team as a whole. She indicated that the hospital's goals were generally understood by all but that they weren't clear enough to allow agreement on action priorities. Furthermore, she reported that interpersonal problems between the director of nursing services and the director of administration were making it difficult for the team as a whole to work together comfortably.

These and other issues were considered by the team at the retreat. Working sometimes in small subteams and at other times together as a whole, they agreed first of all that action should be taken to clarify the hospital's overall mission and create a list of objectives for the current year. Led by the chief executive, activity on this task would involve all team members and was to be completed within a month. The chief executive asked for progress on the action plans to be reviewed at each of the next three monthly executive staff meetings. Everyone agreed.

This example, adapted from a real occurrence and represented conceptually in figure 17.8, introduces team building as a way to assess a work team's functioning and take corrective action to improve its effectiveness. It can and should become a regular work routine. There are many ways to gather data on team functioning, including structured and unstructured interviews, questionnaires and team meetings. Regardless of the method used, the basic principle of team building remains the same. The process requires a careful and collaborative assessment of the team's inputs, processes and results to be made. All members should participate in data gathering, help with data analysis and collectively decide on actions to be taken.

Companies such as Quest Group Australia and Footprints Waipoua in New Zealand offer team-building activities and tools for diagnosing problems and developing competencies among team members. Team members can, for instance, evaluate their progress, identify training needs and gauge their performance against other teams. Sometimes teamwork can be improved when people share the challenges of unusual and even physically demanding experiences. Sydney-based company Bushsports provides team-building activities to a range of companies. For instance, the company has taken more than 250 Commonwealth Bank staff through an 8-sport adventure, staff from pharmaceutical company Novartis on an abseiling trip and employees of superannuation giant AMP on a mini-Olympics at Sydney Olympic Park. Bushsports also offers team-building programs with themes such as 'survivor', 'wet 'n' wild', 'shipwrecked', 'mission: possible' and 'the mole'. Senior Qantas manager Gary Furlong attested to the benefit of such programs. After a team-building day involving abseiling and whitewater rafting, he said: 'I managed to take a lot away from the day and incorporate it into our two days of classroom training for the supervisors'.[68]

While some employees can be sceptical about the benefits from such experiences, even an Australian fire-walking instructor with the unlikely name of Flame Amazon readily agrees that extreme experiences are unlikely to add value unless they are built upon a foundation of personal change.

> If people aren't getting along, building a raft together won't necessarily make a difference — they could return to the office and play out their old behaviours. People need activities that heighten self-awareness and personal power first. Improved group decision-making, trust, communication, conflict resolution and cooperation will flow on from that.[69]

Team leadership challenges

Among the many developments in the workplace today, the continuing effort to refine and apply creative team concepts should be at the forefront of any progressive manager's action agendas. But harnessing the full potential of teams involves special leadership challenges. We know, for example, that high-performance teams generally share common characteristics. These include a clear and elevating goal, a task-driven and results-oriented structure, competent and committed members who work hard, a collaborative climate, high standards of excellence, external support and recognition, and strong and principled leadership.[70]

The last point on this list — the need for strong and principled leadership — may be the key to them all. In their book *Teamwork: What Must Go Right, What Can Go Wrong*, Carl Larson and Frank LaFasto state: 'The right person in a leadership role can add tremendous value to any collective effort, even to the point of sparking the outcome with an intangible kind of magic'.[71] They further point out that leaders of high-performing teams share many characteristics with the 'transformational leader'.

Successful team leaders *establish a clear vision of the future*. This vision serves as a goal that inspires hard work and the quest for performance excellence — it creates a sense of shared purpose. Successful team leaders help to *create change*. They are dissatisfied with the status quo, influence team members towards similar dissatisfaction, and infuse the team with the motivation to change in order to become better. Finally, successful team leaders *unleash talent*. They make sure the team has members with the right skills and abilities. And they make sure these people are highly motivated to use their talents to achieve the group's performance objectives. Included in this responsibility is developing future leaders for the team.

According to Kevin Gaunt, chief executive of the New Zealand Institute of Management, successful team leaders model the kinds of positive team behaviours they are seeking from team members. Team leaders who demonstrate authentic trust in their people and who take the time and effort to actively support and mentor team members will see these actions mirrored in the behaviour of team members. The environment thus created becomes one in which future leaders can be identified and nurtured.[72]

You don't get a high-performing team by just bringing a group of people together and giving them a shared name or title. David Vaux, former chief executive of aged care and radiology company DCA Group (now subsumed within private equity company CVC) and a former first grade rugby player with Sydney University, compares high-performance business teams with great sports teams:

> I always understood the value of being part of a team; you can never win if you're not working together or if everyone doesn't share the commitment. It is just the same here: you get a good team together who support the goals and are committed to achieving them, and you're three-quarters of the way there.[73]

Leaders of high-performance teams create supportive climates in which team members know what to expect from the leader and each other, and know what the leader expects from them. They empower team members. By personal example they demonstrate the importance of setting aside self-interests to support the team's goals. And they view team building as an ongoing leadership responsibility. As said before, teams are hard work. But they are worth it.[74]

CRITICAL ANALYSIS

1. As a team leader you have just come back from a meeting with your senior managers who have informed you of the new vision of the company. How would you motivate your team to respond to the new vision?
2. Conflicting views have been presented about the perceived benefits of team-building activities, particularly those of a more 'extreme' nature. What do you think?

SUMMARY

17.1 How do teams contribute to organisations?

- A team is a collection of people who work together to accomplish a common goal.
- Organisations operate as interlocking networks of formal work teams that offer many benefits to the organisations and to their members.
- Teams help organisations through synergy in task performance, the creation of a whole that is greater than the sum of its parts.
- Teams help satisfy important needs for their members, providing various types of support and social satisfactions.
- Social loafing and other problems can limit the performance of teams.

17.2 What are current trends in the use of teams?

- Teams are important mechanisms of empowerment and participation in the workplace.
- Committees and task forces are used to facilitate operations and allow special projects to be completed with creativity.
- Cross-functional teams bring members together from different departments and help improve lateral relations and integration in organisations.
- Employee involvement teams, such as the quality circle, allow employees to provide important insights into daily problem-solving.
- New developments in information technology are making virtual teams, or computer-based teams, more commonplace.
- Self-managing teams are changing organisations by allowing team members to perform many tasks previously reserved for their supervisors.

17.3 How do teams work?

- An effective team achieves high levels of task performance, member satisfaction and team viability.
- Important team input factors include the organisational setting, the nature of the task, size and membership characteristics.
- A team matures through various stages of development, including forming, storming, norming, performing and adjourning.
- Norms are the standards or rules of conduct that influence the behaviour of team members. Cohesion is the attractiveness of the team to its members.
- In highly cohesive teams, members tend to conform to norms; the best situation for a manager or leader is a team with positive performance norms and high cohesiveness.
- Distributed leadership in serving a team's task and maintenance needs will help to achieve long-term effectiveness.
- Effective teams make use of alternative communication networks to best complete tasks.

17.4 How do teams make decisions?

- Teams can make decisions by lack of response, authority rule, minority rule, majority rule, consensus and unanimity.
- The potential advantages of team decision-making include having more information available and generating more understanding and commitment.
- The potential liabilities of team decision-making include social pressures to conform and greater time requirements.
- Groupthink is a tendency of members of highly cohesive teams to lose their critical evaluative capabilities and make poor decisions.
- Techniques for improving creativity in team decision-making include brainstorming and the nominal group technique.

17.5 What are the challenges of high-performance team leadership?

- Team building helps team members develop action plans for improving the way they work together and the results they accomplish.
- The team-building process should be collaborative, involving a high level of participation by all team members.
- High-performance work teams have a clear and shared sense of purpose as well as strong internal commitment to its accomplishment.

KEY TERMS

In a **centralised communication network**, communication flows only between individual members and a hub or centre point.
A **chartered team** is a self-managing team that creates and relies on a performance contract to guide its behaviour.
Cohesiveness is the degree to which members are attracted to and motivated to remain part of a team.
A **committee** is a formal team designated to work on a special task on a continuing basis.
Cross-functional teams bring together members from different functional departments.
A **decentralised communication network** allows all members to communicate directly with one another.
Decision-making is the process of choosing between alternative courses of action.
An **effective team** achieves high levels of both task performance and membership satisfaction.
Employee involvement teams meet on a regular basis to use their talents to help solve problems and achieve continuous improvement.
Formal groups are officially recognised and supported by the organisation.
Group process is the way team members work together to accomplish tasks.
Groupthink is a tendency for highly cohesive teams to lose their evaluative capabilities.
Informal groups are unofficial and emerge from relationships and shared interests among members.
International teams are teams that include members from at least two different countries.
Maintenance activities are actions taken by team members that support the emotional life of the group.
A **norm** is a behaviour, rule or standard expected to be followed by team members.
A **quality circle** is a group of employees who periodically meet to discuss ways of improving work quality.
Members of **self-managing work teams** have the authority to make decisions about how they share and complete their work.
Social loafing is the tendency of some people to avoid responsibility by ‘free-riding’ in groups.
Synergy is the creation of a whole greater than the sum of its individual parts.
Task activities are actions taken by team members that directly contribute to the group’s performance purpose.
Task forces are formal teams convened for a specific purpose and expected to disband when that purpose is achieved.
A **team** is a collection of people who regularly interact to pursue common goals.
Team building is a sequence of collaborative activities to gather and analyse data on a team and make changes to increase its effectiveness.
Teamwork is the process of people actively working together to accomplish common goals.
Members of a **virtual team** work together and solve problems through computer-based interactions.

APPLIED ACTIVITIES

1. How can a manager improve team effectiveness by modifying inputs?
2. What is the relationship between a team's cohesiveness, performance norm and performance results?
3. How would a manager know that his or her team was suffering from groupthink (give two symptoms) and what could he or she do about it (give two responses)?
4. What makes a self-managing team different from a traditional work team?
5. Dieter Reise has just been appointed manager of a production team operating the 11 pm to 7 am shift in a large manufacturing firm. An experienced manager, Dieter is concerned that although the team members really like and get along well with one another they appear to be restricting their task outputs to the minimum acceptable levels. What could Dieter do to improve things in this situation and why should he?

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Figure 17.7: © Interaction patterns and communication networks in teams by J. R. Schermerhorn, Jr, J. G. Hunt & R. N. Osborn, *Organizational Behavior* 6th edn, Hoboken: John Wiley & Sons Inc.

CHAPTER 18

Leading and managing change

LEARNING OBJECTIVES

18.1 What are the challenges of change and innovation in the 21st century?

18.2 What is the nature of organisational change in an increasingly globalised and integrated economy?

18.3 How can planned organisational change be managed in a more rapidly changing world economy, including resistance to change and the advent of virtual organisations?

18.4 What are organisation development, organisational transformation and the Prosci® ADKAR® model?

18.5 How do you build career readiness in a change environment?

Snail mail versus email: changes afoot at Australia Post

The technology revolution has resulted in the disappearance of many familiar everyday objects. Telephone directories, landline phones, street maps, encyclopaedias, alarm clocks, radios, CD players, newspapers, printed photos, birthday and Christmas cards are now either obsolete or on their way to being obsolete. Most of the functions of these objects can now be accessed using a smartphone, tablet or computer. How then has the technological advance of email affected the good old fashioned letter — nowadays referred to in derogatory terms as 'snail mail'? In Australia letters have traditionally been delivered by the more than 200-year-old Australia Post, but as communication for more and more people involves emailing, instant messaging and social networking Australia Post 'is facing significant structural decline'.[1]

In March 2015, the then-Communications Minister Malcolm Turnbull announced that 'Australians are now sending 1 billion fewer letters a year than they were in 2008, with letter losses rising to more than $300 million a year. While Australia Post has been able to offset these losses by growing its parcels business, losses in letters are now so large that they are overwhelming all profitable areas of the business'.[2] While the post is still delivered every day, email has replaced a huge amount of 'snail mail'. In addition many customers pay their bills online using Paypal or other secure payment methods instead of sending a cheque in the mail. To offset these losses, Australia Post has had to adapt and change its offerings. Today it is in fact no longer just a postal service but a retailer, courier and parcel deliverer.[3] As part of the diversification Australia Post acquired Star Track Express couriers in 2013, which led to a 10 per cent increase in domestic parcel delivery.[4] Between 2010 and 2015, under the guidance of CEO Ahmed Fahour, parcel revenue at Australia Post tripled to $3 billion.[5] In May 2016 Australia Post controversially announced plans to start charging customers to pick up undelivered parcels held for more than five days.

Another strategy to ensure the survival of Australia Post is a two-tier mail service proposed by Mr Turnbull and approved by the Australian Competition and Consumer Commission (ACCC).[6] 'Australia Post would introduce a two-speed mail service, with a regular service operating two days slower than the current delivery speed, and a premium-rate priority service'. From 4 January 2016 the cost of a stamp for the regular (2 days slower) service is 70c and rises to $1 for the express service.[7]

To increase revenues, Australia Post now offers a whole suite of additional products and services, including passport applications, travel cards and travellers cheques, travel insurance, land title transactions, driver and vehicle licences, police checks and firearms licences.[8]

What a change: from a smiling postie on a bicycle or scooter popping letters into your mailbox to a retailer, courier, quasi-financial institution and major parcel delivery service.

QUESTIONS

1. What other basic household items can you think of that have become obsolete due to the technology revolution?
2. What strategic changes has Australia Post implemented to lessen the impact of the decrease in the volume of letters?

Introduction

Navigating through difficult or changing circumstances often requires managers to introduce changes, and lead and foster new and better ways of doing things, which is a challenge Mr Fahour will continue to face at Australia Post in the coming years. Innovative organisations find successful ways of managing change. Take a look at benchmark innovative organisations such as www.apple.com, www.virgin.com and www.google.com. To succeed in an innovation-driven and highly competitive global economy, it is essential to have good ideas, and to be able to help others put their ideas into action.

Now consider the following example. When a group of Japanese students drove out of Tokyo one day, the event wouldn't have seemed remarkable to bystanders. But when they arrived some 900 kilometres later on the northern island of Hokkaido, Mitsubishi's president was very pleased. The students' car, powered by a new engine technology, had made the trip without refuelling! In fact, there was fuel to spare in the tank. It was an important breakthrough for the company. For a long time, engineers had known the feat was technically possible, but they didn't know how to do it. Finally, through a great deal of hard work, a lot of information sharing and problem-solving, and through learning, they found the answer.[9] Reducing emissions is the foremost response to the problem of climate change. Toyota is innovating in a similar fashion. Its 3rd generation Prius hybrid car gets a boost from solar power and claims to use just 3.9 litres of fuel per 100 kilometres, about half that of other small cars. Hybrid versions of several other Toyota models are planned for the future.[10] Some appeared in 2012 and by 2014 Toyota sold its fifty-thousandth hybrid vehicle in Australia.[11]

Finding answers to problems is what moves people, organisations and societies continuously ahead in our dynamic and very challenging world. We are living and working at a time when intellectual capital, knowledge management and learning organisations are taking centre stage. Michael Beer and Nitin Nohria observe:

> The new economy has ushered in great business opportunities and great turmoil. Not since the Industrial Revolution have the stakes of dealing with change been so high. Most traditional organisations have accepted, in theory at least, that they must either change or die.[12]

Recent experiences of many organisations as a result of the global financial crisis and subsequent economic downturn followed by a recovery period prior to the Eurozone crisis certainly lends support to this view. From the vantage point of a corporate leader always looking towards the future, John Chambers, chief executive officer (CEO) of Cisco Systems, would also no doubt agree. 'Companies that are successful will have cultures that thrive on change', he says, 'even though change makes most people uncomfortable'.[13]

Creating positive change in organisations, as suggested by Chambers, is not an easy task. Change involves complexity, uncertainty, anxiety and risk. Leading organisations on the pathways of change takes great understanding, discipline and commitment to creativity and human ingenuity.[14] Consultant Tom Peters further warns that we must refocus the attention of managers and leaders away from past accomplishments and towards the role of innovation as the main source of competitive advantage. Doing well in the past, simply put, is no guarantee of future success.[15] Peters also argues that innovations are produced by passionate people who are alarmed by what they see around them. Passionate people innovate because they are not content to simply sit on the sidelines.[16]

Future and emerging organisational structures, processes and practices are the major issues in this chapter. It is time therefore to inquire once more into your managerial abilities to master the challenges of innovation and change and career readiness in the evolving workplace. Take the opportunity to expand your portfolio of career skills to include the capacity for change leadership and self-renewal. As always, get connected!

18.1 Challenges of change

LEARNING OBJECTIVE 18.1 What are the challenges of change and innovation in the 21st century?

The World Economic Forum is a famous and futuristic think-tank for global business, government and civic leaders. At their most recent forums, the most popular new concepts discussed have been virtual organisations, web networks, value networks, molecular organisations and more. The following trends and possibilities were prominent among observations about the changing nature of business in the new economy.

- Companies that design and brand their own products, build and package them, and then deliver them to customers will soon no longer exist.
- Companies now have the ability to strip down their business to its essence, to focus on where the greatest value creation (and profits) lies.
- Extraneous functions can be eliminated through partnerships and newly supercharged forms of outsourcing.
- Instead of one big monolithic entity, companies start to look like clusters of distributed capabilities.[17]

There are those who might go so far as to say that the company as we have traditionally known it is dead, or at least dying.[18] The traditional forms, practices and systems of the past are being replaced by dramatic new developments driven by the forces of information technology and the relentless pressures of global competitiveness. The global financial crisis and subsequent economic downturn increased these pressures, and this is why organisations have to deal with 'as much chaos as order and change'.[19] And this is all happening very fast. No leader in any organisation, no matter how big or small, and whether operating for-profit or not-for-profit, can fail to take notice. What lies ahead in the emerging digital, networked and financially different world of the 21st century is far too challenging for that.

TECHNOLOGY

First there was a brick, now there's an iPhone

When we first started using mobile phones in Australia back in the early 1990s, one of the first to appear on the market was the Motorola 'brick'. This was a very heavy phone and the joke doing the rounds at the time was that it was more useful as a weapon to deter potential muggers. Nonetheless, it did work rather well, but was considered too big to be easily carried around. Nokia quickly capitalised on this drawback and began producing a range of much smaller phones. Interestingly, Nokia phones are manufactured in Finland, a country about the size of the city of Chicago, by a company that specialised in gumboots and rubber products, forestry, cable, electricity and electronics. Yet, Nokia knocked Motorola off its perch and became the number one mobile phone seller for a long time. One imagines the strategists at Motorola engaging in groupthink and dismissing the threat of Nokia by saying 'How can a company that manufactures fishermen's boots compete with our quality product?'

Motorola was indeed a quality product. Its fundamental objective was total customer satisfaction and this was every employee's overriding responsibility. In addition, Motorola disliked flaws and considered that anything that dissatisfied either an external or internal customer should be treated as a defect. A dialogue would then be entered into between management and staff or staff and customers in order to fix the defect. But this could not prevent the Finnish mobile giant from dominating the world and Australian markets for more than a decade. Nokia ended Motorola's reign in the late 1990s and, by 2008, its market share in Australia was 71 per cent, while Apple's was only 8.4 per cent. As recently as the first quarter of 2010, Nokia's market share in Australia was still about 50 per cent. But, as we note in this chapter, change is the only constant. By the first quarter of 2011, Nokia's market share had plunged by half that, to just 24.6 per cent. By 2011, Nokia had lost its crown to Apple.[20] What went wrong for Nokia? (Or, rather, what went right for Apple?)

Apple has always been one of the most innovative companies on earth. It started off as a computer company but struggled to wrest market share from Microsoft (even though graphic designers and finished artists in advertising agencies are said to 'like their PCs but love their Apples'). Unable to compete as well as it wanted to in the computer industry, Apple simply decided to switch games and produced an incredible mobile phone. What made this phone so desirable — a 'must have'? Besides being able to actually make telephone calls and send text messages (which is what mobile phones were originally meant to do), the iPhone enabled video calling (known as 'face time'), a retina display, two cameras for two views, multitasking, HD video recording and editing, and a 5 megapixel camera with flash. Of course, it also facilitated access to email and the internet (including Facebook, iTunes and iBooks), as well as maps, a GPS function and other features just too numerous to mention. Each new model of the iPhone is even more sophisticated and it seemed as if Apple was set to dominate the market for a long time to come. But will it? In mid-2015 Samsung asserted its dominance as the smartphone leader.[21] In order to regain its place as number one, Apple will have to change quickly with the times — or, like Motorola and Nokia, it, too, will be dominated by another competitor. Samsung is already dominating, while Huawei waits in the wings.

QUESTION

Change or be changed — that's what Apple has to do. Can you think of some exciting additional features that Apple could add to give its iPhone the 'edge' over its competitors?

Strategic competitiveness

Although the points and details may differ, the conclusion reached by futurists is the same. The years ahead will be radically different from those past. We and our organisations must be prepared not only to change, but to change continuously and in the face of ever present uncertainties. In earlier chapters we discussed the implications of this prospect for **learning organisations** — ones that mobilise people, values and systems to achieve continuous change and performance improvements driven by the lessons of experience.[22] Manager's notepad 18.1 lists the characteristics of the learning organisation.

MANAGER'S NOTEPAD 18.1

The learning organisation

The learning organisation is characterised by:
- a provision of learning spaces
- a willingness to experiment
- no blame — mistakes are seen as an opportunity to learn
- a celebration of diversity
- a truly shared vision
- rewarding learning.[23]

Consultant Peter Senge, author of the popular book *The Fifth Discipline*, advises managers to stimulate and lead change in ways that create true learning organisations in which everyone sets aside old ways of thinking, becomes self-aware and open to others, learns how the whole organisation works, understands and agrees to action plans and works with others to accomplish the plans.[24] For this reason, Beer et al. note that learning organisations are ideal vehicles for coping with environmental changes.[25]

Furthermore, according to Beer and his colleagues:

> the most creative ideas and novel approaches to solving problems may well originate from members of the organisation's lower levels, who are in touch with customers and the competitive environment and who can grasp subtle discontinuities as they take place.[26]

Senge's learning organisation is the ideal — it is the target. It is what change leaders should strive for as they move organisations forward into the complicated world of tomorrow. This is a challenge of **strategic leadership**, defined by Duane Ireland and Michael Hitt as the 'ability to anticipate, envision, maintain flexibility, think strategically and work with others to initiate changes that will create a viable future for the organisation'.[27]

Strategic leaders are change leaders who build learning organisations and keep them competitive even in difficult and uncertain times. The goal is to institutionalise as a core competency the ability to successfully and continuously change. Manager's notepad 18.2 highlights strategic leadership components that best prepare managers to meet this challenge.[28]

MANAGER'S NOTEPAD 18.2

Six components of strategic leadership

- Determine the organisation's purpose or vision.
- Exploit and maintain the organisation's core competencies.
- Develop the organisation's human capital.
- Sustain an effective (flexible) organisational culture.
- Emphasise and display ethical practices.
- Establish balanced organisational controls.

Continuous innovation

The 21st century world of organisations will be driven by innovation, the process of creating new ideas and putting them into practice[29] — in other words, invention plus exploitation. *Innovation* is the embodiment, combination or synthesis of knowledge in original, relevant, valued new products, processes or services. Management consultant Peter Drucker calls innovation 'an effort to create purposeful, focused change in an enterprise's economic or social potential'.[30] Innovation in and by organisations occurs in two broad forms: **process innovations**, which result in better ways of doing things; and **product innovations**, which result in the creation of new or improved goods and services. The management of both requires active encouragement and support for *invention* (the act of discovery) and for *application* (the act of use). Managers need to be concerned about building new work environments that stimulate creativity and an ongoing stream of new ideas. Managers must make sure that good ideas for new or modified work processes are actually implemented. They must also make sure that the commercial potential of ideas for new products or services is fully realised.

One way to describe the full set of leadership responsibilities for the innovation process is in these five steps, constituting what is known as **Hamel's wheel of innovation** after consultant Gary Hamel.[31]

1. *Imagining* — thinking about new possibilities; making discoveries by ingenuity or communication with others; extending existing ways.
2. *Designing* — testing ideas in concept; discussing them with peers, customers, clients or technical experts; building initial models, prototypes or samples.

3. *Experimenting* — examining practicality and financial value through experiments and feasibility studies.
4. *Assessing* — identifying strengths and weaknesses, potential costs and benefits, and potential markets or applications, and making constructive changes.
5. *Scaling* — gearing up and implementing new processes; putting to work what has been learned; commercialising new products or services.

One of the major features of organisational innovation is that the entire process must be related to the needs of the organisation and its marketplace. New ideas alone are not sufficient to guarantee success in this setting — they must be implemented effectively in order to contribute to organisational performance.

Figure 18.1 uses the example of new product development to further highlight how the various steps of the innovation process contribute to something of great business significance, **commercialising innovation**.[32] This is the process of turning new ideas into products or processes that can make an economic difference in increased profits through higher sales or reduced costs. In Australasia and the Pacific Rim region, companies such as OneSteel, CSR, Proton, LG, Sony and Matsushita generate a substantial proportion of their revenue from new products embodying new technologies. Novelty and the use of external change agents to help organisations think outside the square are keys.[33] Globally, Siemens, BP, Apple and 3M are pioneers of new product and process technologies. 3M, for example, is known globally for its Post-it® Notes and the Scotchguard™ stain repellent range. It also produces a large range of innovative computer data storage technologies for industrial and consumer use. Many of these companies are able to successfully commercialise their knowledge through collaborative partnerships with other organisations that possess essential technology or knowledge. Often joint ventures allow companies to exploit their knowledge.[34]

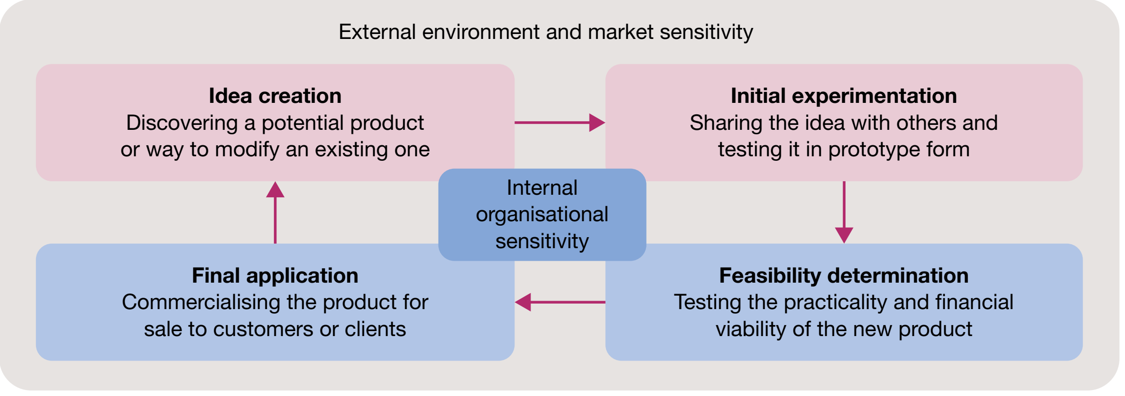


FIGURE 18.1 Process of innovation in organisations: the case of new product development

Most decisions taken in a sizeable organisation with respect to idea generation and development are accomplished by middle-level managers and people below them on the organisational chart. However, senior management also has an important role to play in shaping the organisational culture, giving direction, championing new technologies, allocating resources, and creating balance between current and future demands. Fujio Cho, current Chairman of the Toyota Motor Corporation in Japan, became personally involved in the development of Toyota's innovative and environmentally friendly Prius car. He helped champion the project from its inception.

Organisational leaders should be visible and personally involved in the early stages of the innovation process. This brings four important benefits.

1. It sends a powerful signal to employees that innovation matters.
2. It provides senior management with opportunities to publicise the strategic direction of the firm and the boundaries within which innovation should be pursued.

3. It gives senior management direct input into the design of products and services that will define the company in the future.
4. It educates leaders on technical and market issues and prepares them to act as recognisers and patrons of good ideas.

Characteristics of innovative organisations

Innovative organisations such as Apple, Google, Facebook, 3M and Toyota mobilise talent and intellectual capital to support creativity and entrepreneurship. Their managers at all levels are masters at actively leading the innovative process. In highly innovative organisations, the *corporate strategy and culture support innovation*. The visions and values of senior management, the strategies of the organisation, and the framework of policies and expectations emphasise an entrepreneurial spirit. Innovation is expected, failure is accepted, and the organisation is willing to take risks. Highly deregulated industries often produce innovative organisations.[35]

In highly innovative organisations, *organisation structures support innovation*. More and more large organisations are trying to capture the structural flexibility of smaller ones. That is, they are striving for more organic operations with a strong emphasis on lateral communications and cross-functional teams and task forces. In particular, research and development, historically a separate and isolated function, is being integrated into a team setting. As Peter Drucker points out: 'Successful innovations . . . are now being turned out by cross-functional teams with people from marketing, manufacturing and finance participating in research work from the very beginning'.[36] Innovative organisations are also reorganising to create many smaller divisions that allow creative teams to operate and to encourage 'intrapreneurial' new ventures.

In highly innovative organisations, *top management supports innovation*. They understand the innovation process, are tolerant of criticisms and differences of opinion, and take all possible steps to keep the goals clear and the pressure on. The key, once again, is to allow the creative potential of people to operate fully.[37]

In highly innovative organisations, *the organisation's staffing supports innovation* as well. Organisations need different kinds of people to succeed in all stages of the innovation process. The critical **innovation roles** to be filled include:

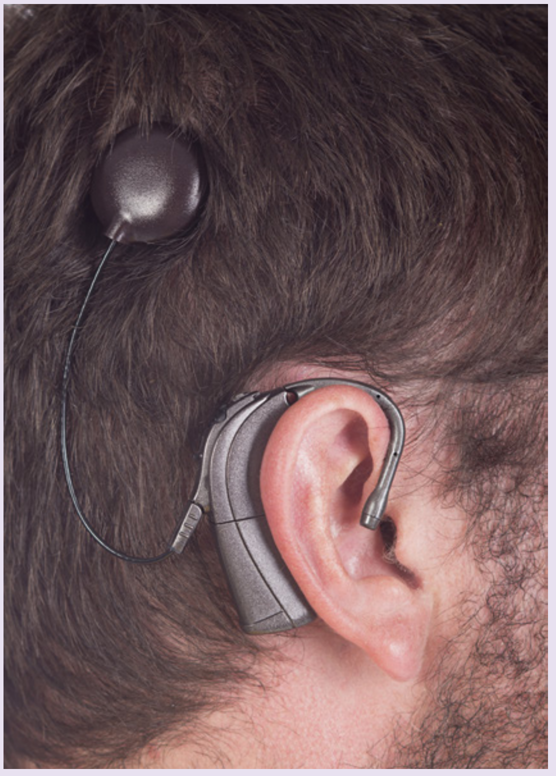
- *idea generators* — people who create new insights from internal discovery or external awareness, or both
- *information gatekeepers* — people who serve as links between people and groups within the organisation and with external sources
- *product champions* — people who advocate and push for change and innovation in general and for the adoption of specific product or process ideas in particular
- *project managers* — people who perform the technical functions needed to keep a new project on track with all the necessary resource support
- *innovation leaders* — people who encourage, sponsor and coach others to keep the innovation values and goals in place and channel energies in the right directions.[38]

Innovation and industry clusters

Increasingly, small to medium-sized businesses are realising the advantages of collaboration and information sharing. These collaborative interactions within regions involving government, industry, research and development organisations, and educational and academic institutions are referred to variously as **industry clusters** or learning regions. At the core of industry clusters are interaction and communication between companies and other stakeholders that produce learning, innovation and a shared vision. Australia is recognised as a world leader in the development and application of industry clusters. Far North Queensland was one of the first regions to establish this mechanism for learning and innovation. It has industry clusters in tourism, biotechnology, tropical and exotic fruit production, tertiary education and marine engineering. The Cairns Regional Economic Development Corporation (CREDC) has played a pivotal role in establishing and maintaining these clusters. Another well-known example is the winery region near Margaret River in Western Australia.

INNOVATION

Australia — an innovative country



Australia is a country with a rich history of developing unique and creative products and services. Thousands of years ago, boomerangs and woomeras were invented for hunting by Indigenous Australians. Did you know that in the last 170 years, the following products were invented in Australia?

- Mechanical ice-maker (1854)
- Electric drill (1889)
- Automatic Totalisator for betting on horse races (1913)
- Aspro (1915)
- Rotary clothes hoist (1911)
- The heart pacemaker (1926)
- The black box flight recorder (1950s)
- The ultrasound scanner (1961)
- Saltwater pool chlorination system (1970s)
- The cochlear implant (1979)
- The baby safety capsule (1984)
- In-vitro fertilisation (IVF) (1984)
- Plastic bank notes (1988)
- Multi-focal contact lenses (1992)
- The underwater computer (1993)
- Relenza (the world's first anti-flu drug) (1996)
- The skin polarprobe® (1998)
- Biodegradable packaging (2000)
- The cervical cancer vaccine (2006)
- Wi-fi hotspots (2009)[39]

One of Australia's greatest inventions has been the cochlear implant.

Australia is a mining country, and in this area, national innovations have included the first fully integrated two-way mine emergency communication system, the first automated system for mapping the minerals in drill cores, and new methods of rehabilitation on mine sites. Australian firms develop about 60 per cent of the world's mining software.

In medicine, perhaps one of the best known recent innovations was the breakthrough made in the treatment of ulcers by the University of Western Australia's Barry Marshall and Robin Warren. They won a Nobel Prize for Medicine, by demonstrating that ulcers are very often caused by bacteria rather than stress, as was previously commonly believed. This is a case study in resistance to change, because they threatened the subject matter being taught in medical schools and also the profits of pharmaceutical companies. Previously, cessation of treatment would sometimes see ulcers return, meaning that sufferers might have to be on drugs for the rest of their lives. In their Nobel Prize citation, it was noted that with 'tenacity and a prepared mind, [they] challenged prevailing dogmas'.[40]

QUESTION

How do you think the medical profession and pharmaceutical industry would have tried to discredit the professors' innovative theory?

Manager's notepad 18.3 shows some of the ways to inspire innovation in organisations.[41]

MANAGER'S NOTEPAD 18.3

Inspiring innovation

- Make it the norm.
- Put aside ego.
- Don't fear failure.
- Ask 'what if?'
- Abandon the crowd — search for areas your competitors have overlooked.
- Mix people up.
- Hire outsiders.
- Merge patience and passion.
- Fight negativity.
- Experiment like crazy.
- Make it meaningful.

CRITICAL ANALYSIS

1. In what ways have the global financial crisis and subsequent economic fluctuations such as the slowdown in the Chinese economy highlighted that companies must adapt or die?
2. Why is innovation the main source of competitive advantage? Can you think of any other organisational capabilities that might also result in a competitive advantage?
3. Could it be argued that the learning organisation is the ultimate vehicle for enabling change? Why?

18.2 Organisational change

LEARNING OBJECTIVE 18.2 What is the nature of organisational change in an increasingly globalised and integrated economy?

Change is intertwined with the processes of creativity and organisational innovation. Creativity fosters innovation and, according to Drucker, purposeful innovation should result in changes of positive economic or social consequence.[42] This all sounds quite positive and not very controversial. But what about the realities of trying to systematically change organisations and the behaviours of people within them? Organisational change has often been promoted by governments as well as company managers. For example, from the mid 1990s Australia pursued a reform agenda, aimed at increasing organisational productivity. Successive federal and state governments deregulated industries, reduced trade union power and actively encouraged non-union workplaces.[43] The Howard government's short lived and controversial WorkChoices legislation encouraged individual workplace agreements between employees and employers, over collective agreements and awards. However, the succeeding Labor government's Fair Work legislation revoked many of the provisions of the WorkChoices legislation, with collective bargaining arrangements being once again more central to employment relations.[44]

In Malaysia, the government is fostering wide-scale organisational change through its Vision 2020 initiative, which aims to make the country an economic powerhouse by 2020. Innovation, advanced technology, world-class productivity and high living standards, similar to those in neighbouring Singapore, are the government's goals. More muted attempts at microeconomic reform have been made in China, Korea and Japan. State-run industry bureaucrats in China have opposed changes to their organisations, whereas in Korea the trade unions have resisted reductions in pay and conditions. Japanese resistance to change, on the other hand, has come from private family-dominated industries, such as retailing, where they have considerable control and influence over their protected markets.

Many contemporary organisations around the world live in an environment of constant change, and the rate of change is only expected to accelerate with new technologies and economic pressures to increase revenue and cut costs. Virtual organisations will allow for even greater rates of change. However, one potential barrier to organisations changing to meet changing demands can be complacency. Collectively, organisational leaders can challenge complacency by highlighting legitimate concerns or realities, such as:

1. using information about the organisation's competitive situation to generate discussion with employees about current and prospective problems and challenges
2. creating discussion on the organisation's data
3. creating opportunities for employees to educate management about the dissatisfaction and problems they experience
4. setting high standards and expecting people to achieve them. The act of establishing high standards creates dissatisfaction with the current level of performance.

To create a favourable environment for changing the culture of an organisation, the following preconditions should exist in the organisation:

1. Leaders are respected, credible and effective.
2. People are dissatisfied with the current situation and feel personally motivated to change.
3. The organisation is non-hierarchical.
4. People are accustomed to and value collaborative work.

Change leadership

A **change agent** is a person or group who takes leadership responsibility for changing the existing pattern of behaviour of another person or social system. Change agents make things happen, and part of every manager's job is to act as a change agent in the work setting. This requires being alert to situations or to people needing change, being open to good ideas and being able to support the implementation of new ideas in actual practice. Figure 18.2 contrasts a *change leader* with a 'status quo manager'. The former is forward-looking, proactive and embraces new ideas; the latter is backward-looking, reactive and comfortable with habit. The new workplace demands change leadership at all levels of management.

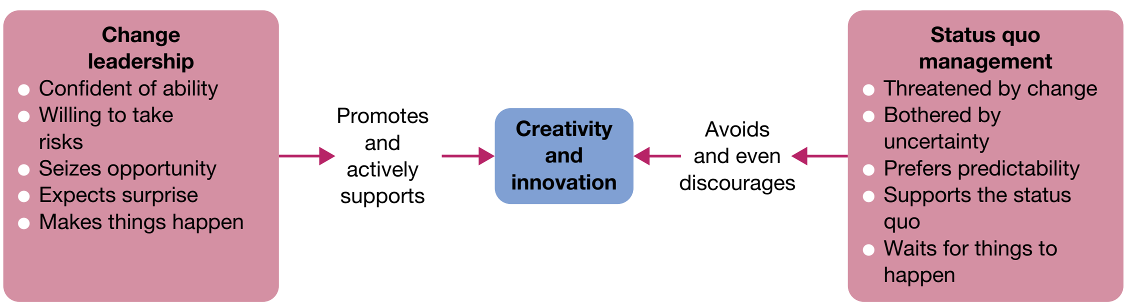


FIGURE 18.2 Change leadership versus status quo management

Models of change leadership

Consider the concept of distributed leadership in teams. It is argued that every team member has the potential to lead by serving group needs for task and maintenance activities. The same notion applies when it comes to change leadership in organisations. The responsibilities for change leadership are ideally distributed and shared top to bottom.

Top-down change

In **top-down change**, strategic and comprehensive changes are initiated with the goal of major impact on the organisation and its performance capabilities. This is the domain of strategic leadership as discussed earlier in the chapter. Importantly, however, reports indicate that some 70 per cent or more of large-scale change efforts actually fail.[45] The most common reason is poor implementation. The success of top-down change is usually determined by the willingness of middle-level and lower level workers to actively support top-management initiatives. Change programs have little chance of success without the support of those who must implement them. Any change that is driven from the top runs the risk of being perceived as insensitive to the needs of lower level personnel. It can easily fail if implementation suffers from excessive resistance and insufficient commitment to change. Thus, it is not enough to simply prescribe change from the top — it must be supported by effective change leadership.

Listed in Manager's notepad 18.4 are several lessons learned from the study of successful large-scale transformational change in organisations.[46]

MANAGER'S NOTEPAD 18.4

How to lead transformational change

- Establish a sense of urgency for change.
- Form a powerful coalition to lead the change.
- Create and communicate a change vision.
- Empower others to move change forwards.
- Celebrate short-term 'wins' and recognise those who help.
- Build on success — align people and systems with new ways.
- Stay with it — keep the message consistent, champion the vision.

A version of top-down change in business is called **Theory E change**, or change based on activities that increase shareholder or economic value as soon as possible.[47] Managers who pursue Theory E change use economic incentives, major restructuring and downsizing, and similar activities in the attempt to improve a firm's financial performance. The approach is very much top-down in nature and may carry heavy costs for employees and even corporate traditions. An example is the major restructuring of BHP Steel before its merger with Billiton. Thousands of production staff were retrenched when the Newcastle steelworks in Australia was closed and other operations were rationalised before selling off the steel-making division. It is now an independent company trading as OneSteel. Financial markets responded favourably to the organisational change, with share values and dividends increasing. Theory E change, demonstrated by this example, is driven from the top, emphasises changes in structures and systems, and tries to gain employee support through financial incentives. However, for those staff who are retrenched, this type of change is viewed very negatively. Beer observes that top-down TQM programs often fail because of the gap between senior management's rhetoric and the realities of implementation faced by junior staff.[48]

Bottom-up change

Bottom-up change is also important in organisations. In such cases, the initiatives for change come from people throughout an organisation and are supported by the efforts of middle-level and lower level managers acting as change agents. This type of behaviour would be evident in virtual organisations. Bottom-up change is essential to organisational innovation and is very useful in terms of adapting operations and technologies to the changing requirements of work. It is made possible by empowerment, involvement and participation as discussed in earlier chapters. For example, at the Malaysian car manufacturer Proton, workers contribute ideas on product and process change through suggestion boxes and workgroup meetings. Many of the solutions are adopted. The system is based on the Japanese *kaizen* concept that emphasises continuous improvement based on worker input. Proton strongly encourages workers to use their job knowledge, skills and practical expertise to improve products, productivity and the workplace.

A version of bottom-up change in business is called **Theory O change**, or change based on activities that increase organisational performance capabilities.[49] Change leaders pursuing the Theory O model try various approaches to improve organisational culture, and develop human capital to improve performance capabilities. Historical examples are The Body Shop and Sony Corporation, with a focus on organisational improvements via building employee commitment to new directions. Theory O change encourages participation from the bottom up, values employee attitudes, progresses step by step through experimentation and evolution, and tries to inspire support through employee involvement.

Integrated change leadership

The most successful and enduring change leadership is that which can harness the advantages of both top-down and bottom-up change. Top-down initiatives may be needed to break traditional patterns and implement difficult economic adjustments; bottom-up initiatives are necessary to build institutional capability for sustainable change and organisational learning. An international example is the two-decade-long transformation efforts of former CEO Jack Welch at General Electric. When first taking over as CEO in the 1980s, he began an aggressive top-down E-type restructuring that led to major workforce cuts and a trimmer organisation structure. Once under way, however, this evolved into O-type change focusing on employee involvement.[50]

Planned and unplanned change

We are particularly interested in planned change that occurs as a result of the specific efforts of a change agent. Planned change is a direct response to a person's perception of a **performance gap**, or a discrepancy between the desired and actual state of affairs. Performance gaps may represent problems to be resolved or opportunities to be explored. In each case, managers as change agents should be ever alert to performance gaps and take action to initiate planned changes to deal with them. Kurt Lewin is the 'father' of planned change theory, which is discussed in more detail a little further on in this chapter.

But unplanned changes are important too. They occur spontaneously or randomly and without the benefit of a change agent's attention. Unplanned changes may be disruptive, such as a strike that results in a plant closure, or beneficial, such as an interpersonal conflict that results in a new procedure on interdepartmental relations. Catastrophic events such as the destruction of NASA's space shuttles *Challenger* in 1986 and *Columbia* in 2003 trigger unplanned change for organisations. Of course, the global financial crisis and subsequent economic downturn and variable economic activity in China has resulted in many unplanned changes for organisations around the world in recent times. As a result of injudicious lending that precipitated the global financial crisis, several US and British financial institutions have been re-regulated. These types of organisational failure produce immediate pressure for changes in structure, processes and practices to avoid recurrences. The appropriate goal in managing unplanned change is to act immediately once it is recognised in order to minimise negative consequences and maximise possible benefits. Contingency management means always having a Plan B. For example, Western Australia has become known as the 'shark attack capital' of the world. Surfing schools and scuba diving charters there will need to make alternative plans, such as surfing inside netted enclosures or using their boats for whale watching cruises, to avoid any negative effects these shark attacks have on their businesses.

Forces and targets for change

The impetus for organisational change can arise from a variety of external forces.[51] These include the global economy and market competition, local economic conditions, government laws and regulations, technological developments, market trends and social forces, among others. As an organisation's general and specific environments develop and change over time, the organisation must adapt as well. Internal forces for change are important too. Indeed, any change in one part of the organisation as a complex system — perhaps a change initiated in response to one or more of the external forces just identified — can often create the need for change in another part of the system.

The many targets for planned change are found among all the aspects of organisations already discussed in this book. All of them, including the following common organisational targets for change — tasks, people, culture, technology and structure — are highly interrelated:

- *tasks* — the nature of work as represented by organisational mission, objectives and strategy, and the job designs for individuals and groups

- *people* — the attitudes and competencies of the employees and the human resource systems that support them
- *culture* — the value system for the organisation as a whole and the norms guiding individual and group behaviour
- *technology* — the operations and information technology used to support job designs, arrange workflows and integrate people and machines in systems
- *structure* — the configuration of the organisation as a complex system, including its design features and lines of authority and communications.[52]

SUSTAINABILITY

Potential in constraints: finding other avenues to exploit in a flourishing industry

Tasmanian businesses are being warned they will miss out on the benefits of a booming mountain biking sector if they do not get on board.

The state's cycling tourism industry has met in Launceston to look at ways to reach its multi-million-dollar potential.

Around 30,000 cycling tourists arrive in the state each year, and Chris Griffin from Tourism Northern Tasmania said they were a welcome sight.

'We know when [riders] come to Tasmania they tend to spend more than the average visitor,' he said.

He said it took 15 years for local businesses to realise the value of the trails.

> Our business community actually engaging with the cycle tourism market has been the biggest change that we've seen. Since they've started promoting and marketing cycling we've seen a really dramatic change in the number of visitors coming to the region. They actually develop cultural places for people to go and hang out and be amongst like-minded people and that's been the most critical thing.

Dorset Council's Manager of Economic Development Susie Bower said the region was enjoying the success of its mountain bike trails.

> There was only one cafe open prior to the mountain trials going in, there's now three open in Derby.
>
> 'Others have converted their houses into accommodation and we've had other investment with people buying properties and doing the same thing.

Ms Bower said there had been some tepidation.

> Tasmania is conservative and we always have been looking at venturing into a new business. But now that people can see the success, they can see what is possible at Derby so I think now is the time we'll actually start seeing more people coming into the town and opening up new businesses and driving the economy.[53]

QUESTION

What are some other enterprises that can piggyback on a booming tourism industry?

CRITICAL ANALYSIS

1. Is a Theory E leader more suitable than a Theory O leader in times of financial crises? Justify your answer.
2. What other contingency plans do you think Australia's diving and surfing schools need to make in order to survive the consequences of the increasing incidences of fatal shark attacks?

18.3 Managing planned change

LEARNING OBJECTIVE 18.3 How can planned organisational change be managed in a more rapidly changing world economy, including resistance to change and the advent of virtual organisations?

Change is a complicated phenomenon in any setting, and human nature always stands at the heart of it. People tend to act habitually and in stable ways over time. They may not want to change, even when circumstances require it. As a manager and change agent, you will need to recognise and deal with such tendencies in order to lead planned change successfully. With constant changes in the global economy, planned change is no longer a periodic event occurring every five to ten years. Organisations are having to change more frequently and, in some industries such as IT and bio-tech, change is almost a constant. Inflexible organisations will be battered and beaten by the real world of managing and dealing with change.[54]

Phases of planned change

Kurt Lewin recommends that any planned-change effort be viewed as the three-phase process shown in figure 18.3.[55] Lewin's three phases of planned change are *unfreezing* — preparing a system for change; *changing* — making actual changes in the system; and *refreezing* — stabilising the system after change. This normative model of how change *should* be conducted was formulated when change was a much more infrequent event and before the importance and impact of organisational politics was fully appreciated. Although the model is a useful simple abstraction of the change process and its ice metaphor is attractive, it lacks specificity and does not fully appreciate the complexity of environmental factors that shape change outcomes. However, it is still widely used by management consultants.

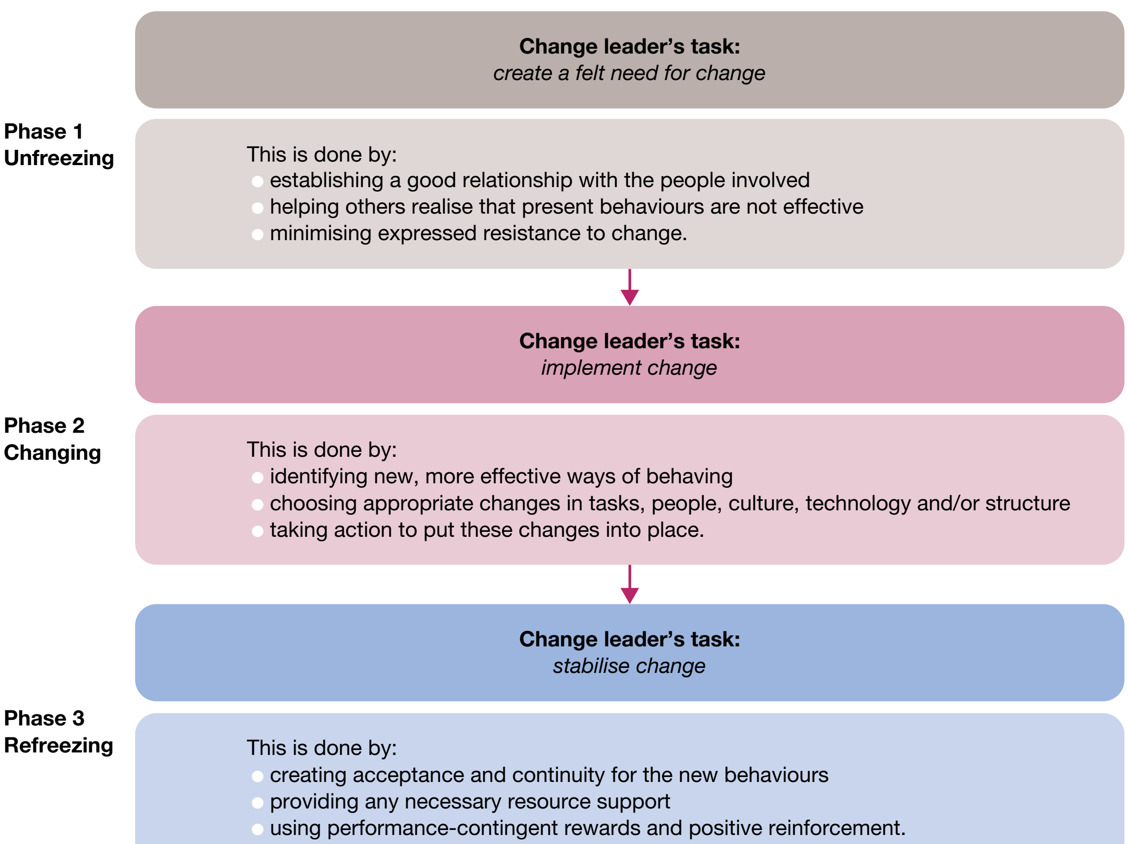


FIGURE 18.3 Lewin's three phases of planned organisational change

Unfreezing

In order for change to be successful, people must be ready for it. Planned change has little chance for long-term success unless people are open to doing things differently. **Unfreezing** is the stage in which a situation is prepared for change, and felt needs for change are developed. It can be facilitated in several ways: through environmental pressures for change, declining performance, the recognition that problems or opportunities exist, and through the observation of behavioural models that display alternative approaches. When handled well, conflict can be an important unfreezing force in organisations. It often helps people break old habits and recognise alternative ways of thinking.

Changing

In the changing phase, something new takes place in a system, and change is actually implemented. This is the point at which managers initiate changes in organisational targets such as tasks, people, culture, technology and structure. Ideally, all change is done in response to a good diagnosis of a problem and a careful examination of alternatives. However, Lewin believes that many change agents enter the changing phase prematurely, are too quick to change things, and end up creating resistance to change. When managers implement change prematurely, there is an increased likelihood of failure.

Refreezing

The final stage in the planned-change process is **refreezing**. Here, the manager is concerned about stabilising the change and creating the conditions for its long-term continuity. Refreezing is accomplished by appropriate rewards for performance, positive reinforcement and necessary resource support. It is also important to evaluate results carefully, provide feedback to the people involved, and make any required modifications in the original change. When refreezing is done poorly, changes are too easily forgotten or abandoned with the passage of time. When it is done well, change can be more long-lasting.

COUNTERPOINT

Chance and fate determine organisational survival

The idea that organisations can change from being 'dinosaurs' to agile, flexible organisations through applying change management strategies, such as Lewin's model or others, is incredibly attractive to most senior managers and shareholders. However, the reality for many organisations is that change is simply too difficult to achieve because organisational structures and processes have become so embedded that they cannot be changed in any substantial way. It may be better to allow these organisations to be 'naturally' selected out by the market through bankruptcy or closure, because, like the dinosaurs of prehistoric time, they cannot change sufficiently to adapt to their new environment. An example of where this 'natural' selection could have occurred, but didn't, is in the US car industry. Less than a year after the onset of the global financial crisis, GM and Chrysler had both filed for bankruptcy and only massive injections of US government financial aid saved them from collapse.

However, Kodak Eastman looked likely to be 'naturally' weeded out. Founded in 1888, Kodak filed for bankruptcy in January 2012. Kodak generally sold cheap cameras, but made its money out of the expensive film they used. Even though the company spent $4 billion on developing the photo technology that enables mobile phones to take pictures, its heavy reliance on film led to its collapse. It was also unable to adapt to digital technology as quickly as its competitors Canon and Sony, which helped contribute to its near demise.[56] However, in September 2013 Kodak announced that it had restructured and exited bankruptcy and would now focus on commercial products, such as high-speed digital printing technology and printing on flexible packaging for consumer goods.[57] A trend in the film industry to print on film rather than using cheaper digital video formats saw *Star Wars: The Force Awakens* manufactured in a Kodak factory, which contributed to the recovery of the company.[58]

New organisations will always arise that are better adapted to new or changing situations. In other words, Darwin's survival of the fittest principle applies not only to natural species but also to organisations. It must, therefore, be recognised that managers have limited control over organisational outcomes, and that chance, luck and fate — environmental determinism — may be powerful forces that determine long-term survival.

QUESTION

If history ever repeats itself and there is another recession or global financial crisis, do you think that over-geared banks should be allowed to fail rather than be bailed out by governments?

Choosing a change strategy

Managers use various approaches when trying to get others to adopt a desired change. Figure 18.4 summarises three common change strategies known as force-coercion, rational persuasion and shared power.[59] Each can have very different consequences for change agent and change target alike.

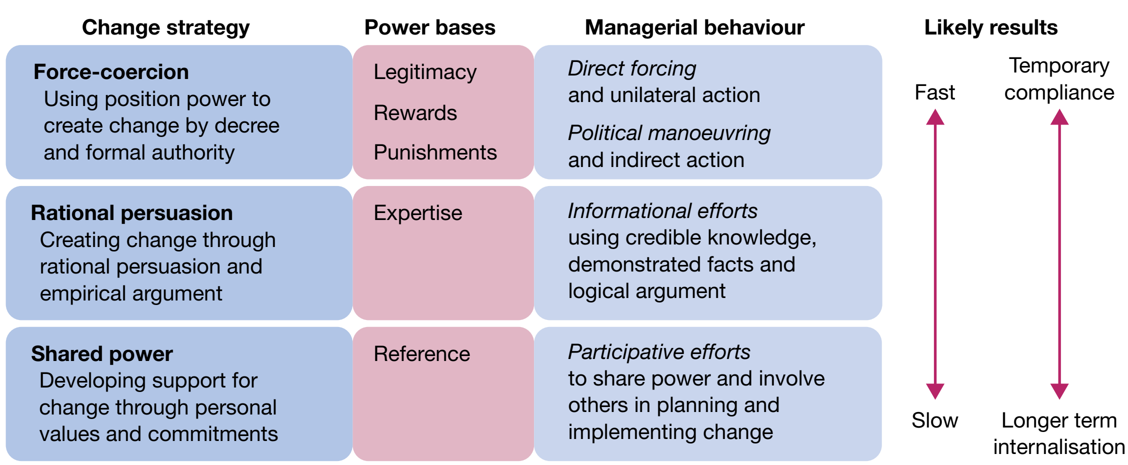


FIGURE 18.4 Alternative change strategies and their leadership implications

Force-coercion strategies

A **force-coercion strategy** uses the power bases of legitimacy, rewards and punishments as the main inducements to change. A change agent who seeks to create change through force-coercion believes that people who run things are basically motivated by self-interest and by what the situation offers in terms of potential personal gains or losses.[60] This change agent believes that people change only in response to such motives, tries to find out where their vested interests lie, and then puts the pressure on. Once a weakness is found, it is exploited. The change agent is always quick to work 'politically' by building supporting alliances wherever possible. If the change agent has formal authority, he or she uses it, along with whatever rewards and punishments are available. As figure 18.4 shows, the likely outcomes of force-coercion are immediate compliance but little commitment.

Force-coercion can be pursued in at least two ways, both of which can be commonly observed in organisations. In a *direct forcing* strategy, the change agent takes direct and unilateral action to 'command' that change take place. This involves the exercise of formal authority or legitimate power, offering special rewards and/or threatening punishment. In *political manoeuvring*, the change agent works indirectly to gain special advantage over other people and thereby make them change. This involves bargaining, obtaining control of important resources or granting small favours.

Regardless of the exact approach taken, the force-coercion strategy on its own produces limited results. Although it can be implemented rather quickly, most people respond to this strategy out of fear of punishment or hope for a reward. This usually results in only temporary compliance with the change agent's desires. The new behaviour continues only so long as the opportunity for rewards and punishments is present. For this reason, force-coercion is most useful as an unfreezing device that helps people break old patterns of behaviour and gain initial impetus to try new ones.

Rational persuasion strategies

Change agents using a **rational persuasion strategy** attempt to bring about change through persuasion, backed by special knowledge, empirical data and rational argument. A change agent following this strategy believes that people are inherently rational and are guided by reason in their actions and decision-making.[61] Once a specific course of action is demonstrated to be in a person's self-interest, the change agent assumes that reason and rationality will cause the person to adopt it. Thus, he or she uses information and facts to communicate the essential desirability of change.

The likely outcome of rational persuasion is eventual compliance, with reasonable commitment. When successful, a rational persuasion strategy helps both unfreeze and refreeze a change situation. Although slower than force-coercion, it tends to result in longer lasting and internalised change. To be successful, a manager using rational persuasion must convince others that the cost–benefit value of a planned change is high and that it will leave them better off than before. This can come directly from the change agent if he or she has personal credibility as an 'expert'. If not, it can be obtained in the form of consultants and other outside experts, or from credible demonstration projects and benchmarks. Rational persuasion strategies have been adopted by LG, Matsushita, Rio Tinto and Qantas, but with some minor local modifications to account for cultural differences between regions. Local management practices in the Asia–Pacific region are a fusion of global and home-grown approaches.

Shared power strategies

A **shared power strategy** engages people in a collaborative process of identifying values, assumptions and goals from which support for change will naturally emerge. The process is slow, but it is likely to yield high commitment. Sometimes called a *normative re-educative strategy*, this approach is based on empowerment and is highly participative in nature. It relies on involving others in examining personal needs and values, group norms and operating goals as they relate to the issues at hand. Power is shared by the change agent and other people as they work together to develop a new consensus to support needed change.

Managers using shared power as an approach to planned change need referent power and the skills to work effectively with other people in group situations. They must be comfortable allowing others to participate in making decisions that affect the planned change and the way it is implemented. Because it entails a high level of involvement, this strategy is often quite time-consuming. But, importantly, power sharing is likely to result in a longer lasting and internalised change.

A change agent who shares power begins by recognising that people have varied needs and complex motives.[62] He or she believes people behave as they do because of sociocultural norms and commitments to the expectations of others. Changes in organisations are understood to inevitably involve changes in attitudes, values, skills and significant relationships, not just changes in knowledge, information or intellectual rationales for action and practice. Thus, when seeking to change others, this change agent is sensitive to the way group pressures can support or inhibit change. In working with people, every attempt is made to gather their opinions, identify their feelings and expectations, and incorporate them fully into the change process.

The great 'power' of sharing power in the change process lies with unlocking the creativity and experience available from within the system, and often missed at the top. Unfortunately, many managers are hesitant to engage this process for fear of losing control of the strategic direction, or of having to compromise on important organisational goals. Harvard Professor of Business Administration Teresa M. Amabile, however, points out that managers and change leaders should have the confidence to share power regarding means and processes, but not overall goals. 'People will be more creative', she says, 'if you give them freedom to decide how to climb particular mountains. You needn't let them choose which mountains to climb'.[63]

A similar framework for strategic change can be seen in the Dunphy and Stace[64] matrix of change strategies illustrated in figure 18.5. Dictatorial change is the more likely response to environmental emergencies such as that caused for many organisations by financial crises. As mentioned earlier, after the global financial crisis, many UK and US financial institutions have simply been re-regulated or taken over by governments without much room for negotiation. This is an example of dictatorial change.

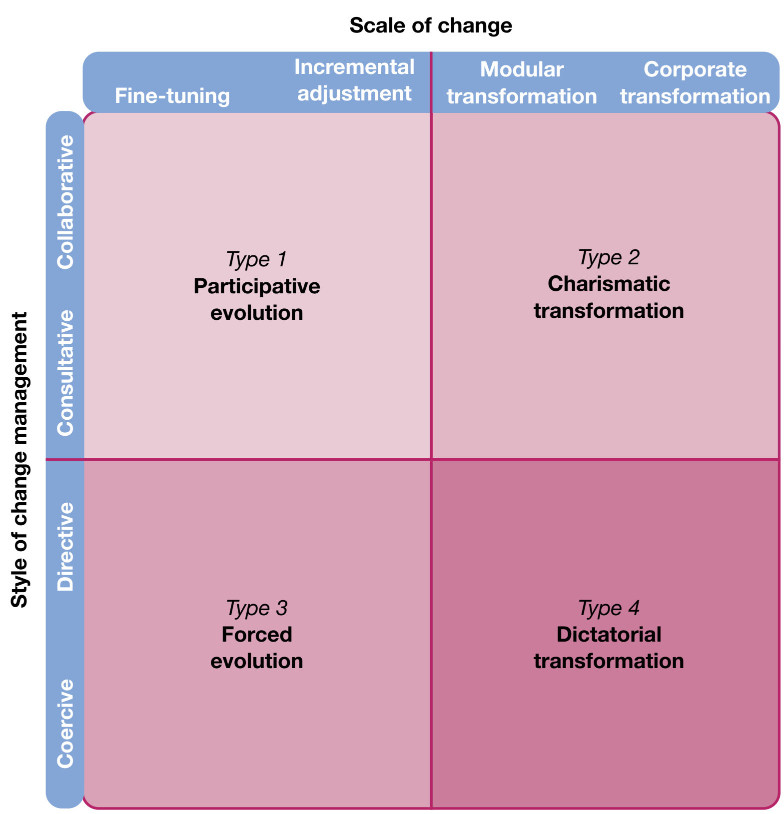


FIGURE 18.5 The Dunphy and Stace matrix of change strategies

Understanding resistance to change

Change typically brings with it resistance.[65] When people resist change, furthermore they are defending something important that appears to them to be threatened by the attempted change. There are any number of reasons people in organisations may resist planned change (see Manager's notepad 18.5). Such resistance is often viewed by change agents and managers as something that must be 'overcome' in order for change to be successful. This is not necessarily true. Resistance is better viewed as feedback that the informed change agent can use to constructively modify a planned change to better fit situational needs and goals. It might even be the conscience of the organisation. When resistance appears, it usually means that something can be done to achieve a better 'fit' between the planned change, the situation and the people involved.

MANAGER'S NOTEPAD 18.5

Why people may resist change

- *Fear of the unknown* —not understanding what is happening or what comes next.
- *Disrupted habits* — feeling upset when old ways of doing things can't be followed.
- *Loss of confidence* — feeling incapable of performing well under the new ways of doing things.
- *Loss of control* — feeling that things are being done to you rather than by or with you.
- *Poor timing* — feeling overwhelmed by the situation or that things are moving too fast.
- *Work overload* — not having the physical or psychic energy to commit to the change.
- *Loss of face* — feeling inadequate or humiliated because it appears that the 'old' ways weren't 'good' ways.
- *Lack of purpose* — not seeing a reason for the change and/or not understanding its benefits.

A second negative reaction to change akin to resistance is **organisational silence**. Some studies have suggested that, at times, employees are afraid to speak up about issues or problems that they have encountered at work.[66] These 'undiscussables' include decision-making processes, managerial incompetence, organisational inefficiency and poor organisational performance. A climate of silence is engendered by managers' fear of negative feedback. For some managers, negative feedback is so threatening that they try to dismiss the information as inaccurate, ignore it, or attack the credibility of the source. Managers' values also play a part — particularly if they believe that employees are self-interested and untrustworthy. When they unconsciously adopt this thinking, managers will implicitly or explicitly discourage upward communication. The second belief is that managers know best about most issues of organisational importance. The third belief is that unity, agreement and consensus are signs of organisational health, whereas disagreement and dissent should be avoided. An outcome of these three beliefs is centralised decision-making and a lack of formal upward feedback mechanisms. The lack of diversity of opinion and the lack of feedback on performance can inhibit both innovation and organisational change and development, particularly the organisation's ability to detect and correct errors.[67] Silence might also be interpreted as support and consensus.

A third negative reaction to change is **cynicism**. This often occurs when staff lose faith in their change leaders. People may see them as incompetent and lazy, or greedy, exploitative and uncaring. It can also be a response to a history of change attempts that were unsuccessful. For example, one telecommunications company advertises that customers will have access to Australian-based staff. This is in response to Telstra's strategy of directing customers to off-shore call centres — a practice that had resulted in widespread cynicism about Australia's biggest telephone company.

Cynicism also results from violation of the psychological contract. When one-on-one verbal agreements with employees are broken by managers, the result is distrust and disillusionment. Cynicism can also become a self-fulfilling prophecy if cynics do not support the change. If the change fails, that reinforces cynical attitudes that stop staff from trying to make the change initiative work. Behaviour may manifest in smirks, sneers and eye rolling. There might also be critical specific statements made — for example, about lack of honesty, sincerity or humour; or pessimistic predictions about the future such as 'they won't bother with quality when it starts to get expensive'.

Cynicism can also increase absenteeism and decrease motivation and commitment. In the end, managers usually claim success and blame their staff for poor attitudes or unions, while employees usually blame management. Notwithstanding Peter Senge's view that there should be no blame in a learning organisation, it is common for people to deflect blame externally. However, as resistance can be used positively to help modify a planned change, so, too, can cynicism reflect past experiences of failure. In this sense, it can also be seen as the conscience of the organisation.[68]

Dealing with resistance to change

Once resistance to change is recognised and understood, it can be dealt with in various ways.[69] Among the alternatives for effectively managing resistance, the *education and communication* approach uses discussions, presentations and demonstrations to educate people beforehand about a change. *Participation and involvement* allow others to contribute ideas and help design and implement the change. The *facilitation and support* approach involves providing encouragement and training, actively listening to problems and complaints, and helping to overcome performance pressures. Facilitation and agreement provide incentives that appeal to those who are actively resisting or ready to resist. This approach makes tradeoffs in exchange for assurances that change will not be blocked. The *manipulation and cooption* approach tries to covertly influence others by providing information selectively and structuring events in favour of the desired change. *Explicit and implicit coercion* forces people to accept change by threatening those who resist with a variety of undesirable consequences if they do not go along as planned. The last two approaches carry great risk and potential for negative side effects.

Managing technological change

Technological change is common in today's organisations, but it also brings special challenges to change leaders. For the full advantages of new technologies to be realised, a good fit must be achieved with work needs, practices and people. This, in turn, requires sensitivity to resistance and continual gathering of information so that appropriate adjustments can be made during the time a new technology is being implemented. In this sense, the demands of managing technological change have been described using the analogy of contrasting styles between navigators from the Micronesian island of Truk and their European counterparts.[70]

The European navigator works from a plan, relates all moves during a voyage to the plan, and tries to always stay 'on course'. When something unexpected happens, the plan is revised systematically, and the new plan followed again until the navigator finds the ship to be off course. The Trukese navigator, by contrast, starts with an objective and moves off in its general direction. Always alert to information from waves, clouds, winds etc., the navigator senses subtle changes in conditions and steers and alters the ship's course continually to reach the ultimate objective.

Like the navigators of Truk, technological change may best be approached as an ongoing process that will inevitably require improvisation as things are being implemented. New technologies are often designed external to the organisation in which they are to be used. The implications of such a technology for a local application may be difficult to anticipate and plan for ahead of time. A technology that is attractive in concept may appear complicated to new users; the full extent of its benefits and/or inadequacies may not become known until it is tried. This, in turn, means that the change leader and manager should be alert to resistance, should continually gather and process information relating to the change, and should be willing to customise the new technology to best meet the needs of the local situation.[71]

Virtual organisations

In an age of increasing global competitiveness, companies need to be fast and agile to respond to their customers. Many corporations have discovered decreasing market shares and reduced profits before realising this essential fact and this has been exacerbated by successive financial crises. The search for solutions has led to the discovery that inflexible, monolithic organisations are absolutely incapable of this speed. A new type of organisation is therefore required, one that integrates speed with flexibility and agility, is very responsive to its customers, and provides the best product in the most efficient manner.

The **virtual organisation** (VO) is becoming more common. Virtual organisations are shifting networks of strategic alliances, linked by technology, with very little infrastructure, that are engaged as needed. A key concept behind VOs is how multiple entities can come together, without the end consumer even realising it at times, to provide the consumer with the final product. Such a move obviously requires immense sharing of responsibilities and information, rendering traditional boundaries between organisations irrelevant. A VO involves the traditional roles of consumer, competitor and company being redefined. Markets and opportunities are becoming increasingly fluid. To fill these needs consumers, competitors and companies can become integrated or networked in new nebulous forms. Competitors in one area may join forces to form companies and cooperative partnerships in others, customers may participate in an organisation to improve products, and potential or horizontal competitors may become customers.

Competitors may also become customers when companies try to use up excess capacity in their plants and optimise their resources. As markets mature over time and generic products wane in demand, alliances may form in the lower ends of the value chain, with more fierce competition existing in the branding stages for differentiated products. Such arrangements make use of complementary core competencies in fast-changing marketplaces. Rivals may cooperate for short periods and make use of a peak in demand for a product before others can exploit the opportunity.

VOs are also emerging that have new and unique, even patented, ways of conducting business. This is especially important in the emerging markets for sustainable capital and consumer goods, where the multiple high-technology requirements make it difficult for single companies to develop or acquire all the competencies within their organisation.

In addition, VOs that are web-based and depend largely on customer participation in making their business sites successful, are becoming more common. For example, eBay provides nothing more than a virtual auction area for its customers. But it has millions of items in thousands of categories waiting to be traded, a substantial number of which would find useful applications as ‘recycled’ products and are therefore important to a global sustainability strategy. eBay is sustained by customer interaction and claims to have 88 million active users globally.[72] Facebook and YouTube are, of course, also sustained by customer interaction.

Similarly, www.priceline.com uses a patented model where customers can file the price they are willing to pay for an airline flight between two chosen cities and airlines can bid for the order to fill up unused seats in the required sector. In this model, Priceline owns nothing except the page, and its sole business is getting the customers together — and in a temporary way making them part of the company while the transaction is occurring. This is also beginning to happen in other areas where traditional markets are failing to bring together producers and potential customers — including alternative energy sources, product recycling, and organically produced foods, drinks and natural fibre clothing. This blurring of lines will lead to situations where an organisation will have to be sure which competitive market it is operating in and who its immediate competitors are.

In the same way that a computer with ‘virtual memory’ appears to have more memory than it really possesses, virtual organisations similarly use new cooperative methods to perform beyond their resource, technology and geographical constraints. Boundaries, hierarchies, and cultural and geographical restraints should not become barriers to effective functioning. Information, resources, ideas and energy should pass throughout the virtual organisation quickly, so that the organisation as a whole functions far better than each of its separate parts. Definition and distinction still exist: leaders have authority and accountability, people with special functional skills still exist, and there are still distinctions between customers and suppliers. It is just that the distinctions are sufficiently porous to allow for meaningful exchange.

What such a 'reorganisation' of boundaries should result in is speed instead of size, flexibility instead of role definition, integration instead of specialisation, and innovation instead of control. Manager's notepad 18.6 outlines how VOs are distinguishable from conventional organisations.

MANAGER'S NOTEPAD 18.6

Characteristics of virtual organisations (VOs)

- Complementary core competencies and resource pooling.
- Changing participants and participant equality.
- Flat, non-hierarchical structures.
- Sharing and mutual appreciation of knowledge and its antecedents.
- Geographical or spatial dispersion.
- Temporal discontinuity.
- Electronic communication/transaction/business.

It is wrong to assume that such partnerships should exist at the macro level of the organisation alone. In fact, a virtual organisation would not be possible if a similar concept was not applied at the micro level within a company, between its employees, processes and departments. At the macro level, the ideal virtual organisation is characterised by partnerships between complementing partners coming together to pool their resources to create the desired product or service for the customer. The relationships require a high level of trust, compatibility and mutual benefit, and fit well with the strategic objectives of a holistic model of sustainability that emphasises economic, social, cultural and environmental objectives. Virtuality offers a 'structure' for sustainability strategies, one that is best suited for implementing objectives.

The entertainment industry, for example, is today seeing the rapid growth of such networks, where a firm can simultaneously participate in computing, cinema, communication and publishing by strategically choosing partners with competencies in the necessary field. This is especially possible since the 'software' remains essentially the same, and the distribution or media technology is what provides product line depth and therefore increased likelihood of economic sustainability. Software is proprietary and cannot easily be copied without copyright infringement. This model has been used by Paramount Communication in positioning itself to use strategic alliances to exploit as many stages of the entertainment industry value chain as possible.

The efficiency of such partner networks depends on the seamless sharing of what is often very sensitive proprietary knowledge. Patent laws are usually not enough to ensure its safety. An organisation must therefore make sure that it participates in a partner network or chain with a core competency that is not able to be immediately replicated by another partner organisation. Prior to entering into such arrangements, an organisation must conduct careful strategic analysis of each potential network partner's attributes and potential benefits, to compensate for this partial loss of control. This aspect of today's VOs is the natural culmination of yesterday's joint ventures with their benefits of shared costs and shared risks, but also the prospect of sharing increased rewards.

A common vision is essential in getting the most out of a VO. Sometimes, a lack of cultural fit or philosophy mismatch can sour an alliance. VOs, especially the more stable ones, must look at these aspects carefully. At the micro level, the VO should consist of people working in small independent teams, often at geographically dispersed locations, overcoming the restrictions of time and space by the use of modern communications and technology. Such people move away from the definition of employees and are closer to 'partners' who function independently, take decisions independently, and work as a part of high-powered and self-sufficient teams. They are, ultimately, empowered to make their own decisions.

The flat organisational structures, empowerment and 'super' teams that partially define VOs not only make the external boundaries between macro organisational alliances more seamless, but also on a micro level inside the organisation require the breaking down of barriers between managers and workers, between different departments and units. The leaner VO structure requires 'process teams' that consist of fewer, more-educated and versatile people who take care of a large number of functions in a process. This prevents job-related shortsightedness from setting in and allows each person to continually improve the process, since everyone knows generally how the system works in its entirety.

In a knowledge-driven VO, tasks are likely to be complex — if not, they will most likely be automated. Naturally, there will be a tendency to use leaner process teams for complicated service jobs such as insurance, banking and telecommunication. The greatest resistance to these fluid teams often comes from middle management who are there because of their specialisation and focus — attributes that now must be complemented with all-round competency if the managers and their organisations are to succeed.

The VO model raises questions about how to reward networks and teams for innovation and enterprise, both in terms of money and promotion. Also, with less need for managers and flatter hierarchies, what can possible career paths be like? This is a fundamentally new way of looking at team empowerment and the authority structure in such an organisation. In the search for the perfect organisation that can make good use of available tools to best serve the customer and create value for society, virtual organisations appear a viable and feasible option. This form of organisation will not just be an option but increasingly a necessity in the future. Driven by demands to streamline organisations and make them more agile and responsive, VOs can form to provide the best product and service to the customer in the most efficient way. Knowledge is the main resource and continuous learning is imperative in virtual organisations.

Virtual organisations and information technology

VOs exist on the fundamental premise that information is freely and instantly available to all alliances and members. Whereas, in traditional organisations, information technology (IT) was an enabler, in VOs it is a vital component of overall strategy. As companies increasingly produce tailor-made products it is essential to send specifications from the retailer to the factory at the highest speeds possible — digital speed. Most of these systems use the internet as a cheap and relatively robust means of transferring data between retailers, factories, suppliers and customers.

For distributed VOs (i.e. those with alliances or units in varied geographical locations), most forms of communication between the partners or fragments are carried out via the internet, email, online communication, videoconferencing and so on. People across continents and time zones can communicate face-to-face with videoconferencing. Digital video cameras and 3D panoramic video software enable teams or specialists to look at products or machines with life-like reality.

For pure VOs, the internet, of course, is the central pillar of the business models. These pure VOs have characteristics of all the other three — they have few or no physical structures such as offices, factories and warehouses; they communicate between the alliances and their customers using electronic channels; and the alliances and customers are geographically dispersed. The best example of these pure VOs are companies such as Amazon.com, eBay, Wotif, Webjet and Priceline, all of which feature the internet as the core of their business models. For example, Wotif is a virtual internet 'travel agency' that takes bookings for hotels right around Australia. It was founded by Graeme Wood in 2000 when he formed an alliance with hotels and resorts to market rooms at discount prices that would otherwise have remained vacant. Webjet operates in a similar fashion, comparing domestic and international airfares and ranking them by price.

Without the internet, Amazon could not, in fact, exist. Amazon.com began life in a small, nondescript building, three floors above an art gallery on a street in Seattle in the United States. What is now arguably the world's biggest bookstore began operating with a refrigerator-sized computer server in the company's storeroom. Amazon.com can only do business via the internet, and holds little physical product. In fact, Amazon keeps only a minimal supply of best sellers as inventory — the rest are ordered from their allies, book wholesalers and publishers, as customers order them.

Amazon's claimed inventory of over 3 million titles is a virtual inventory. The customer 'visits' Amazon through his or her internet service provider (ISP). Once the customer arrives at Amazon's website and places an order, Amazon dispatches it if it has it in its warehouse, or places an order with the supplier for later shipment if it does not have it in stock. Thus, Amazon's network of suppliers acts as a virtual warehouse — Amazon's own warehouse is really just a point for assembling parcels of books. It does not even ship them, but uses courier services. In recent times apps on smartphones and tablets are taking the concept of virtual organisations to the next level.

CRITICAL ANALYSIS

1. Using Hofstede's model as a basis, which of the three change strategies would be most applicable to Asian and Australian contexts? Substantiate your answers.
2. What is the future for 'non-virtual' organisations?

18.4 Organisation development

LEARNING OBJECTIVE 18.4 What are organisation development, organisational transformation and the Prosci® ADKAR® model?

Among consulting professionals, **organisation development** (OD) is known as a comprehensive approach to planned organisational change that involves the application of behavioural science in a systematic and long-range effort to improve organisational effectiveness.[73] Organisation development is supposed to help organisations cope with environmental and other pressures for change while also improving their internal problem-solving capabilities. OD, in this sense, brings the quest for continuous improvement to the planned-change process.

There will always be times when the members of organisations should sit together and systematically reflect on strengths and weaknesses as well as performance accomplishments and failures. Organisation development is one way to ensure that this happens in a supportive and action-oriented environment. OD is an important avenue through which leaders can advance planned-change agendas, foster creativity and innovation, and more generally help people and systems to continuously improve organisational performance. It often involves the assistance of an external consultant or an internal staff member with special training. But, importantly, all managers should have the skills and commitment to use the various elements of OD in their continuous-improvement agendas. The notion of organisation development dovetails nicely with the popular concepts of total quality management (TQM) and employee involvement discussed throughout this book. In fact, the OD approach may offer added opportunities to use them to the best advantage.[74]

Organisation development goals

In organisation development, two goals are pursued simultaneously. The *outcome goals of OD* focus on task accomplishments, and the *process goals of OD* focus on the way people work together. It is this second goal that strongly differentiates OD from more general attempts at planned change in organisations. You may think of OD as a form of 'planned change plus', with the 'plus' meaning that change is accomplished in such a way that organisation members develop a capacity for continued self-renewal. That is, OD tries to achieve change while helping organisation members become more active and self-reliant in their ability to continue changing in the future. What also makes OD unique is its commitment to humanistic values and principles of behavioural science. OD is committed to improving organisations through freedom of choice, shared power and self-reliance, and by taking advantage of what we know about human behaviour in organisations.

OD is unashamedly people-oriented. Staff are viewed as having intellectual, emotional and social needs and these need to be accounted for in the workplace. So, it focuses less on productivity and performance than on the needs, aspirations, morale and satisfaction of members of the organisation. For this reason, many OD practitioners assume that a more satisfied workforce is a more productive workforce. However, while it is generally accepted that there is a relationship between job satisfaction and productivity, this has never been empirically proven. Indeed, it might be the other way around — a more productive worker is a more satisfied worker. Nonetheless, in an ideal OD culture, people feel fulfilled by meaningful work, are highly motivated, belong to effective teams and are led by exemplary supervisors. These humanistic supervisors achieve change by sharing information and negotiating compromise.

How organisation development works

Figure 18.6 presents a general model of OD and shows its relationship to Lewin's three phases of planned change. To begin the OD process successfully, any consultant or facilitator must first *establish a working relationship* with members of the client system. The next step is diagnosis — gathering and analysing data to assess the situation and set appropriate change objectives. This helps with unfreezing as well as pinpointing appropriate directions for action. Diagnosis leads to active intervention, wherein change objectives are pursued through a variety of interventions, a number of which are discussed shortly.

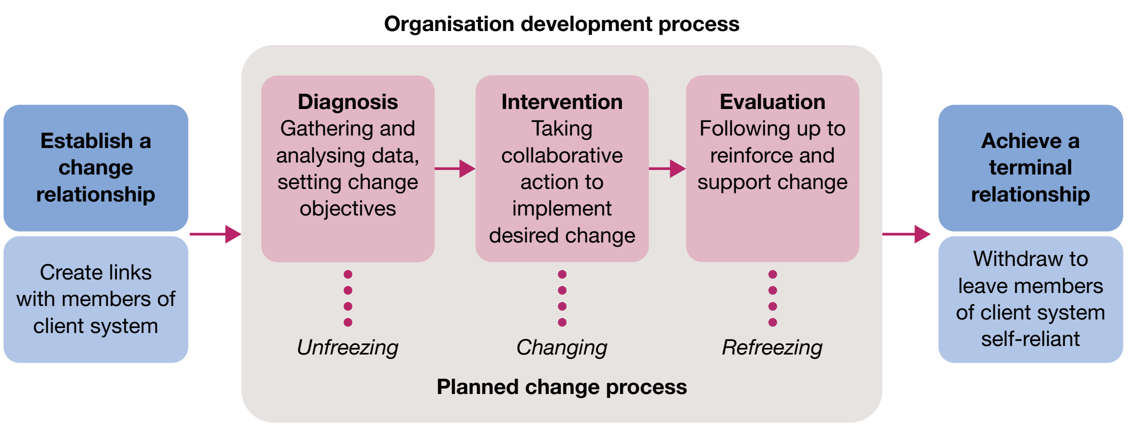


FIGURE 18.6 Organisation development and the planned change process

Essential to any OD effort is *evaluation*. This is the examination of the process to determine whether things are proceeding as desired and whether further action is needed. Eventually, the OD consultant or facilitator should *achieve a terminal relationship* that leaves the client able to function on its own. If OD has been well done, the system and its members should be better prepared to manage their ongoing need for self-renewal and development.

The success or failure of any OD program lies in part in the strength of its methodological foundations. As shown in figure 18.7, these foundations rest on **action research** — the process of systematically collecting data on an organisation, feeding it back to the members for action planning, and evaluating results by collecting more data and repeating the process as necessary. Action research is initiated when someone senses a performance gap and decides to analyse the situation to understand its problems and opportunities. Data gathering can be done in several ways. Interviews are a common way of gathering data in action research. Formal written surveys of employee attitudes and needs are also growing in popularity. Many such 'climate', 'attitude' or 'morale' questionnaires have been tested for reliability and validity. Some have even been used so extensively that norms are available so that an organisation can compare its results with those from a broad sample of counterparts. The action research methodology has two aims:

1. an action aim to bring about some change
2. a research aim to increase knowledge and understanding.

The action research cycle is best explained as a continuous process or cycle of planning, taking action, monitoring, evaluating and replanning.

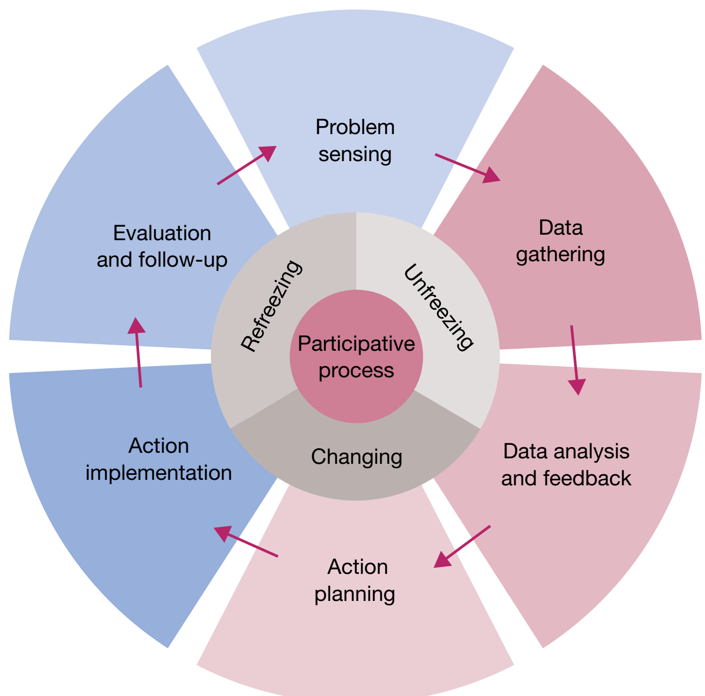


FIGURE 18.7 Action research is a foundation of organisation development

Organisation development interventions

The foundations of organisation development include respect for people and a commitment to their full participation in self-directed change processes. It is employee involvement in action. OD rallies an organisation's human resources through teamwork in support of constructive change. This process is evident in the variety of OD interventions or activities that are initiated to directly facilitate the change processes. Importantly, these interventions are linked to concepts and ideas discussed elsewhere in this book and that are well represented in the practices and approaches of the new workplace.[75]

Individual interventions

Concerning individuals, organisation development practitioners generally recognise that the need for personal growth and development is most likely to be satisfied in a supportive and challenging work environment. They also accept the premise that most people are capable of assuming responsibility for their own actions and of making positive contributions to organisational performance. Based on these principles, some of the more popular **individual OD interventions** designed to help improve individual effectiveness include:

- *sensitivity training* — unstructured sessions (T-groups) where participants learn interpersonal skills and increased sensitivity to other people
- *management training* — structured educational opportunities for developing important managerial skills and competencies

- *role negotiation* — structured interactions to clarify and negotiate role expectations among people who work together
- *job redesign* — realigning task components to better fit the needs and capabilities of the individual
- *career planning* — structured advice and discussion sessions to help individuals plan career paths and programs of personal development.

Team interventions

The team plays a very important role in OD. OD practitioners recognise two principles in this respect. First, teams are viewed as important vehicles for helping people satisfy important needs. Second, it is believed that improved collaboration within and among teams can improve organisational performance. Selected **team OD interventions** designed to improve team effectiveness include:

- *team building* — structured experiences to help team members set goals, improve interpersonal relations and become a better functioning team
- *process consultation* — third-party observation and advice on critical team processes (e.g. communication, conflict and decision-making)
- *intergroup team building* — structured experiences to help two or more teams set shared goals, improve intergroup relations and become better coordinated.

Organisation-wide interventions

At the level of the total organisation, OD practitioners operate on the premise that any changes in one part of the system will also affect other parts. The organisation's culture is considered to have an important impact on member attitudes and morale. And it is believed that structures and jobs can be designed to bring together people, technology and systems in highly productive and satisfying working combinations. Some of the **organisation-wide OD interventions** often applied with an emphasis on organisational effectiveness include:

- *survey feedback* — comprehensive and systematic data collection to identify attitudes and needs, analyse results and plan for constructive action
- *confrontation meeting* — one-day intensive, structured meetings to gather data on workplace problems and plan for constructive actions
- *structural redesign* — realigning the organisation structure to meet the needs of environmental and contextual forces
- *management by objectives* — formalising this throughout the organisation to link individual, group and organisational objectives.

DIVERSITY

Change needed in Australian Defence Force culture

The so-called 'Skype scandal' of the Australian Defence Force (ADF) in 2011 resulted in a review of past sexual misdemeanours and brought to light some 775 plausible allegations of sexual abuse dating back to 1951.[76] In April, 2011:

> a clearly distressed female cadet identified only as Kate went public after discovering that her sexual encounter with a male colleague had been broadcast on Skype to a group of his mates in another room.[77]

The male participant had set up a web camera to beam the encounter to a group of his friends in another room. The broadcasting of consensual sex between two naval cadets on Skype was to have ramifications that reached as far as the Commandant of the ADF academy, Commodore Bruce Kafer. Immediately following Kate's complaint, Kafer decided to proceed with disciplinary proceedings against her for allegations that included alcohol and absenteeism. The then-Minister of Defence Stephen Smith strongly criticised Commodore Kafer for this. Kafer was stood down on leave for almost a year, but returned to work in March 2012 after being cleared by the Kirkham report. In the wake of this, Smith was roundly criticised, and there were calls from prominent retired senior ADF officers for him to apologise.

However, other key reviews released:

> found a 'boy's club' culture pervaded Defence, punishing part-time workers and treating children as 'career killers'. A review of alcohol abuse within ADF found there was a 'high prevalence' of hazardous drinking.[78]

The Defence Department secretary Duncan Lewis and Chief of the Defence Force General David Hurley admitted that 'our culture has tolerated shortfalls in performance', and that steps needed to be taken in order to quickly and consistently address issues and reshape aspects of ADF culture.[79]

Lieutenant General David Morrison was made chief of the Australian Army in 2011. As part of a review by the Sex Discrimination Commission, he spent six hours listening to three Army women who had experienced abuse. For him, this was a life-changing moment and he stated that he considered himself personally responsible for the anguish suffered by these and other women. He called all his commanding officers together and told them that things must change. He also changed the recruitment campaign so that more women would be attracted to the Army, and as a result successfully gained 600 more female recruits. In 2013 a new scandal had to be confronted. Members of a 'Jedi Council' were sharing pornographic images by email. So he recorded a YouTube video in which he warned that such behaviour would no longer be tolerated and that 'the Army has to be an inclusive organisation in which both male and female soldiers are able to reach their fullest potential'. Any serving soldier who is not up to that should find 'something else to do with [their] life'.[80]

In 2016, David Morrison was named Australian of the Year.

QUESTION

Watch the YouTube video (www.youtube.com/watch?v=QaqpoeVgr8U) recorded by Lieutenant General Morrison. Do you think that his methods will result in the successful elimination of the boy's club culture in the Australian Army?

Organisational transformation

Top-down Theory E change was discussed earlier in the chapter. Leaders who institute top-down change are intent on radically transforming their organisations. On the other hand, leaders who favour bottom-up change, or Theory O change, would probably select more incremental OD to make changes in their organisations. OD is concerned with human resource development. It is long-range, organisation-wide planned change, which, ideally, involves almost all employees in the change program.

Organisational transformation (OT), on the other hand, is paradigmatic change that usually includes radically altering an organisation's mission, vision and strategy and restructuring or re-engineering that often involves massive downsizing — a euphemism for retrenchments. This occurred on a large scale in the aftermath of the global recession of the early 1990s, in 2008–09 as a consequence of the global financial crisis and again, particularly in Queensland and Western Australia, after the resources boom ended in 2014.

Often, metaphors are used by organisations to help articulate the necessity for change. For example, we might say that a particular organisation is like a dinosaur. This metaphor has negative connotations, because it conjures up an image of an antiquated, inflexible organisation that will soon become extinct. If we then say that this organisation should mutate from a dinosaur to a chameleon or snow leopard, then a much more flexible outcome should result. OD often uses a medical metaphor of the organisation being unhealthy and in need of healing or cure. OT also uses medical metaphors to assist the change process but these are likely to be trimming the fat or unclogging blocked arteries. It might also use agricultural metaphors of getting rid of dead wood or pruning. All of these clearly suggest downsizing.[81]

The Prosci® ADKAR® model

An exciting recent development in change management theory has been the **Prosci® ADKAR® model**.

If you log onto seek.com.au and search for a role in Management & Change Consulting, under the Consulting & Strategy classification, you will sometimes see job adverts that stipulate Prosci certification as one of the essential qualifications required of prospective candidates. The Prosci® ADKAR® model, based on research of more than 2600 companies over 14 years, has five stages that represent the five milestones an individual must achieve in order to change successfully:

- *awareness* of the need for change
- *desire* to support the change
- *knowledge* of how to change
- *ability* to demonstrate new skills and behaviours
- *reinforcement* to make the change stick.[82]

Table 18.1 shows the critical considerations for each of the five stages.

TABLE 18.1 Critical considerations for each of the five Prosci® ADKAR® model stages

Stage	Considerations
Awareness	• What is the nature of the change? • Why is the change needed? • What is the risk of not changing?
Desire	• What's in it for me (WIIFM)? • A personal choice. • A decision to engage and participate.
Knowledge	• Understanding how to change. • Training in new processes and tools. • Learning new skills.
Ability	• The demonstrated capability to implement the change. • Achievement of the desired change in performance or behaviour.
Reinforcement	• Actions that increase the likelihood that a change will continue. • Recognition and rewards that sustain the change.

Source: J. M. Hiatt, J. M., *Employee's Survival Guide to Change* 3rd edn (Loveland, CO: Prosci Inc. Learning Center).

Before implementing the ADKAR approach it must first be asked why the change is needed. Some answers might be:

- loss of market share
- loss of profits by the company
- new product or capability offers from competitors
- lower prices of competitors' products
- a new business opportunity or growth
- technology revolution (eg. online purchasing).

Once the reason for change has been established and accepted there are some actions that can increase the likelihood that the change will endure.

1. Reinforce the change with peers and subordinate staff.
2. Introduce a results-orientation to help the achievement of the business's objectives.
3. Avoid reverting back to old processes or ways of doing work when problems arise with the new processes and systems.
4. Help solve problems that arise with new work processes and tools.[83]

In the Prosci® ADKAR® model, optimism replaces cynicism, resulting in a positive or appreciative response to a change initiative (see table 18.2).

TABLE 18.2 From cynicism to optimism in the Prosci® ADKAR® model

Response before ADKAR model	Appreciative response
This is a waste of time.	How soon will it happen? How will this affect me?
If it ain't broke, don't fix it.	How will the new process work?
They never tell us what is going on.	Will I receive training in the new way?

Source: Adapted from J. M. Hiatt, *Employee's Survival Guide to Change*, 3rd edn (Loveland, CO: Prosci Inc., 2013).

CRITICAL ANALYSIS

1. Which of the three broad organisational development intervention methods do you believe has the most potential for achieving tangible organisational change through organisational development. Why?
2. Do you believe OD or OT would be more effective in helping organisations adversely affected by the global financial crisis and subsequent economic downturn? Justify your answer.
3. Do you think that the optimistic Prosci® ADKAR® model would find favour in large organisations like universities?

18.5 Personal change and career readiness

LEARNING OBJECTIVE 18.5 How do you build career readiness in a change environment?

In times like ours, where change is ever-present, fast-moving and often unpredictable, the management of your career and career development is extremely challenging. The challenges become even more magnified in the context of career entry, or when you are beginning a new job with a new employer. In terms of early career advice, *lesson 1* is clear: there is no substitute for performance. No matter what the assignment, you must work hard to quickly establish your credibility and value in any new job. The advice of *lesson 2* is also undeniable: you must be and stay flexible. Don't hide from ambiguity; don't depend on structure. Instead, you must be always able and willing to adapt personally to reasonable new work demands, new situations and people, and new organisational forms. The demands of *lesson 3* help keep the focus: you can't go forward without talent. You must commit to continuous learning and professional development. In order to get and stay ahead in a career during very competitive times, you must become a talent builder — someone who is always adding to and refining one's talents to make them valuable to an employer. This requires discipline in continuously seeking the learning opportunities from your daily experiences, including the ones that present problems and prove difficult for you. The 'ability' to learn can only benefit you personally when accompanied by the 'willingness' to learn.

According to author and consultant Stephen Covey, the foundations for career success are within everyone's grasp. But both the motivation and the effort required to succeed must come from within. Only you can make this commitment, and it is best made right from the beginning. Covey's advice is to take charge of your destiny, and to move your career forwards by showing initiative, continually seeking feedback on your performance, setting up your own mentoring systems, getting comfortable with teamwork, taking risks to gain experience and learn new skills, being a problem-solver and keeping your life in balance.[84]

The best career advice returns again and again to the same message — what happens is largely up to you. Don't let yourself down. Step forward and take charge of your continued learning and professional development. Build, refine and market what author and consultant Tom Peters refers to as the 'brand called "you"'. Peters advises each of us to continually work hard to create and maintain a unique and timely package of skills and capabilities with career potential. In Peters' words, your personal brand should be 'remarkable, measurable, distinguished and distinctive' relative to the competition — others like you.[85]

Consider this example. When faced with a veritable sea of faces in a theatre, a lecturer teaching Introductory Management might be forgiven for wondering how all 300 of the fresh-faced students sitting in front of him are going to find good jobs after graduating. An enthusiastic student, who sits near the front and obtains the top mark in the cohort, begins to differentiate herself. When she hears that a tutor for a third-year subject, Business Research Methods (which is taught by the same lecturer), has been offered a better position at another university, the star student enrols in that elective unit. She knows that most students enrol in other 'easier' electives in which they do not have to study difficult topics, such as log linear analysis for hierarchical models. For this reason, the student is also aware that lecturing positions in Business Research Methods are ultimately easier to come by than such positions in subjects including Human Resource Management and Organisational Behaviour. In time, she might be able to teach her beloved Change Management subject.

Later, she is awarded an undergraduate degree and hands the lecturer her résumé. It contains a string of outstanding grades in the appended academic transcript as well as a record of representative sport at state level and volunteer work among autistic children in the 'other activities' section. A tutoring position is thus secured to help fund completion of a first-class honours degree. Clearly, this young student is very much in the business of differentiating herself by building outstanding personal strategic capabilities, and these do indeed lead to early wins. Later on, she will build on these initial successes by volunteering to assist on valuable research projects and obtaining good references from colleagues.

Sustaining career advantage

As with organisations that must innovate to achieve competitive advantage in their markets, you must be able to adapt quickly to the demands of an ever changing workplace, economy and career environment. As shown in figure 18.8, this means that you must establish and maintain a **sustainable career advantage**. This is a combination of personal attributes — skills and capabilities — that allow you to consistently outperform others, that are continuously improving and that are always timely and relevant to the needs of employers.

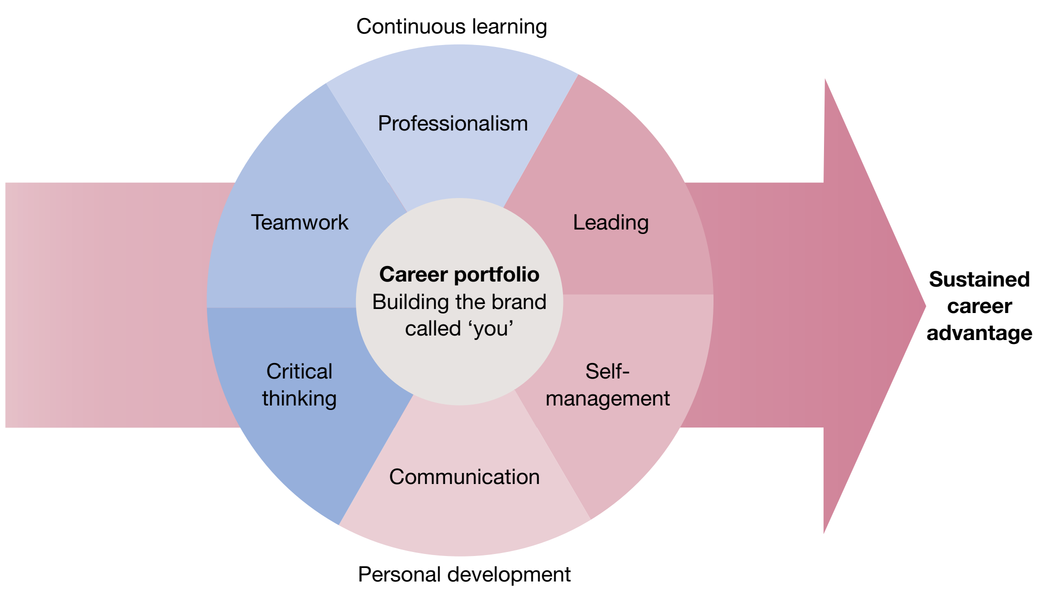


FIGURE 18.8 Building a career portfolio for sustainable career advantage

You should also build up a personal career advancement portfolio to document your academic and personal accomplishments for external review. Of particular importance is a skill and outcome assessment that shows potential employers your capabilities in the important areas of professionalism, leadership, self-management, communication, teamwork and critical thinking. Talent that builds from these foundations is what today's employers are looking for, both among full-time employees and students on work experience.

Use your career portfolio to show important skills and outcomes gained from your management studies. Put the entire package online as a means of further distinguishing yourself from the competition. Once started, your electronic career portfolio can be easily maintained as a continuing resource for self-assessment and personal development, as well as to communicate your talents to potential employers.

As you move forwards in this exciting world of work, you must continue the process of brand building and strengthen your potential for a satisfying lifelong career. You have to master the challenges of change without forgetting the goal — sustainable career advantage. Also, you can never forget that career development is a personal responsibility. Although many foundations have been set during your management course and other university studies, what happens next and in your career future is up to you. There is no better time than the present to begin the process of career advancement.

CRITICAL ANALYSIS

1. What items could you insert into your résumé to differentiate yourself and to help you secure a good job in the constantly changing contemporary work environment?
2. How do you plan to develop a sustainable career advantage?

SUMMARY

18.1 What are the challenges of innovation and change in the 21st century?

- The future will be like our past — always unpredictable, very challenging and full of continuous change.
- A learning organisation is one in which people, values and systems support innovation and continuous change based on the lessons of experience.
- Organisations need strategic leaders who work with a strategic direction to initiate and successfully implement changes that help organisations perform well in changing environments.
- Innovation allows creative ideas to be turned into products and/or processes that benefit organisations and their customers.
- Highly innovative organisations tend to have supportive cultures, strategies, structures, staffing and top management.
- The possible barriers to innovation in organisations include a lack of top management support, excessive bureaucracy, short time horizons and vested interests.

18.2 What is the nature of organisational change in an increasingly globalised and integrated economy?

- Change leaders are change agents who take responsibility for helping to change the behaviour of people and organisational systems.
- Managers should be able to spot change opportunities and lead the process of planned change in their areas of work responsibilities.
- Although organisational change can proceed with a top-down emphasis, inputs from all levels of responsibility are essential to achieving successful implementation.
- Theory E change seeks to improve economic performance through restructuring. Theory O change seeks to build organisational capability through improved culture and human resource development.
- The many possible targets for change include organisational tasks, people, cultures, technologies and structures.

18.3 How can planned organisational change be managed in a more rapidly changing world economy, including resistance to change and the advent of virtual organisations?

- Lewin identified three phases of planned change: unfreezing (preparing a system for change), changing (making a change) and refreezing (stabilising the system with a new change in place).
- Good change agents understand the nature of force-coercion, rational persuasion and shared power change strategies.
- People resist change for a variety of reasons, including fear of the unknown and force of habit.
- Organisational silence is a form of resistance that occurs when employees fear speaking up about issues in the workplace. Managers often willingly interpret it as tacit approval.
- Cynicism occurs because of a loss of faith in the organisation's leadership or is a response to a history of unsuccessful changes.
- Good change agents deal with resistance positively and in a variety of ways, including education, participation, facilitation, manipulation and coercion. However, manipulation and coercion are last resort strategies.
- The special case of technological change requires an openness to resistance and willingness to improvise as implementation proceeds.
- Technology is enabling virtual organisations to increasingly form with the ability to be fast and agile in responding to customer and organisational needs.

18.4 What are organisation development, organisational transformation and the Prosci® ADKAR® model?

- Organisation development (OD) is a comprehensive approach to planned organisation change that uses principles of behavioural science to improve organisational effectiveness over the long term.

- OD has both outcome goals, with a focus on improved task accomplishment, and process goals, with a focus on improvements in the way people work together to accomplish important tasks.
- The OD process involves action research wherein people work together to collect and analyse data on system performance and decide what actions to take to improve things.
- OD interventions are structured activities that are used to help people work together to accomplish change; they may be implemented at the individual, group and/or organisational levels.
- Organisational transformation (OT) involves changing an organisation's mission, vision and strategy, and vast restructuring, which often includes massively reducing the number of staff.
- The positive Prosci® ADKAR® model is a five-stage approach to managing change. Five milestones ensure that the change sticks.

18.5 How do you build career readiness in a change environment?

- What happens in your career is up to you — take responsibility for building and maintaining a competitive 'brand called "you"'.
- Take charge of your learning — create a career portfolio that documents your career readiness at all times by displaying critical skills and accomplishments.
- Use the insights, examples and concepts from *Management* and your introductory management course as a strong foundation for lifelong personal development and career advancement.

KEY TERMS

Action research is a collaborative process of collecting data, using it for action planning and evaluating the results.

In **bottom-up change** change initiatives come from all levels in the organisation.

A **change agent** tries to change the behaviour of another person or social system.

Commercialising innovation turns ideas into products or processes with economic value added.

Cynicism occurs because of a loss of faith in the organisation's leadership or is a response to a history of unsuccessful changes.

A **force-coercion strategy** pursues change through formal authority and/or the use of rewards or punishments.

Hamel's wheel of innovation involves five steps for leading the innovation process in organisations — imagining, designing, experimenting, assessing and scaling.

Individual OD interventions try to achieve change through helping organisation members become more active and self-reliant in their ability to continue changing in the future.

Industry clusters are groups of enterprises with common or complementary business interests, including the public and private entities on which they depend.

Innovation roles are the different functions that need to be filled in the innovation process and include idea generator, information gatekeeper, product champion, project manager and innovation leader.

Learning organisations continuously change and improve using the lessons of experience.

Organisation development is a comprehensive effort to improve an organisation's ability to deal with its environment and solve problems.

Organisation-wide OD interventions are based on the system theory notion that any changes in one part of the system will also affect other parts.

Organisational silence is a form of resistance that occurs when employees fear speaking up about workplace problems. Managers often interpret it as agreement.

Organisational transformation (OT) is radical transformation of an organisation's vision and structure, usually involving large-scale downsizing of its workforce.

A **performance gap** is a discrepancy between the desired and actual state of affairs.

Process innovations involve new or improved ways of manufacturing the product or providing the service.

Product innovations involve the use of new or improved design principles or technologies for incorporation in products or services.

The **Prosci® ADKAR® model** is a positive five-stage approach to planned organisational change that ensures the change endures.

A **rational persuasion strategy** pursues change through empirical data and rational argument.

Refreezing is the phase in which change is stabilised.

A **shared power strategy** pursues change by participation in assessing values, needs and goals.

Strategic leadership enthuses people to continuously change, refine and improve strategies and their implementation.

Sustainable career advantage is a combination of personal attributes that allow you to consistently outperform others in meeting the needs of employers.

Team OD interventions recognise the importance of collaboration and mutual support and include team building, process consultation and intergroup team building.

Theory E change is based on activities that increase shareholder or economic value.

Theory O change is based on activities that increase organisational performance capabilities.

In **top-down change** the change initiatives come from senior management.

Unfreezing is the phase during which a situation is prepared for change.

Virtual organisations are shifting networks of strategic alliances, linked by technology, with very little physical infrastructure, that are engaged as needed.

APPLIED ACTIVITIES

1. What are some of the major factors forcing organisations to make regular changes to their structure and management operating practices?
2. How applicable is Lewin's three-phase organisational change model for contemporary organisations?
3. What are the major similarities and differences in potential outcomes achieved by managers using the force-coercion, rational persuasion and shared power strategies to bring about organisational change?
4. How can organisations incorporate principles of sustainability into their organisational change strategies?
5. You have just been appointed as CEO to an inadequately performing Australian telecommunications company. Its customer service record is very poor, it is a technological follower rather than a leader and staff morale is low. Drawing from the concepts and ideas in this chapter, devise an organisational change strategy for the company. Would you adopt OD or OT? Why?

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CHAPTER 19

Entrepreneurship and new ventures

LEARNING OBJECTIVES

19.1 What is entrepreneurship?
19.2 What is special about small businesses?
19.3 How do you start a new venture?
19.4 What resources support entrepreneurship and business development?

Asylum seekers could be our next wave of entrepreneurs[1]

In 2015, Maria Sorkhi started a photography business, Sima Mahboobifard began selling leather bags, the Dendo brothers — Rony, Luay and Duraed — began their photography and videography business, while Bassam Jabar set up a business to sell his art work.

At first glance these are just everyday stories of entrepreneurs in Australia. What sets them apart is that they have only been in Australia since 2013. They arrived not as wealthy business migrants, but as penniless refugees from Iran and Iraq. Newly arrived refugees are at first glance the most unlikely candidates to start up a business less than two years after arriving in Australia. They have no capital, no credit history, no assets to mortgage and no security, lacking the financial capital necessary for a start-up. These refugees all have stories of displacement from their homelands and are recognised as refugees under the UN Convention. They are not economic migrants.

Their educational qualifications are often not recognised meaning they often can't get a job or, if they do, get one well below their ability. Most have no social networks of established family and friends to provide capital, advice and support, lacking the social capital that many non-refugee immigrant entrepreneurs in Australia have been able to draw on. Newly arrived refugees also have little or no knowledge of the Australian rules and regulations and red tape that all new entrepreneurs must overcome. They also have little familiarity with the local market and business opportunities — informal knowledge so critical to new entrepreneurs. Their English-language fluency is usually not strong.

Refugees face the highest unemployment rates of non-Indigenous Australians. The traditional model to assist budding entrepreneurs is that they enrol in MBA courses. Here they study economics, finance, accounting, marketing and management to gain all the business knowledge that starting-up a business requires. But there's more than one way to facilitate an enterprise. And successful entrepreneurship programs have shown attributes such as passion, determination, intelligence and resourcefulness are just as important as business skills.

Refugees, like many immigrant minorities, move into entrepreneurship because of blocked mobility: starting a business is perhaps their only point of access to the Australian economy because of formal or informal racial discrimination in the labour market. Indigenous entrepreneurs also move into entrepreneurship in response to racial discrimination, but in their case it also constrains their activities as entrepreneurs: one recent national study found only 9 of 248 Indigenous entrepreneurs had been able to access bank finance.

Australia has a strong tradition of refugee entrepreneurs. Westfield founder Frank Lowy, one of Australia's richest men, was a 15-year-old refugee from a war-devastated Slovakia. Huy Truong arrived in Australia on a small fishing boat carrying him and 40 other Vietnamese people in 1978 at the age of seven. His father was an ethnic Chinese businessman with an import business. In 1999 Truong set up the gifting site wishlist.com.au with his wife and sisters, which was sold to Qantas in 2012. Truong is now a private equity investor. Tan Le is another boat person from Vietnam. Le co-founded the company Emotiv — a producer of headsets that read brain signals and facial movements to control technology in computer games or apps. She then co-founded SASme, a pioneering business that provided platforms for the SMS applications market and employed 35 employees worldwide.

The refugee entrepreneurs introduced in the first paragraph will probably never achieve such business success. They are the first cohort of graduates of the Ignite small business start-ups initiative established in 2013. As of late 2015, 129 refugees from 25 countries have entered the program — seven out of ten are males. Most come from countries in the Middle East, with most from Iran (33), Iraq (20) and Syria (10). Businesses range from clothing alterations, fashion design and hat retail to car/motorcycle sales, carpentry and joinery, services, art and import businesses. To date around 30 new businesses have been established or are nearly there. Another successful program assists micro business start-ups for women of refugee and migrant backgrounds. The Brotherhood of St Laurence Stepping Stones initiative saw 60 women from the Australian business community recruited, trained and matched with program participants.

Frank Lowy, one of Australia's richest men, came to Australia as a refugee at the age of 15.

Source: Jock Collins (University of Technology Sydney), originally published on *The Conversation*.

QUESTION

Research some examples of community programs that are available to aid entrepreneurs. What are some additional initiatives that could be put in place to provide further assistance to underprivileged entrepreneurs?

Introduction

The examples in this chapter will show what is possible using initiative and patience in the world of work. Its goal is not only to inform you — make you more familiar with the nature of entrepreneurship and new venture creation — but also to enthuse and stimulate you to consider starting your own business, become self-employed and make your own contribution to society. Today's interface between companies and customers is highly dynamic. Problems and opportunities such as increased product and service complexity, rapidly changing customer expectations, and the introduction of new technologies and innovation point to the need for organisations and their managers to adapt and renew themselves continually to succeed over time.

19.1 The nature of entrepreneurship

LEARNING OBJECTIVE 19.1 What is entrepreneurship?

People and organisations must change often and at a rapidly accelerating pace. Success in highly competitive business environments, in particular, depends on **entrepreneurship**. This term is used to describe dynamic, creative, risk-taking behaviour that results in the creation of new opportunities for individuals and/or organisations. Entrepreneurship can often be seen in small, medium, large, private, public and government organisations. In other words, it comes in many shapes and forms.

An **entrepreneur** creates a new enterprise, opportunity or business venture. In the business context, an entrepreneur starts new ventures that bring to life new products or services. Entrepreneurs have been responsible for many innovative and useful products and services in the modern marketplace. Many believe entrepreneurs to be high risk takers but in every successful venture these risks are *calculated* risks.

Many different terms are increasingly being used to describe particular types of entrepreneurs. For example, there are **technopreneurs**, who are involved in high-technology industries (such as Facebook's Mark Zuckerberg); **social entrepreneurs**, who run social enterprises that are driven by community needs rather than profit;[2] and **intrapreneurs**, who innovate for change from within large organisations. (Intrapreneurs will be discussed in further detail later in the chapter.)

Entrepreneurs such as the late Steve Jobs (who co-founded Apple Computers), Sir Richard Branson (who established the Virgin Group) and all the entrepreneurs who set up small businesses worldwide provide many of the new products, processes and marketing technologies that allow the global economy to evolve, innovate and prosper. In recent years, the importance of these entrepreneurs has been recognised through awards, which not only raise the profiles of their businesses locally but also enhance their profiles worldwide. The value of entrepreneurs is also evident by their inclusion in government think tanks. Entrepreneurs often participate in programs encouraging other budding entrepreneurs, where they can share success stories and advice on business plans and networking opportunities, and possibly identify new markets.

Researchers are interested in the characteristics of entrepreneurs. They want to know whether and how entrepreneurs are different, and what it takes to achieve entrepreneurial success. Before examining the findings, let's meet some real, high-profile entrepreneurs. Their stories are rich with ideas for all of us to consider. Although the people and what they have accomplished differs, they share something in common. These entrepreneurs have all built successful long-term businesses from good ideas and hard work.[3]

INNOVATION

Entrepreneurial success stories

Kristina Karlsson

A staple for students, professionals and stationary addicts alike, kikki.K was born from a '3 am moment' experienced by then 24-year-old founder, Kristina Karlsson. She woke her husband in the night, worried about the direction of her career. He suggested she write down what was important to her. Armed with her list —'drive to work every day and be excited, run my own business, Swedish design and earn $500 a week' — she set out to furnish a home office. Karlsson was uninspired by the products available in Australian stores. 'I felt depressed for a few seconds then I thought, "This is an opportunity — I am going to open stores all over the world selling beautiful stationary."'[4]

Over 15 years later, that dream is a reality. In 2001, at the height of the global financial crisis, kikki.K opened its first retail outlet in Melbourne. Since then, the company has grown to over 80 bricks-and-mortar stores in Australia, New Zealand, Hong Kong, Singapore and the United Kingdom. An online store ships to close to 150 countries, with expansion into Europe and the United States next on the horizon.[5]

Karlsson lists vision, plan, network and decisions as the biggest business lessons for up-and-comers. The four lessons work best when combined.

On vision: 'If you start out with a clear vision, it will guide you through the ups and downs'.

On planning: 'Putting it in paper cements your vision and gives you direction'.

On decisions: 'There is no such thing as a bad decision'.

On networking: 'You'll be surprised by how many people are happy to help'.[6]

Daniel Flynn, Justine Flynn and Jarryd Burns

In 2008, Daniel Flynn — then a university student — was watching a video about the world water crisis and felt compelled to try to make a difference. Flynn shared his goal with friend, Jarryd Burns, and now-wife Justine Flynn, and together they devised the concept for Thankyou Group. The company donates 100 per cent of its profits to water, health and food initiatives in developing countries. 'We wanted to tackle a huge global problem with a huge global product, and the product to get us there was bottled water.'[7]

At the time, the three had a combined net worth of $1000 and they admit to not knowing a thing about starting a company. 'We did what any good young person would do: we just "Googled" it.' Flynn embraced the idea that 'if an idea's good enough, the money will come'.[8]

Their concept gradually gained traction. A 10-minute meeting with the director of the largest beverages distributor in Australia lasted an hour — and ended with an order for 50 000 bottles. Of course, there were also setbacks — many potential investors claimed Thankyou didn't have the stamina needed to shake up the global beverage industry.

Undeterred, the team harnessed the power of social media to prove there was consumer demand, subsequently landing a deal with 7-Eleven. From there, the team decided to expand, with food and bodycare products added to their offering. Another successful social media campaign convinced retail giants Coles and Woolworths to stock the Thankyou range.[9]

By the start of 2016, Thankyou had given over $4 million to funding initiatives in 17 countries; providing safe water access, hygiene and sanitation training and food aid to hundreds of thousands of people in need.[10]

In recent years Daniel's efforts have been rewarded, winning Young Victorian of the Year in 2014 and Ernst & Young Southern Region Entrepreneur of the Year in 2015. However, he says he didn't set out to win awards.

'I was just a kid who got an idea, got a great team and made it happen, and anyone can.'[11]

Le Ho

When Le Ho's first business, a chain of bridal stores, closed due to the upsurge in popularity of internet shopping, few could have predicted her next career move. She decided she wanted to find a business that would always be in demand, regardless of economic climate. Opportunity soon struck. In 2009, a friend asked her to help oversee their business — Capital City Waste Services. Ho realised that the company, then losing $20 000 a month, was about to go into liquidation. Despite the possibility of failure, after working with the company for just a year, she offered to buy it for $50 000. 'I had to take on board the risk of continually losing money if my strategies didn't work. I bought out all the shareholders and in the first month I turned it around to break even.'[12]

Working 18 hours a day for the first 12 months to save on costs, Ho was hands-on in all aspects of the business — she even took on her own garbage run. 'Garbage drivers that drove past me would do a double take and see if this was really a female, or if it was a man with long hair.'[13] A mother in her 20s, Ho found herself dealing with men over double her age. 'People were making bets on how long it would take me to go under.'[14]

Her perseverance paid off. Business doubled in the first 12 months and today it has an annual turnover of more than $10 million. She credits the criticism she received as a factor in her success. 'I believe being female in a male dominated industry gave me more reasons to succeed. I wanted to make a point that any business or job that men can do, women can do too. And when we are not given that opportunity, then we have to create it for ourselves.'[15]

Dr James Muecke

Dr James Muecke founded Sight for All in 2009, a not-for-profit organisation with the vision to 'Create a world where everyone can see'.[16] The organisation focuses its efforts in rural Aboriginal and urban communities, as well as in select developing Asian countries. In 2015, Dr Muecke was awarded National Social Entrepreneur of the Year by Ernst & Young (EY) after taking out the South Australian category.

> As an ophthalmologist, Dr James Muecke felt a strong sense of moral duty to help people in disadvantaged countries. He established Sight For All to work towards eliminating blindness in Australia and internationally.[17]

Instead of flying in eyecare specialists to treat patients, Sight For All trains and equips local specialists so that they can continue in a sustainable manner. Importantly, the organisation focuses on childhood blindness, as well as cataracts, glaucoma and diabetic retinal disease. The organisation has over 100 professionals in its program, all of whom provide their time and expertise on a voluntary basis.[18]

Dr Muecke is hoping to develop 'a sustainable source of funding from individuals, organisations, corporate, family trusts', and concedes that it's difficult in the current economic climate to find support for projects operated outside of Australia. His goal is a simple one: to 'maintain the services offered by Sight for All for the foreseeable future'.[19]

Juliette Wright

Juliette Wright, founder and chief executive of not-for-profit GIVIT, launched the online platform in 2009 after she couldn't find a charity in need of her young son's baby clothes. 'Instead, local charities were searching desperately for essential items such as sanitary products for women who had fled domestic violence, steel-capped boots to enable unemployed fathers to secure work and clean mattresses to stop children living below the poverty line sleeping on the floor.'[20]

Recognising an opportunity, she set about creating an online platform to connect charitable Queenslanders with people in need. When people realised the affect a simple donation could have on someone's life, the operation grew rapidly. Within the first year, hundreds of charities had benefited from the generosity of thousands of Australians.[21] 'It's often really simple things that can rise people out of poverty. One woman had four children and was a widow . . . she spent her mornings washing all of her children's clothes by hand. She got a washing machine . . . now she has a job.'[22]

In January 2011, Wright was standing in front of the television taking in the devastation of the Brisbane floods, when she received a phone call from then-Premier Anna Bligh asking for her help. GIVIT became the official website through which to make donations and in a three-week period 33 500 goods were matched with Queenslanders in immediate need. 'It was an incredible honour to be in the whirlwind of donations . . . it was the honour of my life.'[23]

To date, GIVIT has helped over 130 000 people and there are no plans to slow down. Wright plans to focus on helping those living in rural and regional areas, as well as responding to national disasters of any kind. [24] In 2015 she was named Australian Local Hero in recognition of her efforts.

Wright says that it is important for people who are launching a not-for-profit to have a strong support network. 'Although I had a lot of support around me, a lot of people told me that GIVIT couldn't be done and it was too risky. I would say to people "hear the nos but do it anyway."'[25]

Simon Griffiths

Social entrepreneur Simon Griffiths doesn't take life sitting down. The engineering and economics graduate began a career in the corporate world before moving into the NGO sector. However, when he set out to fund his newest venture, an ethical toilet paper company, he found himself sitting for longer than he may like. For 51 hours, on a toilet, to be precise. The plan worked. He crowdfunded $50 000 and in the process, got people talking.

The aptly named business, Who Gives a Crap, was born out of a desire to support sanitation projects in developing countries, where diarrhoea-related illnesses kill over 4000 children under five every day.[26] 'We wanted to find a way to use mass-market products that are available anywhere in Australia. The answer: toilet paper! Everyone needs toilet paper and as a concept, it lends itself perfectly to supporting sanitation projects.'[27] Every roll purchased provides access to a toilet for a week.

Griffiths decided early on that he would split the profits 50/50, keeping half and donating the rest to WaterAid. 'If you shift the incentives, you draw more entrepreneurs into the social impact world and make it easier for them to reinvest in staying there. We're all rewarded for growing this company — and that means the company ultimately does more good.'[28] The plan seems to be working.

In its first two years of operation, Who Gives a Crap donations to WaterAid provided over 70 000 people living in the developing world with access to a toilet. Griffiths has learnt to roll with the setbacks.

'You learn that mistakes are really beneficial so you stop fearing them and kind of relish them. But on top of that, I guess you learn to ride the rollercoaster better and make sure that the peaks are really high and you get all the excitement out of that.'

Characteristics of entrepreneurs

A common image of an entrepreneur is as the founder of a new business enterprise that achieves large-scale success, like most of the ones just mentioned. But many entrepreneurs also operate on a smaller and less-public scale. Those who take the risk of buying a local McDonald's franchise, opening a small retail shop or going into a self-employed service business are also entrepreneurs. Similarly, anyone who assumes responsibility for introducing a new product or service or change in operations within an organisation is also demonstrating the qualities of entrepreneurship.

Obviously there's a lot to learn about entrepreneurs and entrepreneurship. Starting with the individual, however, indications are that entrepreneurs tend to share certain attitudes and behavioural tendencies:[29] self-confidence, determination, resilience, adaptability and drive to excel.[30] You should be able to identify these attributes in the previous examples. Entrepreneurial passion — intense, positive feelings experienced by engagement in entrepreneurial activities — is also important in driving the entrepreneur forward.[31] In addition, the following typical characteristics of entrepreneurs are also evident.

- *Internal locus of control*. Entrepreneurs believe that they are in control of their own destiny; they are self-directing and like autonomy. They do not wait to win the lotto (external event) to start their business.
- *High energy level*. Entrepreneurs are persistent, hardworking and willing to exert extraordinary efforts to succeed.
- *High need for achievement*. Entrepreneurs are motivated to accomplish challenging goals; they thrive on performance feedback.
- *Tolerance for ambiguity*. Entrepreneurs are risk takers; they tolerate situations with high degrees of uncertainty.
- *Self-confidence*. Entrepreneurs feel competent, believe in themselves and are willing to make decisions.
- *Action-oriented*. Entrepreneurs try to act ahead of problems; they want to get things done quickly and do not want to waste valuable time.
- *Desire for independence*. Entrepreneurs want independence; they are self-reliant and want to be their own boss, not work for others.[32] This can sometimes be their downfall, as they are unwilling to accept feedback and advice.

The entrepreneurs, intrapreneurs, social entrepreneurs and technopreneurs in this chapter have three things in common: they see markets that could exist; they see ways to enter existing markets from a very different or enhanced perspective; and they move quickly to take advantage of opportunities. This first-mover advantage is crucial to bringing products or services to the market as quickly as possible. Globalisation and technology usually means ease of duplication. The illegal trade in pirated copies of software and merchandise means there is a narrow window, and first movers can succeed here.

Entrepreneurs are sometimes distinguishable in terms of background and experiences, not just the personal characteristics previously listed. *Childhood experiences and family environment* seem to make a difference. Evidence links entrepreneurs with parents who were entrepreneurial and self-employed. Similarly, entrepreneurs tend to be raised in families that encourage responsibility, initiative and independence. Another issue is *career or work history*. Entrepreneurs who try one venture often go on to others. Previous career or personal experience in the business area or industry is also helpful. It also appears that entrepreneurs tend to emerge during certain *windows of career opportunity*. Most entrepreneurs start their businesses between the ages of 22 and 45, but in this technological age many start out as teenagers. This appears to be an age spread that allows for both taking risk and seeing opportunity. Manager's notepad 19.1 gives some additional thoughts on the nature of entrepreneurs and entrepreneurship.

MANAGER'S NOTEPAD 19.1

Challenging the myths about entrepreneurs

- *Entrepreneurs are born, not made*. Not true! Talent gained and enhanced by experience is a foundation for entrepreneurial success.
- *Entrepreneurs are gamblers*. Not true! Entrepreneurs are risk takers, but the risks are informed and calculated.
- *Money is the key to entrepreneurial success*. Not true! Just having money is no guarantee of success — there's a lot more to it than that; many entrepreneurs start with very little.
- *You have to be young to be an entrepreneur*. Not true! Age alone is no barrier to entrepreneurship; with age often comes experience, contacts and other useful resources.
- *You have to have a degree in business to be an entrepreneur*. Not true! You may not need a degree at all and you don't necessarily need a business degree in preference to a degree from another discipline.

Diversity and entrepreneurship

The structural shift in the Australian and New Zealand economies to more casual and part-time positions and fewer secure, full-time jobs has forced many individuals to create their own full-time employment through self-employment. Increased levels of education and training have also given confidence to many individuals to strike out on their own and become entrepreneurs.

Immigrants have contributed greatly to entrepreneurial activity in small, medium and large organisations in Australasia. Entrepreneurial immigrants have been responsible for bringing diversity to the Australasian hospitality industry, with many opening ethnic restaurants. They have also been active in other areas of the service economy, such as in the retail sector.

Globally, we have seen opportunities created for budding entrepreneurs in underdeveloped countries such as Bangladesh.[33] Muhammad Yunus, founder of the Grameen Bank and the 2006 Nobel Peace prize winner, is an example of such a person. Loans are given to the poor (usually as little as $30) to start their business. This has expanded to enable many people to start up 'rural non-farm micro-enterprises' and move out of poverty. Yunus is a social entrepreneur who wanted to change the face of poverty in his country. Many institutions are now using this model in other parts of the world.[34]

DIVERSITY

Indigenous entrepreneurship and self-employment on the rise[35]

Findings by ANU's Centre for Aboriginal Economic Policy Research indicates improvements to skills and policy changes have made it easier for Indigenous entrepreneurs to set up successful businesses. The number of Indigenous self-employed has also increased, albeit from a low base. While the research indicates that Indigenous business is characteristically more similar to non-Indigenous business than general employment statistics indicate, it is critical of the loose definition of the term.

Source: Australian National University, originally published on *The Conversation*.

QUESTION

Use the above article as a starting point for your own research. What public and private sector programs are currently in place to foster the talent of Indigenous entrepreneurs?

The role of governments in entrepreneurship

Although some critics claim that governments obstruct or stifle entrepreneurship, an objective analysis reveals that governments divert substantial resources into encouraging and supporting entrepreneurs. In fact, many entrepreneurs would never have succeeded without government help. Even well-established businesses often owe their continued existence to government financial and technical support. Governments in Australia, Canada, New Zealand and the United States have attempted to stimulate entrepreneurship among their often socially marginalised indigenous populations in order to create employment. They have done this through business grants, financial subsidies, awards and other types of recognition, tax incentives, joint ventures and the provision of technical and management training.

Reducing the much higher levels of unemployment and social deprivation among indigenous people compared with the general population has been the main objective of programs. Whereas some countries, such as Australia and Canada, have experimented with self-governing agencies to lead these efforts, others have concentrated on channelling support through various departments and at different levels of government. Such programs are highly vulnerable to potential discontinuity with changes in government.

CRITICAL ANALYSIS

1. Do you agree with the statement that entrepreneurs are born, not made? Why or why not?
2. Think of an entrepreneur that you admire. What is it about them that you would emulate? Is there anything about them that you would avoid emulating?
3. Do you think there is a strong growth in social entrepreneurship? Why?

19.2 Entrepreneurship and small business

LEARNING OBJECTIVE 19.2 What is special about small businesses?

Over 90 per cent of all businesses in Australia and New Zealand are **small businesses**, with two-thirds of all small businesses being home-based.[36] According to the Australian Bureau of Statistics, a small business is defined as a business employing less than 20 people.[37] They usually tend to have the following management or organisational characteristics: independent ownership and operations; close control by owners/managers who also contribute most, if not all, the operating capital; and principal decision-making by the owners/managers. Medium businesses employ more than 20 people but less than 200 people, and large businesses employ 200 or more people.

Most small businesses are run by one owner who oversees virtually all aspects of the business, from marketing and hiring staff to budgeting and operations. Approximately 60 per cent of small businesses are non-employing businesses, 27 per cent employ between 1 and 4 people, and 12 per cent employ 5 to 19 people. In total, small businesses provide employment for more than five million Australian workers, which is about half of all private sector employment.[38] A growing number of women are joining the small business ranks, with over 30 per cent of all small businesses owned by women. Almost half the small businesses are in the service sector; the next largest group is retail businesses; and manufacturing operations are the third largest group. Only 50 per cent of all new businesses survive the critical first three years of operation. This high failure rate does not stem from the owners' lack of technical expertise in their field; rather, it is often from weak managerial and business skills.

Most Australians (80 per cent) view small businesses as a positive influence on national life. Small businesses account for more than 40 per cent of the offline economy, create three of every four new jobs, and generate a majority of Australian innovations. Small businesses and home offices account for 40 per cent of all technology investment in Australia and New Zealand.[39]

The entrepreneurial spirit embodies inventiveness, an ability to think laterally, enthusiasm, energy and a willingness to take risks — and is independent of race, ethnicity, gender and class. Most small business success stories have a common theme. Small business entrepreneurs take advantage of opportunities they have identified in niche markets through their specialised skills and expertise. They make intelligent or appropriate use of technology and develop close working relationships with their clients, which gives them a distinct edge over their competitors.

The future of small business entrepreneurship is vital for the future of all communities in the Asia–Pacific region and there has never been a time when managing a small business has been more challenging. The impact of new technology, increasing competition and the accessibility of new markets through e-commerce and the internet have been the catalyst for new and smarter ways of doing business.

The most common ways for an entrepreneur to get involved in a small business are to start one, buy an existing one or buy and run a **franchise** — where a business owner sells to another the right to operate the same business at a specific location or in a specific geographical area. A franchise runs under the original owner's business name and guidance. In return the franchise parent receives a share of income or a flat fee from the franchisee. Some examples are the right to operate a fast-food operation such as McDonald's, or a petrol provider such as a Caltex station.

Internet entrepreneurship

The growth of internet entrepreneurship in Australia and New Zealand has been less rapid than in the United States. In some respects, purchasing over the internet is an extension of catalogue purchasing, which has always been more popular in the United States — retailers such as Sears generated a large proportion of their income from catalogue sales. Also, the United States has the highest percentage of households in the world connected to the internet, which increases the potential for e-businesses. Whereas many Australasian businesses have a website, not all will necessarily offer internet purchasing. Even when they do, companies such as Wow Sight and Sound have reported relatively modest sales over the internet compared with total revenue.

Although Australasian entrepreneurs are embracing the internet, the region's unique cultural and geographic characteristics are likely to produce slightly different outcomes from those in the United States and Europe. The smaller, more fragmented markets in Australasia may not warrant the costs of establishing a sophisticated e-business for all entrepreneurs. It is important to determine the appropriate business model for the market that the product or service is targeting.

Organisations intent on using the internet to enter new markets, expand in current markets, and/or transform their relationships with suppliers, customers and employees often find that the key to success is not the technology. E-business is not about technology any more than it is about finding ways of using new tools, and there is as much opportunity for small business to use the new e-business tools as there is for large organisations. Using the internet to establish a new organisation, to revolutionise business practices or to change the way an existing organisation does business requires information technology (IT) governance. That is, senior management must develop the processes for making decisions about IT and monitoring IT performance. And rather than using a single e-business strategy, it is better to adopt a portfolio approach.

Some guiding principles for e-business success for small to large organisations were identified by two directors from the Boston Consulting Group, David C. Michael and Greg Sutherland. The six organisational principles followed by the most successful companies were the following.

1. Create a sense of urgency.
2. Carefully balance the need to boost the core business with the reality that e-business often disrupts that business.
3. Adopt a small but powerful central function to make e-business decisions.
4. Bring in outside people and ideas and incorporate them effectively.
5. Design management processes that are ready for e-business.
6. Develop partnerships to improve the core and accelerate the online business.[40]

Another area for internet entrepreneurship is B2B, specialised business-to-business websites that link buyers and sellers. But as with all entrepreneurship, B2B in the small business sector is considered risky. Analysts are cautious about its future, questioning whether they can garner enough users to withstand early start-up costs, whether enough small businesses are sufficiently automated to take advantage of the services, and whether smaller businesses are willing to give up their traditional distributor relationships for the online exchange.[41]

TECHNOLOGY

Mildura's first coworking space opens for local entrepreneurs[42]

The directors of Mildura's first coworking space hope it will help local small businesses embrace the 'entrepreneurial spirit' of the region. Tucked away in a laneway in the city's centre, UpStart was officially launched in February 2016 by the Victorian Minister for Regional Development, Jaala Pulford. The project, designed to bring people together to share skills and knowledge, is the brainchild of Mildura locals and co-directors James Price and Deborah Bogenhuber.

Mr Price said while coworking spaces had been popping up in metropolitan areas for a while, the venture was completely new for Sunraysia. 'A coworking space is an open plan space for people who are working on start-up businesses or social enterprises to work in a collaborative space,' he said. 'People who are staring out in business might not always have the capital behind them to take out a lease on an office . . . or on a shopfront of their own.'

Located in an old warehouse building, the concept follows other Mildura initiatives, including the Empty Space Project, which filled vacant shops in town with installations and artwork. 'Our city was kind of developed and founded on entrepreneurialism,' Mr Price said. 'If you think about the Chaffeys, when they came here and settled, it was a pretty big punt that they took and they had some entrepreneurial spirit. 'We know that that spirit still does exist here in our community. It's not always embraced anymore, which has been a little bit sad, so that's what's kind of exciting in starting this space. 'It's creating not just a place for people to come and physically work, but a place for people to come and share ideas, to be encouraged, to take that punt, to be entrepreneurial.'

Place of inspiration and collaboration

Paul Dorotich is a Mildura entrepreneur, who is designing a new type of motorcycle helmet. 'Ten years ago, I realised that motorcycle helmets hadn't changed . . . so I decided to try to think of a better solution, and it wasn't until I was riding through Mexico on a motorbike that I thought up my new design,' Mr Dorotich said. 'It's only been the last two and a half years that I've been working on it fulltime. When my grandfather passed away, the last thing he said to me was to keep going with it.'

Mr Dorotich said shared working spaces were ideal for people like himself. 'I was losing motivation — I'd spring out of bed to get to work, but sitting in a shed talking to the dog was getting uninspiring,' he said. 'I needed somewhere to meet with other people who were on the same journey as myself. 'I said there must be other people who don't know how to write a business plan or other people who don't know how to get a patent protection, so we can help each other out with things like that,' Mr Dorotich said.

Ms Pulford said she hoped the project would help to encourage small business growth in regional areas like Mildura. 'This is exactly the type of innovation and creativity that creates a strong future for any rural community, and this is the kind of thing that the Victorian Government is delighted to lend its support to,' she said. '[It's] a fabulous space, it exudes energy and I think it'll be a great little incubator for people who want to take their first tentative steps into creating small businesses.'

QUESTION

What are some limitations of using a coworking space when starting a new business venture?

International business entrepreneurship

In the chapter on the international dimensions of management, the reasons businesses venture abroad were discussed. The same reasons apply to the opportunities for smaller businesses. They also often find that international business brings opportunities for expanded markets, additional financing, access to quality and possibly lower cost resources, access to labour and technical expertise, and onsite locations for low-cost manufacturing or outsourcing. With increasing globalisation, however, many businesses are launching themselves directly as global businesses — bypassing the domestic incubation stage completely.[43] The internet now makes selling overseas relatively easy; today's advanced distribution organisations also make product delivery quick and easy. Additionally, smaller businesses can find alliance opportunities in strategic ventures with foreign partners.

As the economies of the world's countries improve and the overall standards of living rise, consumer demand for goods and services grows as well. With this also come more international business opportunities for exporting and importing. Both national and state governments encourage exporting and try to support the growth of small businesses. The state government of Victoria, for example, like the governments of most Australian states, offers export development assistance to entrepreneurs through its Department of State and Regional Development.

The Australian government's export and investment facilitation agency Austrade — the Australian Trade Commission — assists Australian organisations in winning export business and generating inward and outward investment. Austrade helps organisations determine their readiness to export and provides initial advice and market statistics to guide them on how best to proceed. It provides suggestions to organisations of all sizes on which overseas markets have the highest sales potential for their product, how they can develop a presence in these markets, and the kinds of business assistance that are available. Austrade operates an international network of offices located in over 110 cities in more than 60 countries and is able to identify potential buyers or agents and pass on specific business opportunities as they arise. It works closely with Australian organisations to link Australian suppliers with interested local contacts and provide access to local business and government networks.

New Zealand Trade and Enterprise undertakes similar functions for its country's organisations. It also links investors with competitive New Zealand companies and creates international business alliances, with a strong emphasis on supporting entrepreneurs and small business. New Zealand has a stronger central government structure, unlike Australia's federal system, so the New Zealand government is the main provider of export assistance to industry. In Australia, all the state governments have their own departments to encourage expansion of their state's businesses overseas and to attract foreign investors to their region.

Family businesses

Family businesses — ones owned and financially controlled by family members — represent the largest percentage of businesses operating worldwide. Companies owned by ethnic Chinese families in South-East Asia make up about 70 per cent of the private business sector in Singapore, Malaysia, Thailand, Indonesia and the Philippines.[44] In Australia, family businesses account for almost two-thirds of all businesses operating in the country, with most of these being relatively small.[45]

Family businesses must solve the same problems as other small or large businesses — meeting the challenges of strategy, competitive advantage and operational excellence. When everything goes right, the family business is almost an ideal situation — everyone working together, sharing values and a common goal, and knowing that what they do benefits the family. But it doesn't always work out this way or stay this way over time and successive generations. Family businesses face problems that are unique to their situation.

'Okay, Dad, so he's your brother. But does that mean we have to put up with inferior work and an erratic schedule that we would never tolerate from anyone else in the business?'[46] This line introduces a problem that can all too often set the stage for failure in a family business — the *family business feud*. Simply put, members of the controlling family get into disagreements about work responsibilities, business strategy, operating approaches, finances or other matters. The example is indicative of an intergenerational problem, but the feud can be between spouses, among siblings, between parents and children; it really doesn't matter. The key point is that unless the disagreements are resolved satisfactorily and to the benefit of the business itself, the business will have difficulty surviving, especially in a highly competitive environment.

Another significant problem faced by family businesses is the **succession problem** — transferring leadership from one generation to the next. A survey of small and medium-sized family businesses indicated that 66 per cent planned on keeping the business within the family.[47] The management question is: how will the assets be distributed and who will run the business when the current head leaves? Although this problem is not specific to small business, it is especially significant in the family business context, and particularly in those cases where the current head of the business is the founder — the entrepreneur who started the business and built it into what it is today. The statistics on succession are eye-opening: about 30 per cent of family businesses survive to the second generation; only 12 per cent survive to the third; only 3 per cent are expected to survive beyond that.[48]

A family business that has been in operation for some time is a source of both business momentum and financial wealth. Both must be maintained in the process of succession. Business advisers recommend that this problem be resolved ahead of time through a **succession plan** — a formal statement that describes how the leadership transition and related financial matters will be handled when the time for changeover arrives. Operational considerations of the plan should include, among other possibilities, procedures for choosing or designating the business's new leadership, legal aspects of any ownership transfer, and any financial and estate plans relating to the transfer. Ideally, the foundations for effective implementation of a succession plan are set up well ahead of the need to use it. The plan should be shared and understood by all affected by it. Ideally, the leadership successor is identified ahead of time, and then well prepared through experience and training to perform the new role when needed.

In recent years organisations have been established to help family businesses to tackle short-term and longer term organisational and strategic issues. An important organisation in Australia is Family Business Australia (FBA). It is a national, member-based, not-for-profit organisation existing 'to improve the effectiveness of Australian families in business through the sharing of practical experience and knowledge, to promote the value and contribution that family businesses make to our society, and to represent Australian family businesses as a strong and united voice'.[49] FBA was established in 1998 following the merger of the Family Business Council and the Foundation for Family and Private Business. It deals with a very real need to understand the demands of family businesses and their social and economic significance to Australia. It attempts to increase the performance of family-based businesses and provides advice to member businesses. Its website also provides a range of information for family businesses (www.fambiz.org.au).

Why small businesses fail

Small businesses have a high failure rate — one high enough to be scary; with as many as 60 to 80 per cent of new businesses failing in their first five years of operation. Succession problems account for part of the failures. But a large part comes from management mistakes. Business failures are largely due to poor decision-making by the original entrepreneurs and owners on matters of consequence. Often, the entrepreneur is unable to successfully make the transition from entrepreneur to strategic leader and manager. Among the reasons for new business failures are:

- *lack of experience* — not having sufficient know-how to run a business in the chosen market or area
- *lack of expertise* — not having expertise in the essentials of business operations, including finance, purchasing, selling and production
- *lack of strategy and strategic leadership* — not taking the time to craft a vision and mission, and formulate and properly implement strategy
- *poor financial control* — not keeping track of the numbers and failure to control business finances
- *growing too fast* — not taking the time to consolidate a position, fine tune the organisation, and systematically meet the challenges of growth
- *lack of commitment* — not devoting enough time to the requirements of running a competitive business
- *ethical failure* — falling prey to the temptations of fraud, deception and embezzlement
- *over-optimism* — an overly optimistic view of the business potential can negatively affect judgement and decision-making, and can also impair the ability to learn from previous failures.[50]

CRITICAL ANALYSIS

1. Most people have come into contact with family businesses through personal experiences, friends or extended family. What attracts you to, or repels you from, starting your own family business in the future?
2. Some would say that governments should stay out of business support, as they have a habit of picking losers rather than winners. Would you agree or disagree with this statement? Why?

19.3 New venture creation

LEARNING OBJECTIVE 19.3 How do you start a new venture?

Now that the reasons for business failure have been described, let's talk about doing it correctly. Whether your interest is low-tech or high-tech, online or offline, opportunities for new ventures are always there for the true entrepreneur.[51] To pursue the entrepreneurship process and start a new venture, you need good ideas, passion and the courage to give your ideas a chance. Every entrepreneurial venture requires some measure of courage. You must also be prepared to meet and master the test of strategy and competitive advantage. Can you identify a market niche that is being missed by other established businesses? Can you identify a new market that has not yet been discovered by others? Can you generate **first-mover advantage** by exploiting a niche or entering a market before competitors? These are the questions that entrepreneurs ask and answer in the process of beginning a new venture. A focus on the customer is vital, as suggested by the guidelines in Manager's notepad 19.2.[52]

MANAGER'S NOTEPAD 19.2

Questions that keep a new venture customer-focused

- Who is your customer?
- How will you reach key customer market segments?
- What determines customer choices to buy your product/service?
- Why is your product/service a compelling choice for the customer?
- How will you price your product/service for the customer?
- How much does it cost to make and deliver your product/service?
- How much does it cost to attract a customer?
- How much does it cost to support and retain a customer?

Life cycles of entrepreneurial organisations

The traditional stages of an entrepreneurial life cycle are usually infancy, exploration and start up, expansion and growth, maturity, stagnation, and decline. A much more understandable view allows re-birth or dissolution at the decline stage; a continuous entrepreneurial spirit is essential in order to avoid stagnation and decline. A successful quality environment is dependent on leadership type and the maintenance of the entrepreneurial spirit in the face of dynamic external and internal change. The entrepreneur may be considered a visionary, but for a visionary to act on his or her vision it requires leadership. They need the capacity to organise resources, motivate and give direction to people, and generally sustain the effort to realise the vision.[53]

The organisation begins with the birth *stage* — where the entrepreneur struggles to get the new venture established and to survive long enough to test the viability of the underlying business model in the marketplace. The organisation then passes into the *breakthrough stage* — where the business model begins to work well, growth is experienced, and the complexity of managing the business operation expands significantly. Next is the *maturity stage* — where the entrepreneur experiences the advantages of market success and financial stability, while also facing continuing challenges of meeting needs for professional management skills. Technology failure or unsustainable growth can lead to the decline stage. Here, the entrepreneur has the opportunity to revitalise, or strategically diversify. If this is not possible, then dissolution is the only option. The possible stages in the life cycle of an entrepreneurial organisation are outlined in figure 19.1.

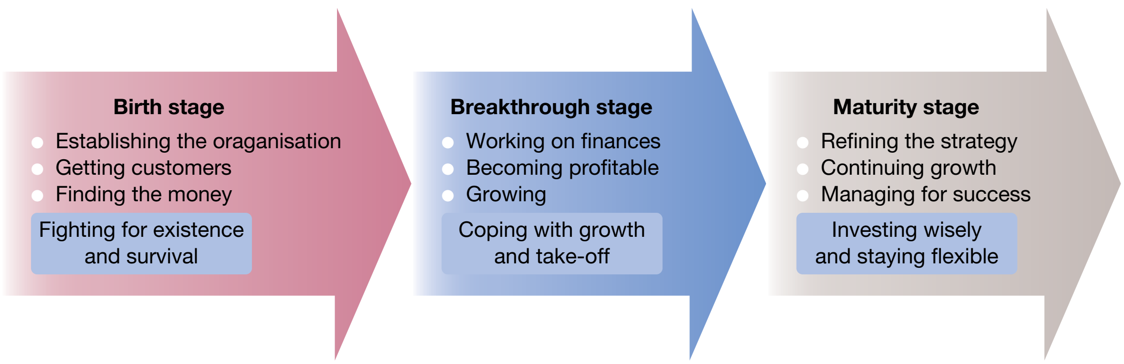

FIGURE 19.1 Stages in the life cycle of an entrepreneurial organisation

Entrepreneurs often face control and management dilemmas when their businesses experience growth, including possible diversification or global expansion. These are very challenging in terms of the management and strategic leadership skills required to maintain success. It is here that entrepreneurs encounter a variation of the succession problem described earlier for family businesses. This time the problem is succession from entrepreneurial leadership to professional strategic leadership. The former brings the venture into being and sees it through the early stages of life; the latter manages and leads the venture into maturity as an ever evolving and perhaps still growing corporate enterprise. If the entrepreneur is incapable or unwilling to meet the organisation's needs in later life cycle stages, continued business survival and success may well depend on the business being sold or management control being passed to professionals.

Writing the business plan

When people start new businesses, either independent ones or as new components of larger organisations, they can greatly benefit from having a good **business plan**. This is a plan that describes the details needed to obtain start-up financing and operate a new business. When well done, a business plan offers clear direction to an enterprise.[54] Banks and other financiers want to see a business plan before they lend money or invest in a new venture; senior managers want to see a business plan before they allocate scarce organisational resources to a new project. Importantly, the detailed thinking required to prepare a business plan can contribute to the success of the new initiative.[55]

Although there is no single template for a successful business plan, there is general agreement that a plan should have an executive summary, cover certain business fundamentals, be well organised with headings, be easy to read, and be no more than about 20 pages in length. Basic items that should be included in a business plan are summarised in Manager's notepad 19.3. One of the great advantages of such a plan, of course, is forcing the entrepreneur to think through all of these issues and challenges before starting out.

MANAGER'S NOTEPAD 19.3

What to include in a business plan

- *Executive summary* — overview of business purpose and key elements of the plan.
- *Industry analysis* — nature of the industry, including economic trends, important legal or regulatory issues and potential risks.
- *Company description* — mission, owners and legal form.
- *Products and services description* — major goods or services, with special focus on uniqueness in relation to competition.
- *Market description* — size of market, competitor strengths and weaknesses, five-year sales goals.
- *Marketing strategy* — product characteristics, distribution, promotion, pricing and market research.
- *Operations description* — manufacturing or service methods, supplies and suppliers, and control procedures.
- *Staffing description* — management and staffing skills needed and available, compensation, human resource systems.
- *Financial projection* — cash flow projections for 1–5 years, break-even points and phased investment capital.
- *Capital needs* — amount of funds needed to run the business, amount available, amount requested from new sources.

Thomas Harrison, CEO of Diversified Agency Services, recommends a pronged approach for formalising a solid business plan. First, identify why your company is relevant and where the place in society exists for your company. Consider market and current trends and why your product or service will meet current or future trends. Next, consider who are your customers, who are your competitors, and what other product or service offerings are in the market. Finally, consider what resources you have and you will need, including specific financial plans that realistically look at tracking revenues, margins, expenses and profits.[56]

Entrepreneurial failure can be attributed to many things. Research identifies some common problems, including starting without a written plan; not considering revenue models; having limited business opportunities; the inability (or unwillingness) to make decisions; lack of research, particularly of the activity of competitors; having an idea that can be easily replicated by competitors; an inexperienced team; underestimating the resources required to succeed; not having a solid marketing plan; and giving up too easily.[57]

Choosing the form of ownership

One of the important choices that must be made in starting a new venture is the legal form of ownership. There are a number of alternatives, and the choice involves careful consideration of their respective advantages and disadvantages. Briefly, the ownership forms include the following.

A **sole proprietorship** is simply an individual pursuing business for a profit. This does not involve incorporation; it is simple to start, run and terminate. However, the business owner is personally liable for business debts and claims. This is the most common form of small business ownership in Australia and New Zealand.

A **partnership** is formed when two or more people agree to contribute resources to start and operate a business together. Most typically it is backed by a legal and written partnership agreement. Business partners agree on the contribution of resources and skills to the new venture, and on the sharing of profits, losses and management responsibilities. The *general partnership* just described is the simplest and most common form. A *limited partnership* consists of a general partner and one or more 'limited' partners who do not participate in day-to-day business management. They share in profits, but their losses are limited to the amount of their investment.

A **company**, commonly identified by the 'Ltd' designation in a name, is a legal entity that exists separately from its owners. The company can be for profit, such as Coles Group Ltd, or not for profit, such as Melbourne University Private Ltd. The company form grants the organisation certain legal rights (for example, to engage in contracts), and it is also responsible for its own liabilities. This separates the owners from personal liability and gives the company a life of its own that can extend beyond that of its owners. Both are important advantages. However, if an organisation continues to trade when it is insolvent, its senior managers will be personally liable for corporate losses. Insolvency law is designed to protect creditors and has grown in importance over the last few decades following a series of dramatic bankruptcies of high profile organisations. Insolvency law was also heavily relied on during the global financial crisis and the ensuing downturn, with many Australian companies going bust in the economic upheaval.

Business start-up finance

Start-up finance is one of the most difficult aspects of starting your own business. In the examples in this chapter, we have seen examples of using family and friends to raise capital. Alternatively, funds have been raised through investors. Let's have a look at some of the most common finance options available: debt or equity finance.

Debt finance

Gaining a bank loan to fund a business start-up is one form of **debt finance**. This is a bank loan, repaid over a certain period with a certain interest rate. These loans are usually secured against an asset (e.g. a house). If you fail to pay the loan, the bank can take the assets provided for security. For a new business, this means tight repayments, starting work immediately, and the company being locked in until repayment is achieved or the loan is refinanced. There are also other forms of debt finance — credit cards and leasing. The term leasing refers to the borrowing of money to buy specific business equipment or machinery. In this case, small businesses borrow against the store sales.

Equity finance

Equity finance is risk capital. If you have been turned down for a loan or cannot meet the required repayments, equity finance could be the answer. Investors invest in your company and are prepared to risk their capital for a growth share of your business profits. This means there are no repayments.

The investors give you the money that you need to get your business off the ground and to cover all aspects of business start-up costs such as rent, the purchasing of equipment and staff wages, as well as utility bills for the first few months.

Whatever finance businesses decide to use for their venture, it's important to make a realistic and informed decision based on business needs. It is advisable to seek expert advice when making financial decisions.

CRITICAL ANALYSIS

1. Many new venture entrepreneurs report that they lose a lot of money when their businesses fail. How exactly do you think failed businesses lose money and what can be done to safeguard finances when launching a new venture?
2. Some national governments try to encourage new venture creation, but the bankruptcy laws in those countries require failed entrepreneurs to pay back all of their debtors before they are released from bankruptcy. Argue whether such laws are a good or bad idea.

19.4 Entrepreneurship and business development

LEARNING OBJECTIVE 19.4 What resources support entrepreneurship and business development?

Entrepreneurship, the creative spark to launch new ventures, is indispensable to the economy at large. It drives the formation of small businesses and new ventures that are so important to job creation and economic development. Larger enterprises need the same spark. Even as they operate more flexibly, in networks and with the advantages of IT, they too depend on entrepreneurship within the system to drive innovation for sustained competitive advantage.

Intrapreneurship and large enterprises

Just like their smaller counterparts, large organisations depend on the entrepreneurial spirit. High performance is increasingly based on the contributions of workers who are willing to assume risk and encourage the creativity and innovation so important to continued success in dynamic and competitive environments. Yet this task is especially challenging in very large and complex systems whose natural tendencies may be towards stability, rigidity and avoidance of risk. The concept of **intrapreneurship** — described as entrepreneurial behaviour on the part of people and subunits operating within large organisations — brings deserved attention to this situation.[58] Through the efforts of intrapreneurs large organisations are able to turn new ideas into profitable new products, services and business ventures. Many large organisations are also making greater use of the knowledge in their various subsidiaries and far-flung business units.[59]

To enhance their competitive edge through intrapreneurship, however, managers often find that success depends on the ability of large organisations to act like small ones. To do this, some large organisations create small subunits, often called **innovation groups**, in which teams work together in a unique setting that is highly creative and free of operating restrictions in the larger parent organisation. A classic example occurred at Apple Computer, where a small group of enthusiastic employees was once sent off to a separate facility in Cupertino, California. Their mandate was straightforward: to create a state-of-the-art, user-friendly personal computer. The group operated free of the organisation's normal product development bureaucracy; setting its own norms, and working together without outside interference. It worked. This is the team that brought the now-famous Macintosh computer into being.

Business incubation

One of the advantages of intrapreneurship is that it takes place in a larger organisational environment that can be highly supportive in terms of money and other start-up resources. Individual entrepreneurs who must start on their own face quite a different set of challenges. Even though it can be exciting to start a new venture, it can also be daunting in terms of complexity and required resources. One way that the motivation towards entrepreneurship can be maintained without suffering the discouragement of start-up requirements is through the support of a **business incubator**. This is a special facility that offers space, a variety of shared administrative services, and management advice to help small businesses get started. Some ideas are focused on specific areas such as technology or manufacturing or services; some are in more rural areas, others are city-based. But regardless of focus and location, incubators share the common goal of helping to build successful new businesses that create jobs and improve economic development. They pursue this goal by nurturing start-up businesses in the incubators to improve the chances for them to grow more quickly and become healthy enough to survive on their own. And, of course, with survival the economic benefits of job creation and new members joining the local business community are expected. Business Innovation and Incubation Australia is an association that attempts to facilitate the concept of business incubation (www.businessincubation.com.au).

CRITICAL ANALYSIS

1. Some managers are afraid of encouraging intrapreneurship as it may lead to the intrapreneur taking the new venture outside of the company's sphere of influence. What do you think are the risks and opportunities involved in intrapreneurship?
2. Business development is sometimes guided by people who understand the theory of how businesses develop, but who have had little experience with entrepreneurship themselves. Do you think that entrepreneurial experience is essential for business developers? Why or why not?

SUMMARY

19.1 What is entrepreneurship?

- Entrepreneurship is risk-taking behaviour that results in the creation of new opportunities for individuals and/or organisations.
- An entrepreneur is someone who takes strategic risks to pursue opportunities in situations others may view as problems or threats.
- There are many examples of entrepreneurs worldwide like Kristina Karlsson, Daniel Flynn, Le Ho, Dr James Muecke, Juliette Wright and Simon Griffiths whose experiences can be a source of learning and inspiration for others.
- Entrepreneurs tend to be creative people who are very self-confident, determined, resilient, adaptable and driven to excel; they like to be masters of their own destinies.
- Entrepreneurship is rich in diversity, with women and minority-owned business start-ups increasing in numbers.

19.2 What is special about small businesses?

- Entrepreneurship results in the founding of many small businesses that offer job creation and other benefits to economies.
- The internet has opened a whole new array of entrepreneurial possibilities, including online buying and selling.
- Smaller businesses are pursuing more global opportunities in the quest for expanded markets, access to labour and technical expertise, and locations for low-cost manufacturing or outsourcing.
- Family businesses that are owned and financially controlled by family members represent the largest percentage of businesses operating worldwide.
- A significant problem faced by family businesses is the succession problem of transferring leadership from one generation to the next.
- Small businesses have a high failure rate; as many as 60 to 80 per cent of new businesses fail in their first five years of operation.
- Small business failures are largely due to poor management, when owners make bad decisions on matters of major business consequence.

19.3 How do you start a new venture?

- Entrepreneurial organisations tend to follow the life cycle stages of acceptance, breakthrough and maturity, with each stage offering different management challenges to the entrepreneur.
- New start-ups should be guided by a good business plan that describes the intended nature of the business, how it will operate, and how financing will be obtained to operate it.
- An important issue is choice of the form of business ownership, with the sole proprietorship, partnership and company forms offering different advantages and disadvantages.
- Two basic ways of financing a new venture are through debt financing, by taking loans and equity financing, which involves exchanging ownership shares in return for outside investment.

19.4 What resources support entrepreneurship and business development?

- Intrapreneurship, or entrepreneurial behaviour within larger organisations, is important in today's competitive environments.
- Business incubators offer space, shared services and advice to small businesses in the start-up stages.

KEY TERMS

A **business incubator** offers space, shared services and advice to help small businesses get started.
A **business plan** describes the direction for a new business and the financing needed to operate it.
A **company** is a legal entity that exists separately from its owners.

Debt finance involves borrowing money that must be repaid over time with interest.

An **entrepreneur** is a person (or group of people) who creates the new enterprise, opportunity or business venture.

Entrepreneurship is a process of creating new enterprises, opportunities and business ventures.

Equity finance involves exchanging ownership shares for outside investment money.

Family businesses are owned and controlled by family members.

A **first-mover advantage** comes from being first to exploit a niche or enter a market.

A **franchise** is when one business owner sells to another the right to operate the same business in another location, using its name and operating methods.

Innovation groups are teams allowed to work creatively together, free of constraints from the larger organisations.

Intrapreneurs are those innovating for change inside large organisations, such as corporate multinationals.

Intrapreneurship is entrepreneurial behaviour displayed by people or subunits within large organisations.

A **partnership** is when two or more people agree to contribute resources to start and operate a business together.

A **small business** has fewer than 20 employees, is independently owned and operated and is normally one of many competitors in its industry.

A **social entrepreneur** runs a social enterprise, a business with primarily social objectives whose surpluses are principally reinvested for that purpose in the business or in the community, rather than being driven by the need to maximise profit for shareholders and owners.

A **sole proprietorship** is an individual pursuing business for a profit.

A **succession plan** describes how the leadership transition and related financial matters will be handled.

The **succession problem** is the issue of who will run the business when the current head leaves.

Technopreneurs are entrepreneurs that are involved in high-technology industries.

APPLIED ACTIVITIES

1. What is the relationship between gender and entrepreneurship?
2. In what ways can the internet be a driving force for entrepreneurship?
3. What are the advantages of choosing a limited company structure for a small business operation?
4. How can a large government-owned organisation, such as a university, stimulate entrepreneurship within itself?
5. You have an opportunity to buy a river cruise business from a friend. Although the number of tourists visiting your region has increased in recent years the business has not been very successful, making quite low profits. Your friend is willing to sell you the business for a little below market price. What information do you need to help you make your purchase decision?

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CHAPTER 20

Operations and services management

LEARNING OBJECTIVES

20.1 What are the essentials of operations management?
20.2 What is value chain management?
20.3 How do organisations manage service and product quality?
20.4 How can work processes be designed for productivity?
20.5 What physical factors in the workplace can affect employee productivity and wellbeing?

Forget siestas, 'green micro-breaks' could boost work productivity[1]

Most of us know firsthand that spending time in nature can make us feel better. This isn't just a placebo effect: decades of research show that seeing vegetation, water, light and animals is linked with many psychological benefits.

Evidence suggests that viewing nature can also help improve attention spans. Being able to maintain our attention to concentrate on tasks and ignore distractions is important for everyday life. At work, better concentration helps us stay on track, attend to important information, block out distracting email alerts and chatting colleagues, work more efficiently and maintain performance across the day.

Testing 'micro-breaks'

A research team at the University of Melbourne set out to uncover whether a short 40-second break viewing a city green roof could boost attention. Green roofs are an increasingly common way of introducing more nature into cities and normally consist of low-growing plants in lightweight, thin soil-like mixes that sit over drainage layers on a building rooftop.

The experiment used a neuropsychology test called the 'Sustained Attention to Response Task' (SART). Participants had to work at a computer and respond correctly to numbers flashing up on the screen. Each time a number flashed up, they had to press a key unless, that is, that number was '3'. For the number '3', participants had to refrain from pressing a key. The test is not very hard, but it is boring, and you have to really pay attention to perform well.

Once the 150 participants became tired from the SART, they were given a 40-second micro-break. During the micro-break each participant saw a city scene on the computer. The scene was a view from a city high rise but with one difference: half the participants saw a normal concrete roof, while the other half saw a flowering meadow green roof. After the micro-break, participants performed the SART again and the performance between the two groups was compared.

After the break, participants who saw the green roof performed better than those who saw the concrete roof. That is, they made fewer errors on the task and showed steadier response patterns towards the flashing numbers.

Observing steadier responses in participants who saw the green roof is quite important. Changes in attention can be analysed by breaking down each person's response patterns into two parts: 'quick changes' in responding and 'gradual changes' in responding. Steadier quick changes in responding suggests fewer brief attention 'slips' during the task and better attention control. Steadier gradual changes in responding suggest consistent levels of alertness across the task.

In the study, participants who saw the green roof showed fewer attention slips and as a result, better attention control. Compared with their concrete roof counterparts, they also showed more consistent alertness after the green roof micro-break.

Healthier workplaces and cities

For decades researchers have wondered whether brief glimpses of nature could boost attention. Until now, however, they have only found these benefits in studies where participants were exposed to nature for longer periods of time — at least minutes, and often hours.

A multidisciplinary team used theory and methods from environmental psychology, neuropsychology, organisational psychology and horticulture to uncover new insights on the benefits of urban nature. As a result, they uncovered attention benefits after a 40-second micro-break with a flowering meadow green roof view. For office workers, this suggests that 'green micro-breaks' can provide a simple and effective strategy for boosting attention between longer breaks.

Importantly, the study shows attention benefits after seeing a city green roof. Most research on the benefits of nature has used lush and tall nature, particularly forests, woodlands and parks. The green roof the participants were shown was realistic, using low growing plants that could survive on an irrigated roof.

The research demonstrates that even a modest area of flowering meadow can boost attention. For urban planners and developers, these results are yet another incentive to add more plants into our cities and workplaces, to provide real benefits for people by creating healthy, productive and liveable spaces. Green roofs are a practical solution for high density cities.

Source: Kate Lee, Katherine Johnson, Kathryn Williams, Leisa Sargent and Nicholas Williams (University of Melbourne), originally published on *The Conversation.*

QUESTION

Change your computer desktop background to a nature scene and test the theory of green micro-breaks while studying for an exam or writing an assignment. Later, change it to your normal background and continue to take micro-breaks. Do you perceive a difference in your attention levels after the green micro-breaks?

Introduction

Organisations today operate in a world that places a premium on quality, customer service, productivity, technology utilisation and speed. Businesses large and small are struggling and innovating as they try to succeed in a world of intense competition, continued globalisation of markets and business activities, and rapid technological change. Just how top executives approach these challenges differs from one organisation to the next, but they all focus on moving services and products into the hands of customers in ways that create loyalty and profits.[2] While the opening case illustrated operations management and supply chain issues with physical products, businesses in the service industry also have operations management issues.

A common experience among many consumers in Australia today is dissatisfaction with their telecommunications service provider (telco). Many consumers have experienced customer service problems including billing errors, failure to cancel direct debit, failure to follow through with account cancellation requests and poor provision of information. According to the Telecommunications Industry Ombudsman (TIO), costly mobile phone data plans are increasingly the result of complaints. This has resulted in a new Telecommunications Consumer Protection Code that requires telcos to notify consumers about the

TIO at the beginning of their complaint process, and will also 'bring greater awareness about what customers can do to have their complaints resolved'.[3]

20.1 Operations management essentials

LEARNING OBJECTIVE 20.1 What are the essentials of operations management?

In one way or another, all organisations must master the challenges of **operations management** — getting work done by managing the systems through which organisations transform resources into finished products, goods and services for customers and clients.[4] The span of operations management covers the full input–throughput–output cycle. Typical operations management decisions address things such as resource acquisition, inventories, facilities, workflows, technologies and product quality. To ensure competitive advantage and meet shareholder expectations, many companies are turning to **outsourcing** and **offshoring** as a means to reduce costs.[5]

The essentials of operations management apply to all types of organisations, not just to product manufacturers. Companies such as Hyundai, BMW and Toyota transform inputs into attractive, high-quality cars; but also in the services sector, telcos transform staff and technology inputs into telephone and mobile data service, and governments transform inputs into public services. All such organisations must consider the final output when making operational decisions.

The core issues in operations and services management boil down to how 'productivity' and 'competitive advantage' are achieved. This focuses management attention on the various processes and activities that turn resources — in the form of people, materials, equipment and capital — into finished goods and services.

Productivity

Operations management in both manufacturing and services is concerned with **productivity** — a quantitative measure of the efficiency with which inputs are transformed into outputs. The basic productivity equation is:

$$\text{Productivity} = \text{Output/Input}.$$

If, for example, a local Red Cross centre collects 100 units of donated blood in one 8-hour day, its productivity would be 12.5 units per hour. If we were in charge of centres in several locations, the productivity of the centres could be compared on this measure. Alternatively, one might compare the centres using a productivity measure based not on hours of inputs, but on numbers of full-time staff. Using this input measure, a centre that collects 500 units per week with two full-time staff members (250 units per person) is more productive than one that collects 600 units per week with three staff (200 units per person).

When Microsoft studied productivity of office workers in an online survey of more than 38 000 people across 200 countries, results showed a variety of productivity shortfalls.[6] Although people reported working 47 hours per week, they were unproductive during 17 of the hours: 69 per cent said time spent in meetings was unproductive. Productivity obstacles included unclear objectives and priorities, as well as procrastination and poor communication.

Competitive advantage

Inefficiencies like those reported by Microsoft are costly; lost productivity by any measure is a drain on organisational competitiveness. Operating efficiencies that increase productivity, by contrast, are among the ways organisations may gain **competitive advantage**. Competitive advantage is defined as 'anything that a firm does especially well compared to rival firms.[7] Getting and keeping competitive advantage is absolutely essential for organisational survival. Potential drivers of competitive advantage include things such as the ability to outperform based on product innovation, customer service, speed to market, manufacturing flexibility, and product or service quality. Regardless of how organisations achieve competitive advantage, the key result is the same: an ability to consistently do something of high value that one's competitors cannot replicate quickly or do as well. Most organisations have a continuing improvement process that relies on employees finding better ways to do the things they do every day. Some organisations reward staff through a transparent monetary process and performance management system.

Some organisations gain competitive advantage through the use of robotics on their assembly lines. Robots perform applications with consistency and precision, which means higher quality products. There are financial savings with no ongoing payroll issues such as leave and superannuation, as well as increased production as the use of inputs is reduced. Of course, the most obvious impact of industrial mechanisation is that it eliminates many unskilled job positions. This has especially been the case in United States and Japan — two countries that illuminate important factors in the robot takeover. Japan has a negative growth population, so robots have taken over the drudge jobs their young people choose not to do. The United States, on the other hand, has lost so much of its manufacturing to China that it is impossible for even a localised robotic workforce to compete with lower production costs offshore.

Sustainability is not new nor does it need to be huge. Sustainability has seen McDonald's move from a polystyrene container for their Big Mac to a paper wrap; shopping centres charge for plastic bags or not supply them; John West ensure that their salmon is not caught at the expense of dolphin deaths; car manufacturers produce cars that do not need petrol; and not-for-profit Cerebral Palsy League adopt Brendan McGufficke's Metal for Mobility plan, where industries recycle their waste bins instead of placing rubbish in landfill (creating sustainability), and the sustainable income (regular and consistent) pays for wheelchairs for children who cannot walk.

Operations technologies

The foundation of any transformation process is technology — the combination of knowledge, skills, equipment and work methods used to transform resource inputs into organisational outputs. It is the way tasks are accomplished using tools, machines, techniques and human knowledge. The availability of appropriate technology is a cornerstone of productivity and the nature of the core technologies in use is an important element in competitive advantage.

Manufacturing technology

It is common to classify manufacturing technology into three categories: (1) small-batch production, (2) mass production and (3) continuous-process production. In **small-batch production**, such as in a racing bicycle shop, the manufacturer makes a variety of custom products to order. The manufacturer makes each item or batch of items somewhat differently to fit customer specifications. The equipment used may not be elaborate, but a high level of worker skill is often needed. In **mass production**, such as manufacturing the popular brands of recreational bicycles, the firm produces a large number of uniform products in an assembly-line system. Workers are highly dependent on one another as the product passes from stage to stage until completion. Equipment may be sophisticated, and workers often follow detailed instructions while performing simplified jobs.

Organisations using **continuous-process production** continuously feed raw materials — such as liquids, solids and gases — through a highly automated production system with largely computerised controls. Such systems are equipment intensive, but they can often be operated by a relatively small labour force. Classic examples are oil refineries and power plants. Among the directions in manufacturing technology today, the following trends are evident.

- There is increased use of *robotics*, where computer-controlled machines perform physically repetitive work with consistency and efficiency. If you visit any car manufacturer today, chances are that robotics is a major feature of the operations.
- There is increased use of *flexible manufacturing systems* that allow automated operations to quickly shift from one task or product type to another. The goal is to combine flexibility with efficiency,

allowing what is sometimes called *mass customisation* — efficient mass production of products meeting specific customer requirements.

- There is increased use of *cellular layouts* that place machines doing different work together, so that the movement of materials from one to the other is as efficient as possible. Cellular layouts also accommodate more teamwork on the part of machine operators.
- There is increased use of *computer-integrated manufacturing*, in which product designs, process plans, and manufacturing are driven from a common computer platform. Such approaches are now integrated with the internet, so that customer purchasing trends in retail locations can be spotted and immediately integrated into production schedules at a manufacturing location.
- There is increased focus on *lean production* that continuously innovates and employs best practices to keep increasing production efficiencies. A master is Toyota, and as a *BusinessWeek* headline once said, 'No one does lean like the Japanese'.
- There is increased attention to *design for disassembly*. The goal here is to design and manufacture products in ways that consider how their component parts will be recycled at the end of their lives.
- There is increased value in *remanufacturing*. Instead of putting things together, remanufacturing takes used items apart and rebuilds them as products to be used again. One estimate is that using remanufactured materials saves up to 30 per cent on costs.
- There is an increased emphasis on **sustainable manufacturing**. Sustainable manufacturing is defined as manufacturing where the exploitation of resources and use of technology is made consistent with the future as well as present needs.[8] This concept of sustainability usually includes economic, social and environmental aspects.

Service technology

When it comes to service technology, the classifications are slightly different.[10] In health care, education and related services, **intensive technology** focuses the efforts of many people with special expertise on the needs of patients, students or clients. In banks, real estate firms, insurance companies, employment agencies and others like them, **mediating technology** links together parties seeking a mutually beneficial exchange of values — typically a buyer and a seller. **Long-linked technology** can function like mass production, where a client is passed from point to point for various aspects of service delivery.

SUSTAINABILITY

Finding a unique path for Australia's manufacturing future[9]

As the manufacturing landscape shifts in response to new economic and social pressures, Australia is looking for an answer to the question: what does the future look like for Australian manufacturing?

Irrespective of the wide-ranging views on what alternate futures for manufacturing might look like, Australian manufacturers need to be competitive in global markets and be highly productive and sustainable in their business operations. Manufacturing firms also need to capture the opportunities offered by Australia's comparative advantage in natural resources in minerals and agriculture, as well as emerging markets for products and services that support more sustainable living in transport, construction, energy, health and wellbeing.

Over the next decade, success factors that will influence the competitiveness of Australian manufacturing firms will include the need for faster discovery and development to respond more quickly to dynamic markets, advanced design to create much more competitive and sustainable products, improved collaboration across our innovation system to maximise the exchange and transfer of knowledge, an increase in our ability to leverage our national broadband infrastructure, and encouraging a better understanding of supply chains.

Another key success factor will be our ability to develop, adapt, adopt and integrate the right enabling technologies that provide a competitive advantage for Australian manufacturing firms. There are a number of potential game changers in terms of enabling technologies and advanced capabilities. This includes additive manufacturing, assistive automation, advanced design and smart information systems.

Globally, we have seen a major shift towards technology-led manufacturing focused on large scale industrial automation. In countries such as Germany, production lines are increasingly dominated by automated processes and robotics. More recently, China has embarked on a large-scale industrial automation program. However, we need to think about how such technological leaps work for Australia. We have our own unique manufacturing DNA, made up of tens of thousands of SMEs. This is very different to some other industrialised countries, where there are many more large-scale manufacturing enterprises. Australian SMEs often find it difficult to embrace industrial automation because of cost and the risk of disruption to their production.

However, there may be other paths to large-scale industrial automation. Simple repetitive tasks have largely been addressed by automation (robotics) in manufacturing environments. However, there are many complex tasks that still require human involvement; it may be these technologies that 'assist' (rather than replace) human processes that may become more prominent in Australia. The emerging field of assistive automation may play an important role in the future of Australian manufacturing.

There is no doubt that Australian manufacturing will need to take its own path to innovation and maintaining its competitiveness. Global influences will play their part, but Australia's unique manufacturing DNA, natural resource endowment and increasingly strong communication infrastructure will help shape a uniquely Australian manufacturing future.

Source: Swee Mak (CSIRO), originally published on *The Conversation*.

QUESTION

What are the benefits of assistive automation as opposed to complete automation in the manufacturing environment?

CRITICAL ANALYSIS

1. Do you think that increasing productivity by using technology is suitable in all industries? Consider the use of automated pizza ordering by app and the replacement of banking functions by an app.
2. Companies that try to improve their competitive advantage through improving operations sometimes reduce the 'slack' in their systems. How do you think these companies adjust to seasonal variations in demands on their operations (such as peak holiday periods for airlines)?

20.2 Value chain management

LEARNING OBJECTIVE 20.2 What is value chain management?

Whereas productivity may be considered the major efficiency measure in both manufacturing and services, 'value creation' should be the targeted effectiveness measure. In this sense value creation means that the end result of a task or activity or work process is worth more than the effort and resources invested to accomplish it. In a manufacturing operation, for example, value is created when a raw material such as copper wire is combined with transistors and other electrical components to create a computer chip. In a service setting, value is created when a trained financial analyst provides a customer with advice that leads to profitable brokerage transactions in a stock portfolio.

Value chain analysis

An organisation's **value chain**, as shown in figure 20.1, is the specific sequence of activities resulting in the creation of products or services with value for customers. The value chain includes all *primary activities* — from inbound logistics to operations to outbound logistics to marketing and sales to after sales service, as well as *support activities* — such as procurement, human resource management, technology development and support, and financial and infrastructure maintenance.[11]

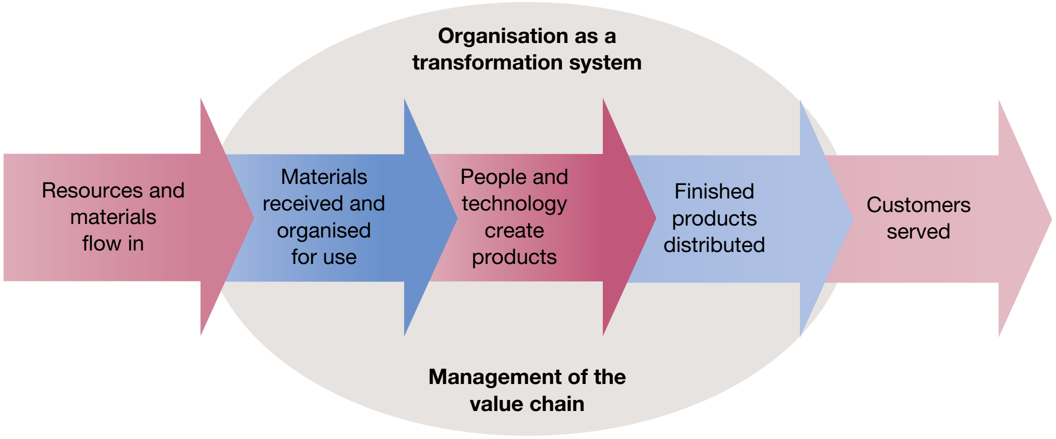

FIGURE 20.1 Elements in an organisation's value chain

Analysis of any organisation's value chain will show an intricate sequence of activities that step-by-step adds value to inputs, right up to the point at which finished goods or services are delivered to customers or clients. The essence of value chain management is to manage each of these steps for maximum efficiency and effectiveness.

Part of the logic of being able to identify and analyse a value chain is to focus management attention on three major questions. First: what value is being created for customers in each step? Second: how efficient is each step as a contributor to overall organisational productivity? Third: how can value creation be improved overall?

As the customer of an online retailer such as Amazon.com, for example, you can think of this value in such terms as the price you pay, the quality you receive, and the timeliness of the delivery. From the standpoint of value chain management, Amazon's value creation process can be examined from the point where books are purchased, to their transportation and warehousing, to electronic inventorying and order processing, and to packaging and distribution to the ultimate customer.

Supply chain management

An essential element in any value chain is the relationship between the organisation and the many people and businesses that supply it with needed resources and materials (the market stage). All of these supplier relationships on the input side of the input–throughput–output action cycle must be managed well for productivity.

The concept of **supply chain management** (SCM) involves strategic management of all operations linking an organisation and its suppliers, including areas such as purchasing, manufacturing, transportation and distribution.[12] The goals of supply chain management are to achieve efficiency in all aspects of the supply chain, while ensuring on-time availability of quality resources and products. Wal-Mart is still considered a master of supply chain management. As one example, the firm uses an advanced information system that continually updates inventory records and sales forecasts based on point-of-sale computerised information. Suppliers access this information electronically, allowing them to adjust their operations and rapidly ship replacement products to meet the retailer's needs.

Purchasing plays an important role in supply chain management. Just as any individual tries to control how much they spend, a thrifty organisation must be concerned about how much it pays for what it buys. To leverage buying power, more organisations are centralising purchasing to allow buying in volume. They are trimming supply chains and focusing on a small number of suppliers with whom they negotiate special contracts, gain quality assurances and get preferred service. They are also finding ways to work together in supplier–purchaser partnerships. It is now more common, for example, that parts suppliers maintain warehouses in their customer's facilities. The customer provides the space; the supplier does the rest. The benefits to the customer are lower purchasing costs and preferred service; the supplier gains an exclusive customer contract and more sales volume.

Sustainable supply chain management and green supply chain management have become important trends in recent years. **Sustainable supply chain management** is defined as the management of material, information and capital flows as well as cooperation among companies along the supply chain, while taking goals from all three dimensions of sustainable development (economic, environmental and social) into account.[13] For example, McDonald's Australia sources its coffee only from 'Rainforest Alliance Certified' farms. These farms must meet standards balancing all aspects of production, including protecting the environment and protecting the rights and welfare of workers and the interests of coffee growing communities.[14]

Green supply chain management focuses on a number of practices designed to reduce the environmental impact of the supply chain, including reducing the carbon footprint of the logistics and manufacturing parts of the supply chain. Organisations have a responsibility to not only manage the environmental impact of their supply chain but to report on their triple bottom line management. The Australian Federal Government, through its emissions reduction fund, is supporting the move by subsidising the transformation of the energy sector away from high-polluting sources such as brown coal and storing carbon in the land through better land management strategies.[15]

There are local and global threats that can impact on the supply chain, such as the sourcing of inputs. Is the organisation able to maintain supply? Are there competitors who are also sourcing the same material? Is the quality what is required? Can the organisation afford to hold more supply than that immediately required in case of non-supply? How will this affect the bottom line?

Then, the manufacturing process needs to be considered. Is there opportunity for economies of scale? Should the organisation consider increasing machinery? Are there emergency options for non-supply of inputs? There are many management decisions to be considered when contemplating the risks and threats to the supply chain. Inventory management has always been seen as a lean, well-managed source of advantage. Many profess the just-in-time inventory system (discussed in the following sections), where products are only ordered when required. However, with global commerce this may in fact be a detriment to the firm.

Inventory management

Another important issue in the value chain is management of **inventory**, the amount of materials or products kept in storage. Organisations maintain a variety of inventories of raw material, work in process and finished goods. Whenever anything is held in inventory there is an associated cost, and controlling these costs is an important productivity tool. Controlling inventory is one of the key organisational control measures available to managers, and it is a key component of operations and services management. As such, it is worth reiterating two important inventory control measures here — the economic order quantity method and just-in-time scheduling.

Economic order quantity

As outlined in the chapter on controlling, the goal of inventory control is to make sure that an inventory is just the right size to meet performance needs, thus minimising the cost. The **economic order quantity**

(EOQ) method of inventory control involves ordering a fixed number of items every time an inventory level falls to a predetermined point. When this point is reached, as shown in figure 20.2, a decision is automatically made (typically by computer) to place a standard order to replenish the stock. The order sizes are mathematically calculated to minimise costs of inventory. The best example is the local supermarket, where hundreds of daily orders are routinely made on this basis.

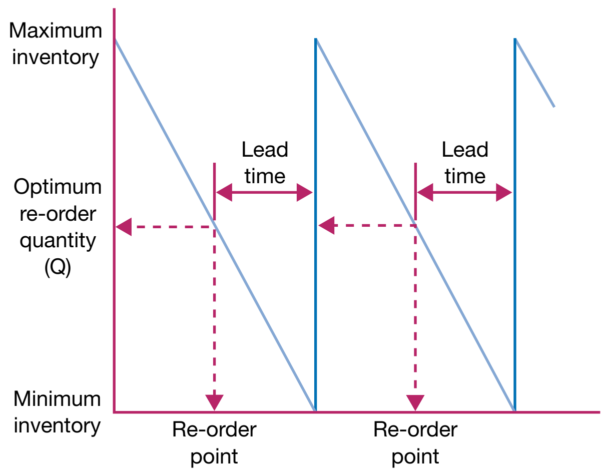

FIGURE 20.2 Inventory control by economic order quantity (EOQ)

Just-in-time systems

Another approach to inventory control, also outlined in the chapter on controlling, is **just-in-time scheduling (JIT)**, first made popular by the Japanese. JIT systems reduce costs and improve workflow by scheduling materials to arrive at a workstation or facility 'just in time' to be used. Since almost no inventories are maintained, the just-in-time approach is an important productivity tool.

Break-even analysis

Another important value chain management issue relates to capacity planning for the production of products or services, and the pricing of them for sales. In basic business terms: too much capacity raises costs, and too little capacity means unmet sales; too low a price fails to deliver revenues that cover costs, and too high a price drives away customers. Thus, when business executives are deliberating new products or projects, a frequent question is: 'What is the "break-even point"?'

The graph in figure 20.3 shows that the **break-even point** is where revenues just equal costs. You can also think of it as the point where losses end and profit begins. The formula for calculating break-even points is:

$$\text{Break-even point} = \text{Fixed costs}/(\text{Price} - \text{Variable costs}).$$

Managers use **break-even analysis** to improve control and perform 'what if' calulations under different projected cost and revenue conditions. See if you can calculate some break-even points, doing the types of analyses that business executives perform every day. Suppose the proposed target price for a new product is $8 per unit, fixed costs are $10 000, and variable costs are $4 per unit? What sales volume is required to break even? (Answer: the break-even point is at 2500 units.) What happens if you are good at cost control and can keep variable costs to $3 per unit? (Answer: the break-even point is at 2000 units.) Now, suppose you can only produce 1000 units in the beginning and at the original costs. At what price must you sell them to break even? (Answer: $14.)

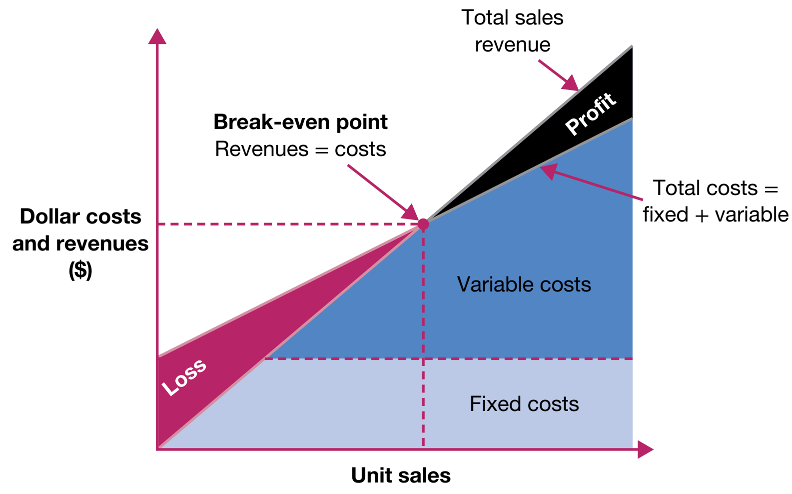

FIGURE 20.3 Graphical approach to break-even analysis

CRITICAL ANALYSIS

1. Why might customers pay more for a green supply chain?
2. Outline potential problems you can imagine might occur with just-in-time scheduling.

20.3 Service and product quality

LEARNING OBJECTIVE 20.3 How do organisations manage service and product quality?

Have a look at the wait lines at some service establishments. How long does it take you to be served or have your phone call answered at the bank, Medicare, electricity suppliers or insurance companies? Most service establishments have sought to cut costs and have been left with too few staff actually serving customers. The remaining staff are overworked and, in the end, the the costs are not reduced — they are simply replaced with stress leave, sick leave and high retention costs. Research suggests that direct replacement costs can reach as high as 5–60 per cent of an employee's annual salary, with total costs associated with turnover in the range of 90–200 per cent of annual salary.[16]

Cutting back on customer service when times are tough is not the answer. Winning customers back is difficult, especially if they have experienced loss of value because of your decision. Many managers view service efficiency and customer satisfaction as incompatible goals. However, not only are they compatible, but businesses will *not* succeed unless they have achieved this compatibility.[17] Companies need to maintain superior service operations, especially when the economy has a slowdown or a heavy hit like the global financial crisis. Higher customer loyalty has shown to correlate with sustained growth and a competitive edge. Continuously improving service is part of the job of improving the delivery of products or services. When services are improved leaders, can determine what to focus on and what to measure, and then use these metrics to create business processes that succeed.

Customer relationship management

Without any doubt, customers put today's organisations to a very stiff test. Like you, most want three things: (1) high quality, (2) low price and (3) on-time delivery of the goods and services they buy. And, these are the types of customer stories that cause headaches for managers.[18]

Internet and phone providers are regularly subject to customer backlash when service levels decrease (or become non-existent, in extreme cases). In late 2015, more than 45 000 Western Australian customers of internet service provider iiNet were left without internet access (some of them for several days).[19] In February 2016, up to 20 per cent of Telstra mobile customers were prevented from making calls or going online.[20] In an effort to provide some compensation to customers, Telstra offered a day of free data for all mobile customers the following weekend; however, there was some criticism of the way this was conveyed to customers — by using a 'cheer up' cat meme on Facebook.[21]

While some customers still choose to phone customer service lines to speak to a representative, these days it is more common for people to vent their frustration via social media (particularly Twitter and Facebook, as in the cases of iiNet and Telstra). Social media can make or break a company's reputation, and with these new customer service demands, supply and quality are now openly discussed (and often trashed or praised). Legal requirements (such as environmental restrictions) and expectations, as well as social responsibility and ethical demands, make management necessarily very transparent. Supply processes and deliverables are scrutinised more now than ever before.

Service is not always about the delivery in person but delivery through technology. Most large organisations have moved to having an online presence, and many are using online stores to sell at reduced prices. Some online stores might be run by one person, and some (like large electronics retailers) are run by whole armies of employees. Some of the sources of competitive advantage in this forum are delivery times, delivery costs, return policies and pricing. Seeking to meet the service demands of online shoppers is an evolving practice, and now customer service has even extended to fast food delivery, with the likes of McDonalds and Domino's having developed apps for ordering. Like Siri for Apple and Cortana for Microsoft, customers can simply open the app and 'speak' their order.

Essentials of CRM

Many organisations now use the principles of **customer relationship management (CRM)** to establish and maintain high standards of customer service. CRM entails all aspects of interaction that a company has with its customer, whether it is sales or service-related. CRM is a company-wide strategy that is designed to reduce costs and increase profitability, with the focus being on customer satisfaction and building loyalty. Bringing information from all data sources enables a holistic view of each customer, enabling informed decisions for all aspects of sales and marketing. This approach uses the latest information technologies to maintain intense communication with customers as well as to gather and utilise data regarding their needs and desires. The days when you bought a used car from a 'dodgy' salesperson should be over. A salesperson does not want to sell you one car, but a number of cars over many years. This means that they want your repeat business, and will do what they need to do to ensure you come back to them for the next car.

There are probably many times in your experiences as a customer that you wonder why more managers don't get this message. Consider, for example, the case of Mona Shaw, a 76-year-old retired nurse in the United States. After arriving at a cable television office to complain about poor installation of cable service to her home, she sat on a bench for two hours waiting to see a manager. She then left and came back with a hammer. She smashed a keyboard and telephone in the office, yelling 'Have I got your attention now?' It cost Shaw an arrest and a $375 fine, but she became a media sensation and a rallying point for unhappy customers everywhere. As for the cable television office, a spokesperson said 'We apologise for any customer service issues that Ms. Shaw experienced'.[22]

The company's apology is nice, but don't you also wonder: Did the system change as a result of this incident? Was customer relationship management activated so that service improved for Shaw and other customers in the future? Was the experience of this branch incident reviewed by top management and the learning disseminated throughout the company's operations nationwide? Or did things quickly slide back into business-as-usual?

TECHNOLOGY

Corporate social media needs to be two-way communication[23]

A few years ago a new bakery in an inner Sydney suburb had a novel idea. Every time it baked some rolls or cakes the owner sent a tweet to announce it. Local people working on their computers saw the tweet and found themselves salivating. In proof that the Pavlov's dog theory is true, they flocked to the bakery in large numbers to satisfy their taste buds. It is a wonderful example of the skilful use of social media as a marketing tool. It quickly became an award winning business.

However, the University of Sydney's social media guru, Laurel Papworth, said just using Twitter or Facebook for marketing is short sighted. 'Companies use social media to push information out as if it was traditional media like a television station or newspaper', she said. To be really effective though, Laurel Papworth said social media should be a two-way communication. 'A good customer service approach is a lot more beneficial for companies attempting to connect with and engage with their clients', she added.

A case in point is Telstra. Telstra recognised early that standard responses to customer comments and complaints do not work on social media. But the marketers at Telstra are clearly dominant.

> When I look at the main Telstra page on Facebook, which is a marketing and promotion page, and then look at its customer service page, it's hard to tell the difference. It's such a shame because they used to get it right.

Both pages are dominated by advertisements for Telstra products and services.

Woolworths is another example. It has a presence on Facebook but not on Twitter. Woolworths described Twitter as 'a window to customer complaints it doesn't want to open'. It also said it can have a more detailed conversation with its customers on Facebook.

Laurel Papworth said that is a bit like calling a company that keeps redirecting you to a new department each time. 'If you're on Twitter and don't like Facebook, being told to go to Facebook won't empower you to feel better about Woolworths', she added. She said there are many positive comments about Woolworths on Twitter, about some of its campaigns, about some of its social entrepreneurship. 'Yes, there are complaints as well, but Woolworths is not hearing them by insisting on listening on another channel', she added. Which means it is not addressing those complaints.

So what does a good corporate social media strategy look like? According to Laurel Papworth there are five key considerations.

1. Know the purpose and value of channels like Twitter and Facebook and understand why you use them.
2. Keep marketing and customer service separate. Marketing and PR people should not be answering customer service questions.
3. Know your target audience (e.g. is it retirees or teenagers?).
4. Be where your customers are (i.e. if they are on Facebook, that is where you should be).
5. The best marketing and public relations is fantastic customer service.

QUESTION

Have you, or someone you know, engaged with a company on social media recently? Thinking about the interaction, are you now more or less likely to use the company's product or service? Why?

External and internal customers

Customer relationship management applies equally well to external and internal customers. Figure 20.4 expands the open-systems view of organisations to depict the complex internal operations of the organisation, as well as its interdependence with the external environment. In this figure the organisation's *external customers* purchase the goods produced or utilise the services provided. They may be industrial customers — other firms that buy a company's products for use in their own operations — or they may be retail customers or clients who purchase or use the goods and services directly. *Internal customers*, by contrast, are found within the organisation. They are the individuals and groups who use or otherwise depend on one another's work in order to do their own jobs well.

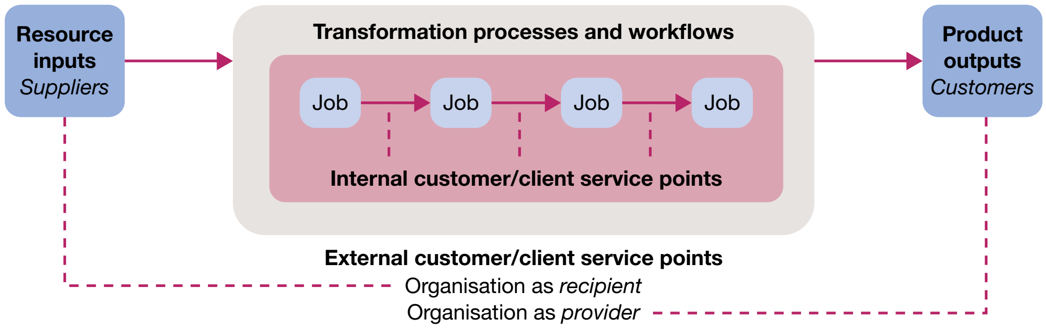

FIGURE 20.4 The importance of external and internal customers

Quality management

ISO certification by the International Organization for Standardization in Geneva, Switzerland, serves as a major indicator of quality accomplishments. Organisations and companies often want to get certified to ISO's management system standards to improve the efficiency and effectiveness of their company operations. There are many other reasons for seeking this certification, such as:

- regulatory requirements
- to meet customer expectations
- for a risk management program
- to help motivate staff by setting clear goals.[24]

Most **total quality management (TQM)** approaches insist that the total quality commitment applies to everyone in an organisation and throughout the value chain — from resource acquisition and supply chain management, through production and into the distribution of finished goods and services, and ultimately to customer relationship management.[25]

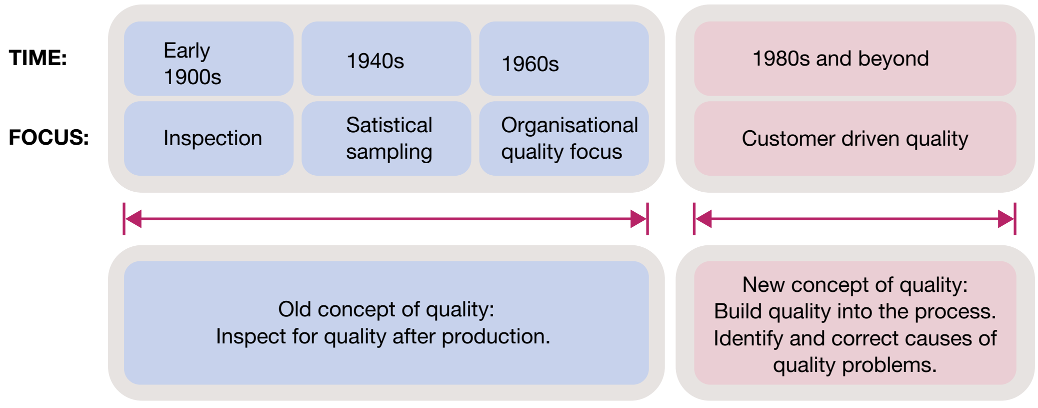

FIGURE 20.5 The evolution of total quality management (TQM)

Source: Dan R. Reid and Nada R. Sanders, *Operations Management*, 2nd edn (New York: John Wiley & Sons, 2005), figure 5.3, p. 143.

Statistical quality control

For Deming, quality principles are straightforward: tally defects, analyse and trace them to the sources, make corrections and keep records of what happens afterwards.[26] He championed **statistical quality control**, a concept that takes samples of work, measures quality in the samples and determines acceptability of results. Unacceptable results trigger investigation and corrective action.

Statistical quality control can be divided into three broad categories.

1. Descriptive statistics are used to describe quality characteristics and relationships. Included are statistics such as the mean, standard deviation, the range, and a measure of the distribution of data.
2. Statistical process control (SPC) involves inspecting a random sample of the output from a process and deciding whether the process is producing products with characteristics that fall within a predetermined range. SPC answers the question of whether the process is functioning properly or not.
3. Acceptance sampling is the process of randomly inspecting a sample of goods and deciding whether to accept the entire lot based on the results. Acceptance sampling determines whether a batch of goods should be accepted or rejected.[27]

According to Reid and Sanders:

> The tools in each of these categories provide different types of information for use in analyzing quality. Descriptive statistics are used to describe certain quality characteristics, such as the central tendency and variability of observed data. Although descriptions of certain characteristics are helpful, they are not enough to help us evaluate whether there is a problem with quality. Acceptance sampling can help us do this. Acceptance sampling helps us decide whether desirable quality has been achieved for a batch of products, and whether to accept or reject the items produced. Although this information is helpful in making the quality acceptance decision *after* the product has been produced, it does not help us identify and catch a quality problem *during* the production process. For this we need tools in the statistical process control (SPC) category . . . Statistical process control (SPC) tools are used most frequently because they identify quality problems during the production process.[28]

CRITICAL ANALYSIS

1. Companies sometimes proclaim that 'customer service is our first priority'. As a customer, what are the signs you look for when evaluating whether this claim is true?
2. The SPC checks on processes or products as part of a quality management system rarely reveal faults or defects. At what point, if ever, do checks become a waste of time and resources? Justify your answer.

20.4 Work processes

LEARNING OBJECTIVE 20.4 How can work processes be designed for productivity?

Work processes are a set of coordinated tasks and activities, both manual and automated, with the purpose of accomplishing a specific business goal. Work processes are related to knowledge management, in that a process can be seen as a codified piece of '"know-how" knowledge'. Over the years, work processes have been given different names and functions, such as re-engineering, re-structuring or downsizing. They have all ended up meaning a reduction in workforce to achieve efficiencies, and this is sometimes achieved through redundancies, offshoring or outsourcing. Many companies have seen great improvement in their bottom line results as a result of these strategic decisions.

On the other hand, organisations are genuinely interested in improving the task flow: what is better for the customer, the employees, the bottom line and the stakeholders in general. This need to improve workflow and processes is called **continuous improvement processes** (CIP), and allows employees to be part of the solution.[29]

The various aspects of a work process must all be completed to achieve the desired results, and they must typically be completed in a given order. An important starting point for a re-engineering effort is to diagram or map these workflows as they actually take place. Then each step can be systematically analysed to determine whether it is adding value and to consider ways of streamlining to improve efficiency. Since some form of computer support is typically integral to organisational workflows, special attention should be given to maximising the contribution of new technology to the re-engineering of processes.

Some processes, however, cannot be standardised, and a company that attempts to standardise such procedures may lose their competitive advantage.[30] For example, a world-class architect creates and varies some construction methods to create unique buildings. These processes work best when they're treated like artistic work rather than utilising rigid standardisation procedures. When a process is artistic, managers must invest in giving employees the judgement, skills and cultural appreciation to create an outstanding product or service. For example, Ritz-Carlton Hotels empower their employees to improvise responses to exceed individual guests' needs.

How to re-engineer core processes

In the case of many businesses, processes were based some time ago on a set of existing constraints at the time, including money, computerisation and employees. Some time later, it's likely there have been changes to the expectations of customers and stakeholders; bottom-line results; staffing numbers; and challenges from legislative bodies and compliance issues. Those assumptions made in the past concerning existing work processes and constraints may no longer hold true.

To maintain or develop a competitive advantage, businesses need to create efficiency and effectiveness through operational redesign. Finding new operating efficiencies is an ongoing exercise for most organisations. Some organisations employ quality assurance managers whose job incorporates the assessment of work processes, including establishing a corporate quality assurance system to promote customer satisfaction and to positively impact on financial performance. They need to champion continuous improvement efforts and identify any defect reduction initiatives in establishing an effective quality management system (QMS). Then they initiate and implement quality improvement activities (for example, **Kaizen standard** or **Six Sigma**) to increase the performance of the company's products or services. They also need to train employees so that they understand their contribution to the continuous improvement process and, subsequently, the quality management system.

If the role of quality assurance is not formalised, each and every employee takes on the responsibility for continuous improvement. A strategy that businesses use to determine whether all of their operational expenses are necessary and if they could be operating more efficiently is called **process value analysis**. Core processes are identified and carefully evaluated for their performance contributions to satisfy customer wants. Each step in a workflow is examined that does not contribute to this outcome. Process value analysis typically involves the following steps.

1. Identify the core processes necessary to satisfy customer wants.
2. Map the core processes in respect to workflows.
3. Evaluate all tasks for the core processes.
4. Search for ways to eliminate unnecessary tasks or work.
5. Search for ways to eliminate delays, errors and misunderstandings.
6. Search for efficiencies in how work is shared and transferred among people and departments.[31]

Figure 20.6 shows an example of how re-engineering and better use of computer technology can streamline a purchasing operation. Ideally, a purchase order should result in at least three value-added outcomes: (1) order fulfilment, (2) a paid bill and (3) a satisfied supplier. For this to happen, processes such as ordering, shipping, receiving, billing and payment must all be well-handled. A traditional business system might have purchasing, receiving and accounts payable as separate functions, with each function communicating with the others and with the supplier. As the figure shows, there are lots of inefficiencies here. Alternatively, process value analysis might result in re-engineering the workflow and redesigning it to include a new purchasing support team. Its members can handle the same work more efficiently with the support of the latest computer technology.[32]

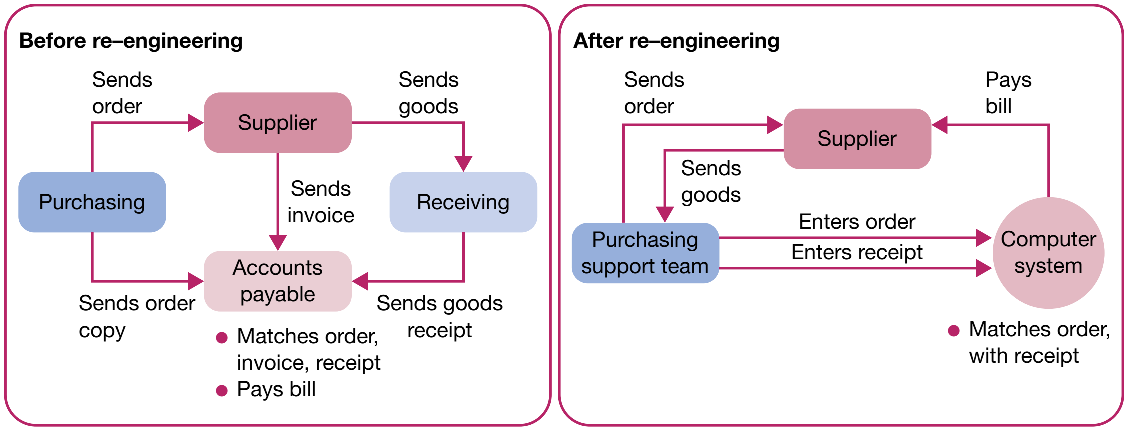

FIGURE 20.6 How re-engineering can streamline work processes

Process-driven organisations

Customers, teamwork and efficiency are central to Michael Hammer's notion of process re-engineering. He describes the case of Aetna Life & Casualty Company (a healthcare benefits company), where a complex system of tasks and processes once took as much as 28 days to accomplish.[33] Customer service requests were handled in a step-by-step fashion by many different people. After an analysis of workflows, the process was redesigned into a 'one and done' format, where a single customer service provider handled each request from start to finish. After the change was made, one of Aetna's customer account managers said 'Now we can see the customers as individual people. It's no longer "us" and "them"'.[34]

Hammer also describes re-engineering at GTE, now a unit of Verizon Communications in the United States. Before re-engineering, customer inquiries for telephone service and repairs required extensive consultation between technicians and their supervisors. After process value analysis, technicians were formed into geographical teams that handled their own scheduling, service delivery and reporting. They were given mobile telephones and laptop computers to assist in managing their work, resulting in the elimination of a number of costly supervisory jobs. The technicians enthusiastically responded to the changes and opportunities. 'The fact that you've got four or five people zoned in a certain geographical area', said one, 'means that we get personally familiar with our customers' equipment and problems'.[35]

These examples describe the essence of process re-engineering. The approach tries to redesign processes to assign control for them to an identifiable group of people, and to focus each person and the entire system on meeting customer needs and expectations. It tries to eliminate duplication of work and systems bottlenecks, and in so doing tries to reduce costs and increase efficiency, while creating an ever present capacity for change. Hammer says in describing the ultimate *process-driven organisation*, traditional organisations were not designed for change, but instead, execution. They lacked the ability to identify and respond to change, and rigid organisational structures made accommodating change difficult. However, in a process enterprise its:

> intrinsic customer focus and its commitment to outcome measurement make it vigilant and proactive in perceiving the need for change; the process owner, freed from other responsibilities and wielding the power of process design, is an institutionalized agent of change; and employees who have an appreciation for customers and who are measured on outcomes are flexible and adaptable.[36]

CRITICAL ANALYSIS

1. Some workplaces have implemented process re-engineering because they have heard reports of massive improvements in productivity in other workplaces. Outline circumstances where implementing process re-engineering may result in a massive drop in productivity?
2. What are some of the likely signs that work processes in an organisation are not effective?

20.5 Physical factors in the workplace

LEARNING OBJECTIVE 20.5 What physical factors in the workplace can affect employee productivity and wellbeing?

Physical factors in the workplace were the original inspiration for much early management research, such as the Hawthorne Studies in the 1920s. Although much contemporary management research emphasises the importance of social and psychological factors, the importance of physical factors must not be overlooked. Some of the key physical factors affecting workplace productivity and wellbeing are discussed in the following sections.

If societal standards are not maintained, there is an expectation of a loss of productivity. Some of the key physical factors affecting workplace productivity and wellbeing are recognised as collegiality and respect, fair wages and pride in the organisation, protection of conditions for staff to carry out their daily work, and an expectation that if these are provided then an increase in productivity should follow.

Lighting the workplace

Of all the machinery and systems used in industry, most dependence is placed on the human eye. Relevant information about materials and tools being used must be clearly visible, as must the tools and materials themselves. This is particularly important in industries such as electronics, biotechnology, medical and personal-care services, and advanced manufacturing. Workers must be able to pay attention to the task object, surface texture and colours, shape of machines and tools, size of details to be resolved, duration of task, degree of physical activity and stroboscopic effects.

Ergonomic workstations

Injuries to staff resulting from poorly designed workplace equipment and furniture substantially reduce productivity. Many European companies, such as Volvo in Sweden and Siemens in Germany, have pioneered the development of ergonomic workstations and equipment to reduce common problems such as premature fatigue and back injuries and joint and muscle stress disorders resulting from repetitive movements.

Climate control

Appropriate temperature and humidity levels maximise the physical and mental performance of people, thereby increasing productivity and reducing possible workplace accidents. US, Japanese and European companies have pioneered developments in this area, including air-conditioning systems that produce the correct electromagnetic balance to maximise human alertness, and computer-controlled feedback systems to ensure the best climate control in the workplace. The Japanese company Daikien is a world leader in workplace climate control systems, supplying global organisations such as Toyota, Nissan, Ford and P&O.

TECHNOLOGY

Will your next phone be Fair Trade?[37]

Organic, cage-free or home-grown? We think about our purchasing ethics in many areas of daily life, but not often in relation to technology. As with any product, though, we should think about the effects of our actions on workers and the environment. The idea of cage-free phones may sound silly, but for certain types of workers it's a stark reality.

A mobile phone contains rare minerals that are often linked with violent conflicts. It is produced in difficult conditions by low-paid factory workers. (And if you'd like to play a game showing the production story of an iPhone, have a look at PhoneStory.)[38] A phone is also difficult to recycle safely at the end of its lifespan.

Technologies like mobile phones are often, by nature, small objects purchased infrequently. It's difficult to put our ethics on the line when the object seems so meagre in size and when you don't buy one that often.

And it often feels like we don't have a lot of choice in the ethics of the phones we buy. All mobile phones are produced using the same materials, and some of these come from warzones. So choosing between Samsung and HTC can feel like choosing between a punch in the face and a kick in the guts.

Part of the problem is that we really feel like we have no choice but to buy a phone. Can we realistically expect to 'go without' a phone when our work, family and friends expect us to be available at all times? And when our carrier invites us to upgrade our phone for next to nothing every two years, what incentive do we have to slow down?

QUESTION

What initiatives could tech companies put in place to ensure they are acting ethically? Would your purchase decision be influenced if you knew one product was 'more ethical' than another?

CRITICAL ANALYSIS

1. Do you think it is possible to have a workplace that is too physically comfortable for workers? Justify your answer.
2. Look around your normal study area. Do you think that it is ergonomically suitable for long periods of work? What could be done to improve it?

SUMMARY

20.1 What are the essentials of operations management?

- The challenges of operations management relate to managing productive systems that transform resources into finished goods and services for customers and clients.
- Productivity measures the efficiency with which inputs are transformed into outputs: Productivity – Output/Input.
- Technology, including the use of knowledge, equipment, and work methods in the transformation process, is an important consideration in operations management.

20.2 What is value chain management?

- The value chain is the sequence of activities that create value at each stage involved in producing goods or services.
- Value chain analysis identifies each step in the value chain to ensure it is efficient.
- Supply chain management, or SCM, is the process of managing all operations linking an organisation and its suppliers, including purchasing, manufacturing, transportation and distribution.
- Efficient purchasing and inventory management techniques such as just-in-time and economic order quantities are important forms of cost control.
- Break-even analysis identifies the point where revenues will equal costs under different pricing and cost conditions.

20.3 How do organisations manage service and product quality?

- Customer relationship management builds and maintains strategic relationships with customers.
- Quality management addresses the needs of both internal customers and external customers.
- To compete in the global economy, organisations seek to meet ISO 9000 quality standards.
- Total quality management tries to meet customers' needs — on time, the first time and all the time.
- Organisations use control charts and statistical techniques such as the Six Sigma system to measure the quality of work samples for quality control purposes.

20.4 How can work processes be designed for productivity?

- A work process is a related group of tasks that together create value for a customer.
- Process engineering is the systematic and complete analysis of work processes and the design of new and better ones.
- In process value analysis all elements of a process and its workflows are examined to identify their exact contributions to key performance results.
- Re-engineering eliminates unnecessary work steps, combines others, and uses technology to gain efficiency and reduce costs.

20.5 What physical factors in the workplace can affect employee productivity and wellbeing?

- The visibility of material and tools and relevant information about materials and tools can affect productivity in the workplace.
- The design of workplace equipment and furniture can affect productivity in the workplace.
- Temperature and humidity levels can affect productivity in the workplace.

KEY TERMS

Break-even analysis calculates the point at which revenues cover costs under different 'what if' conditions.

The **break-even point** is where revenues = costs.

A **competitive advantage** allows an organisation to deal with market and environmental forces better than its competitors.

Continuous improvement processes are ongoing efforts to improve products, services or processes. These efforts can seek 'incremental' improvement over time or 'breakthrough' improvement all at once.

In **continuous-process production** raw materials are continuously transformed by an automated system.
Customer relationship management strategically tries to build lasting relationships with, and add value for, customers.
Inventory control by **economic order quantity** orders replacements whenever inventory level falls to a predetermined point.
Green supply chain management utilises practices designed to reduce the environmental impact of the supply chain.
Intensive technology focuses the efforts and talents of many people to serve clients.
Inventory is an amount of materials or products kept in storage.
ISO certification indicates conformance with a rigorous set of international quality standards.
Just-in-time (JIT) scheduling minimises inventory by routing materials to workstations 'just in time' to be used.
The **Kaizen standard** is a Japanese method of doing business based on the management theory of gradual and continuous change. It focuses on aspects of a company's processes that can be refined, improved and made constant, with a resulting increase in efficiency and productivity. (Kaizen is the Japanese word for continuous improvement.)
In **long-linked technology** a client moves from point to point during service delivery.
Mass production manufactures a large number of uniform products with an assembly-line system.
Mediating technology links people together in a beneficial exchange of values.
Offshoring is a decision to allow one or more of a company's value chain activities to be performed by *offshore* independent specialist companies that focus all their skills and knowledge on just one kind of activity.
Operations management is the process of managing productive systems that transform resources into finished products or services.
Outsourcing is a decision to allow one or more of a company's value chain activities to be performed by *onshore* independent specialist companies that focus all their skills and knowledge on just one kind of activity.
Process value analysis identifies and evaluates core processes for their performance contributions to customer satisfaction.
Productivity is the quantity and quality of work performance, with resource use considered.
Six Sigma is a system for reducing defects in manufacturing and other operations to 3.4 errors per million. One of the key steps is analysing data to locate defects and identify the causes.
Small-batch production manufactures a variety of products crafted to fit customer specifications.
Statistical quality control measures work samples for compliance with quality standards. It is the term used to describe the set of statistical tools used by quality professionals.
Supply chain management strategically links all operations dealing with resource supplies.
Sustainable manufacturing is manufacturing where the exploitation of resources and use of technology is consistent with the future as well as present needs.
Sustainable supply chain management addresses economic, environmental and social goals, while managing material, information and capital flows among companies along the supply chain.
Total quality management (TQM) is managing with commitment to continuous improvement, product quality and customer satisfaction.
A **value chain** is the sequence of activities that transform materials into finished products.

APPLIED ACTIVITIES

1. What operating objectives are appropriate for an organisation seeking competitive advantage through improved customer service; price competitiveness; or product quality?
2. What is the difference between an organisation's external customers and its internal customers?
3. Why is supply chain management considered important in operations management?

4 If you were a re-engineering consultant, how would you describe the steps in a typical approach to process value analysis?

5 What would be possible productivity measures for: (a) a post office, (b) a university, (c) a hospital, (d) a theme park or (e) a restaurant?

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CASE STUDY 1

Economic downturns and the business environment

The subprime mortgage crisis of 2008 and the now famous failure of investment bank Lehmann Brothers in the United States brought the world's financial system to the brink of chaos in what became known as the global financial crisis. Even the acronym 'GFC' became commonly used in everyday speech. Hundreds of banks in the United States and other countries collapsed, and governments injected 'fiscal stimulus packages' into economies, aimed at spending their way out of — or at least delaying the onset of — the recession they feared. Once proud icons of industry appealed for increasingly large government grants and loans, and banks that had previously been free with credit tightened loan criteria to the point at which some businesses failed for want of operating capital. Even the United States government did the formerly unthinkable and virtually nationalised banks (as did the British government), and made staggeringly large 'loans' to big business, just to keep the economy turning over. Large and formerly profitable companies like insurance giant AIG and car empires General Motors and Chrysler suffered severely. United States President Barack Obama told them their bailout support would not continue, and that they could not expect to live on as 'wards of the state'. Management had to accept the downside of their behaviour along with the upside they had enjoyed for years. Ordinary people were furious as their superannuation funds were savaged while corporate high flyers took large bonuses. The crisis became an enduring downturn, and many household names simply disappeared from the market.

By 2009, it was clear that this was not just a temporary downturn. Leaders of nations, including Australia, joined together in an unprecedented initiative for coordinated action. It took a year of fiscal stimulus by Western governments before optimism and signs of global recovery emerged. The tightly regulated Australian banking sector remained conservative throughout the GFC; while the banks needed and got government guarantees, they had no need of the rescues required by their foreign counterparts.

The speed with which the global financial crisis took hold in many of the world's countries showed our degree of international interconnectedness, as organisations everywhere cut production and laid off staff in a struggle to survive. Share markets tanked, commodity prices fell quickly, and even the oil price sank within months from US$140 per barrel to less than US$40 per barrel, only to resume former price levels within a year. Unemployment rates in both rich and poor countries rose relentlessly, housing prices dropped by a third or more in many countries, and people watched their wealth erode. Managers were put under pressure to somehow, anyhow, keep people in meaningful work. Jobs became the new mantra, as millions — in the United States, Asia, Australia, the United Kingdom, and elsewhere — lost the employment they thought was secure. The war for talent became the war for survival, and human resource management was in the front line, trying to save people's jobs and keep organisations operating in a business environment of turbulence and uncertainty. It was a shakeout of monumental proportions. Some firms restructured and cut costs to become more efficient and succeeded. Others folded.

By 2015, seven years on from the start of the GFC, equities markets had gone sideways; the United States economy had shown only sporadic recovery; and China was enduring a slowdown of its previously high growth rate. India, and Brazil were not showing the robust optimism hoped for. It is an understatement to say that business confidence in the West was severely damaged. Whole countries had their securities downgraded to junk bond status — Greece became a mendicant nation, propped up by Germany in a fragile Eurozone that had lived beyond its means for too long without making the reforms necessary for economic stability. Greece particularly suffered severe austerity measures in return for bailout finance from other European countries. European finance ministers needed to loosen monetary policy to stimulate demand, but to keep a tight rein on fiscal policy to allow massive debt to be serviced. Even the Euro currency itself sank to unanticipated lows against the United States dollar. In Australia the exchange rate dropped from parity with the US$ to only 70c to the US$ as the prices of mineral resources bottomed and Chinese demand for coal and iron ore declined.. Queensland alone exports one third of the world's coking coal (the kind used to make steel), and estimated reserves of coal seam gas in that one state are sufficient to power a city of a million population for a thousand years. Meanwhile, huge deposits off the northwest shelf are being tapped and the gas exported to nearby Asia with its burgeoning appetite for energy and iron ore. The Pilbara area in Western Australia has iron ore for at least 30 years of exports.

It is instructive to reflect that in 2012 the Australian dollar was predicted to remain stubbornly high for some time to come, and companies were advised to adapt or perish in this new operating environment. Export prices offered strong growth, but costs also rose; by 2012, the pressure for operational efficiency and sound corporate strategy assumed centre stage. Past booms have ended in inflation and recession, so close attention is being given to ensuring this wealth does not evaporate, and to upgrading infrastructure to support a different kind of economy in the years ahead. Sustainable energy availability and reliable water supply are obvious considerations. Though the A$ is less coupled to the US$ than before, if inflation rebounds in a slow United States recovery, Australia's exchange rate will fall and its terms of trade will decline. There is also the likelihood of Australia catching the 'Dutch disease', a term coined in the 1970s to describe how ownership of natural gas pushed up the Dutch exchange rate to levels where manufacturing became less competitive. However, abundance (having lots of resources) is different from dependence (having a high proportion of exports in resource-related industries). The key is whether Australia can develop the infrastructure and political institutions to spread the benefits across the economy and develop other sectors too.[1] Regardless, a slowing global economy in 2015 was a drag on Australian growth. The formerly high Australian dollar had meant Australians could travel internationally far more readily. However, this had the downside of making Australian-manufactured goods — and the formerly profitable tourism sector — less competitive on world markets, so factory closures and job losses became disturbingly frequent media headlines.

By 2015, the reverse swing had occurred and a lower A$ ushered in the expected rebound in (especially Chinese) inbound tourism and manufactured goods became profitable again as more products could be sold for lower prices internationally, and with higher margins.

What is the significance of this for managers? More than ever, the business environment is telling organisations everywhere that if they are to survive, they need to be better managers of their assets and better leaders of their people. Even Hollywood, when it was not offering escapism with stories about unpopular wars, was quick to capitalise on a trend and reflect both fear and favour, releasing movies showing organisations selling off toxic assets to unsuspecting buyers and terminating the employment of loyal and productive staff. Romantic comedies took a back seat to risk management. Movies, as a barometer of the times, showed that the tough decisions demanded by the new workplace could be better made by managers with a strong moral compass. Business ethics became ranked with finance as important topics to be studied, in a new age of uncertainty.

QUESTIONS

1. Was there a simple cause of the economic downturn of the first decade of the twenty-first century, and is there a simple solution?
2. What can we learn from the responses by the Greek government to the financial downturns in 2012–15?
3. Do you think that 2016–18 are likely to be years of slow and steady recovery, and what are the likely implications for managers in Australian, New Zealand and Asian companies?
4. How risk averse should the individual manager be? What factors might influence your answer?

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CASE STUDY 2

Boost Juice Bars in a global, digital marketplace

After identifying a trend for juice bars in the United States, and studying the local retail sector to find there was a lack of healthy fast food choices, Janine Allis decided to open a juice bar in Adelaide in 2000. This flagship store was so popular that Australians demanded Boost Juice stores in their own towns and new stores opened rapidly all over Australia. The chain soon expanded globally, resulting in a group turnover of $158 million in 2015 from over 350 stores established across Australia and in the United Kingdom, Ireland, Thailand, Chile, Singapore, Malaysia, the Baltics, South Africa and more.[1] Boost Juice's international strategy aims to respect 'the different values, tastes, customs, purchasing powers and media habits' of their global customers; to that end, Boost Juice works with their franchising partners, who are experts in their own regions, to adapt, localise and customise their drinks for each local market.[2] In an example of just how flexible and adaptive to local markets they can be, their juice bars are known as 'Joost Juice Bars' in India.

Janine Allis is the founder of Boost Juice.

Boost Juice has adapted well to a changing digital landscape both in their marketing and media strategy and in-store. The brand can boast well over 500 000 likes on Facebook, over 50 000 Instagram followers and over 10 000 Twitter followers. In-store, Boost has electronic tills, pay wave capability, digital posters and a Boost app that enables customers to order a juice in advance. The Boost app was downloaded over 250 000 times in its first three months and was the first Australian retail application to be integrated with the in-store point of sale system. The Boost Juice website hints that further app development is yet to come.

In 2016, a Boost Juice Bars staff member leaked the recipes of several top-selling smoothies on Facebook.[3] Responding to the leak in a statement on her website, Janine wrote that rather than melting down and worrying that competitors would replicate her product, she was instead questioning whether product secrets really mattered in business.

> Businesses are more than one element. Think of your favourite brand and ask yourself why you like them, of course the product is something you love, but it is also the service, the experience, how you feel when you interact with them and what they do when things go wrong.[4]

Embedded in the same statement were five videos featuring Janine talking the audience through the recipes to five of her most popular juices, even discussing the various health benefits and reasoning behind the pairing of flavours.

Both Janine Allis and her husband Jeff Allis (who is Executive Chairman of Boost Juice) remain in corporate roles at Boost Juice.[5] This is no doubt a positive move, given the reputation that Janine has earned for her business skills and leadership style.

Janine's leadership style is natural, warm, giving and inspiring. People are extremely motivated by her to achieve amazing results. Janine describes herself as having a very 'hands on' approach toward the running of Boost Juice, which has enabled her to fully understand and develop the growing business. She now recognises that her role currently is less of a manager and more of a leader.[6]

Janine's business acumen has been recognised time and again — she has been awarded Telstra Businesswoman of the Year, Amex Retailer of the year, Exporter of the year and has been named by *BRW* as one of fifteen people in the last 35 years who have changed the way Australia does business. In addition, Janine is a star on Channel Ten's reality competition television series *Shark Tank*, where she is part of a panel of investors that judges aspiring entrepreneur contestants on the viability and ingenuity of their pitches.[7]

QUESTIONS

1. Do you think finding a franchise partner is a good idea, or would you rather retain control and do it yourself?

2. What do you think of Janine Allis's response to the leaking of the secret recipes for her juices?

3. Boost Juice has branched out into other products, such as banana bread, protein balls and flavoured popcorn. Do you think that this is a positive or negative move? How might Boost Juice be able to expand its product line further to cater for different markets?

4. Boost's app was ahead of the curve, being the first to fully integrate to the in-store POS system. Do some research on the app — has Boost made any significant updates to the app in the time since its launch? What next step would you like to see the app take?

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CASE STUDY 3

Coal seam gas: the sustainable business response[1]

'Coal seam gas is a volatile and divisive fuel, dubbed by the industry as a greenhouse hero, but perceived by environmentalists as a water villain.'[2] In Australia, the rapid expansion of coal seam gas (CSG) mining may risk other important natural resources. The resources at risk include clean, fertile agricultural land; safe, long-term water supplies; and a safe and pleasant countryside.[3] Other risks include uncertain environmental damage, growing social disharmony and a break-down in corporate management regulators and systems that are struggling to keep pace with the development of CSG.

The CSG industry is, at present, thriving across the globe, and with less greenhouse gas emissions and risk of climate change CSG has been widely promoted as a 'cleaner' alternative to coal.[4] Yet, recent research has cast doubt on this, stating that gas may be an obstacle rather than a bridge to a cleaner energy future.[5] This doubt therefore places many ethical and social responsibilities on CSG mining organisations. Queensland specifically represents one of the largest economic havens for this profitable resource, and many multinational corporations come from all over the world in order to drill within the Surat and Bowen Basins. These small pockets of energy-rich gas, found within coal seam fracture lines hundreds of metres under the earth, come at an enormous expense to the mining companies that harvest them. In addition, the expense also appears to include the environments that accommodate the gas deposits. At present, these mining magnates in pursuit of CSG are facing many environmental issues. Governments such as the Queensland state government heavily regulate mining operations in order to enforce a strict set of standards that protect both heritage and environmental sustainability. However, with some organisations, the motivation for these ethical responsibilities lies within the continuation of profitable operations and evasion of legislative enforcements.[6] Governments clearly have a responsibility to ensure that these projects do deliver real benefits to local regions and beyond, while minimising harm to the regions via social and environmental damage. Achieving this balance is vital in ensuring the long-term success of a CSG project by organisations.

CSG operations currently involve wells dug hundreds of metres into the earth's surface to reach pockets of gas. In order to achieve this, large drills are used to bore into the earth's surface and, in order to keep these drills lubricated and cool, large deposits of toxic water are pumped into drilled wells. At present, this toxic water is then mixed with cuttings of the coal seams and pumped to the surface as a contaminated mud waste. This waste product is then removed and pumped into large sump pits, which are then buried under the earth's surface at a cost paid to the government.

Environmental concerns raised about CSG include the disposal of toxic waste in water, soil and air; as well as the excessive use of water required in the production of CSG. The disposal of toxic waste is a vast issue by itself, impacting on environmental ecosystems and causing groundwater contamination. Other issues include the drawbacks of produced water treatment and the level of salt in the water found in coal seams that comes to the surface.[7] Another important issue is the process of fracking. Fracking occurs when CSG is released with the use of high pressure pumps, sand, water and chemicals. These are injected into bore wells to fracture rocks and open cracks (cleats) to release natural gas. This process uses significant quantities of water, as extracting CSG relies heavily on reducing groundwater pressure that is absorbed between layers of rock. Due to decreasing levels of water, the salt that was present in the water increases.[8] This is concerning, as the increased levels of salt can flow and resurface into groundwater that will, in turn, affect the drinking water, agriculture and wildlife. This can also impact on stakeholders such as communities, farmers and users of this water.

Contamination of water is a major concern for productive farmlands and communities as they bear the risk of health hazards. Farmlands, in relation to vegetation, livestock and agricultural crops, are also being affected through the contamination of water and soil. In addition to these water management risks, 'CSG development could also cause significant social impacts by disrupting current land-use practices and the local environment through infrastructure construction and access'.[9]

Communities have therefore raised concerns that many of these projects will have major environmental and social impacts, as large CSG development poses poorly assessed, yet potentially serious, health risks to the community.[10] Consequently, there is the potential for long-term impacts on rural communities and for public health to be affected indirectly or directly through contamination of soil, air or water. Current monitoring, regulation and assessment of CSG impacts on public health, the environment and vulnerable communities may be insufficient in providing confidence of adequate safeguards.[11] During these uncertain times, the allocation of management teams and expertise will call for the involvement of diverse professions in order to cover a range of responsibilities that are needed to be applied if sustainable decisions are to be made. To Australia, the CSG industry presents important economic benefits. However, at the same time, it risks having long-term, significant impacts on adjacent surface and groundwater systems if not effectively regulated or managed.

QUESTIONS

1. Based on this example, how can mining companies respond to the seemingly conflicting needs of exploiting natural resources that are helpful in reducing greenhouse gas emissions while minimising environmental impact?
2. Suggest how a shared value approach to this dilemma may assist companies to produce a win–win solution.
3. How might a quadruple bottom line assessment of performance by mining companies change the approach to CSG extraction?

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ACKNOWLEDGEMENT

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CASE STUDY 4

IKEA's international strategy

IKEA is one of the largest furniture makers and retailers in the world and is well known for its low-cost, stylish furniture and bold, sometimes controversial, advertising campaigns. Established by Swedish entrepreneur Ingvar Kamprad in 1943, by 2015 the company had an estimated turnover of €31.9 billion (A$46.5 billion), net profits of €3.5 billion (A$5.1 billion) and 328 stores in 28 countries.[1] While IKEA has undoubtedly succeeded in foreign markets, establishing stores in countries as far apart as Australia and Romania, around 70 per cent of its sales still come from Europe and its overseas expansion has not always progressed smoothly. Adapting the company's culture to national norms has proved challenging and there have been mistakes along the way.

A brief company history

Brought up in a small farming community in southern Sweden, Kamprad was an enterprising individual who even as a boy sold small items like matches and Christmas cards to his neighbours. He came up with the name IKEA by combining his initials (IK) with the first letters of the name of the farm and village in which he grew up (Elmtaryd, Agunnaryd). At first, IKEA was a vehicle for Kamprad's trading and mail-order activities. He added furniture to his product lines in 1947, mainly by accident, but quickly recognised that there was a growing demand in post-war Sweden for inexpensive household goods. Owing to problems with Swedish manufacturers, the company started to procure furniture from Poland and found this to be a cost-effective strategy. By 1951, Kamprad had decided to focus exclusively on furniture and the first IKEA showroom was opened in Sweden in 1953 to allow mail-order customers to establish the quality of the items they were ordering by seeing and touching them. In 1955, the company started designing its own products and a few years later opened retail stores.

The company offered well-designed, stylish items that drew on Swedish design traditions at inexpensive prices. Costs were kept down by designing furniture with a target price in mind. Furniture was flat-packed to minimise transportation costs, assembled by the customer to keep operating costs low and production was sourced from low-cost locations. IKEA became known for its cost-minimising approach and its associated capabilities in cost-efficient design, sourcing and logistics. Kamprad, reflecting on his upbringing in a Southern Swedish farming community, placed a high value on thriftiness and morality and shaped IKEA's culture accordingly. The company's stated mission was to 'offer a wide range of well- designed, functional home furnishing products at prices so low that as many people as possible will be able to afford them'[2] and co-workers were recruited as much on the basis of their values and beliefs as on their experience and skills. In 1976, Kamprad published his manifesto, *The Testament of a Furniture Dealer*, which contained slogans like 'expensive solutions to any kind of problem are usually the work of mediocrity'; in many respects this document represented the credo of the company.[3]

The pattern of IKEA's internationalisation

The company's forays into international markets began first by opening stores in other Scandinavian countries but the company quickly moved farther afield. In the early years, the formula for international expansion was a simple one. The company identified markets with the potential for high sales volumes and then purchased cheap land on the outskirts of a big city to establish a base. A tight-knit team of trusted and experienced Swedish managers relocated to the country in question and supervised the building of the new store, led the operational team and ran the business until it was deemed mature and could be handed over to local managers. Once a beachhead was established, IKEA tended to cluster further stores in the same geographical area.

In its first phase of internationalisation, IKEA entered new markets by keeping its product catalogue and its management processes the same. There were sometimes minor adjustments to items to reflect national differences, for example standard bed sizes tended to differ between countries, but the overwhelming majority of the products sold by IKEA were common across countries. The Swedish roots of the company were celebrated as a source of distinctiveness not only in the design of the firm's products but also in its management style. Managers across the organisation were strongly encouraged to adopt a Swedish, open and non-hierarchical management style because Kamprad felt that this mode motivated employees and had universal appeal. A pragmatic problem-solving style and egalitarian approach to decision making became the cornerstone of IKEA's unique culture and was referred to by the founder and his team as the 'IKEA way'.[4]

An IKEA store in Melbourne, Australia.

The challenges of internationalisation

As the company moved further from its Scandinavian base and became more dependent on overseas operations, the pressure for the company to be more nationally responsive grew. One of IKEA's first challenges came when it entered the US market. The company expected its standard range to sell as well as it did in Europe but instead faced some unexpected problems. IKEA executives were, for example, initially perplexed by the number of vases they were selling until they realised that Americans were buying vases to drink from rather than put flowers in because European style glasses were too small for American tastes. Conversely, IKEA's first forays into Japan were unsuccessful, partly because its furniture products were viewed as too large to fit into small, Japanese living spaces. While recognising the need to adapt some of its products to local demands, IKEA's low-cost business model depended on the high volume sales that came from standardisation. The IKEA headquarters team recognised the need for some country-specific adaptations and made it possible for area managers to put forward suggestions, but to achieve economies of scale, the extent of adaptation was limited to 5–10 per cent of the product range.

As well as adapting the company's product lines, there was also pressure to adapt the management style. The democratic approach to management characteristic of Swedish organisations was not perceived universally to be as favourable as the top team expected.

Grol and Schoch, for example, point out that in Germany Swedish management was considered peculiar.[5] Older workers felt uncomfortable calling managers by their first names and employees, in general, disliked the lack of formality. Similarly, in France, rather than seeing IKEA's flat organisation structure as enabling, many employees saw it as stripping them of status and removing opportunities for promotion. The fact that the key decision-making and training centres were located in Sweden (and required managers to be fluent in Swedish) made it very difficult for non-Scandinavians to progress to the higher echelons of management.

IKEA faced a different set of challenges in Asia, particularly when it entered the Chinese market.[6] The company had always positioned itself as a low-cost provider, but in China it was seen as an expensive brand by its target market of young professionals. Import duties and exchange rate fluctuations made it difficult for IKEA to compete with domestic furniture producers on cost and IKEA's designs were quickly copied and prices undercut by local producers. China had huge market potential for IKEA because its population was growing more affluent and home ownership was increasing rapidly, but it was very difficult to maintain a low-cost market position in this environment. Faced with this dilemma, IKEA chose to maintain its competitive positioning and cut its prices significantly, with some of its products selling at prices 70% lower in China than in other countries. The decision to sacrifice short-term profits in order to gain a foothold in the market and achieve long-term growth seemed to pay off: 12 years after its initial entry, IKEA's Chinese retail stores began to show a profit.

The move into Asia also highlighted for IKEA the fact that one size did not fit all in other aspects of its strategy. In Europe and the US, most customers used private transport to get to IKEA stores, but in China the majority of customers used public transport. As a result, IKEA had to alter its location strategy, situating its retail stores near rail and metro hubs on the outskirts of cities rather than opting for more out-of-town sites. Similarly, the company had to adapt its environmental strategy. Like many other European retailers, IKEA sought to improve its green credentials by charging for plastic bags and requiring its suppliers to provide environmentally friendly products. The majority of Chinese suppliers were unable to provide products that met IKEA environmental standards and, rather than welcoming IKEA's environment-friendly approach, price-sensitive Chinese customers were irritated by charges for plastic bags. Consumers in China were unfamiliar with the concept of flat-pack furniture, did not own the tools necessary for assembling flat packs and lacked the means of transporting furniture to their homes. IKEA, inadvertently, created a new industry comprised of enterprising individuals who set up a business delivering and making up IKEA furniture. Unfortunately for IKEA, this also created the impression that there were hidden charges associated with the purchase of their products.

Internationalisation has presented IKEA with challenges but it has also opened up opportunities for innovation and learning. While much of the information flow within IKEA is from the headquarters to the stores, knowledge also flows in the reverse direction. The centre issues retail stores with detailed instructions about operating practices that need to be copied exactly, including how stores should be laid out, how the IKEA catalogue should be presented, what the product range should contain and what colours bags and staff uniforms should be, but operatives are also encouraged to explore new work methods and new product ideas. For example, the layout of each IKEA store needs to include the presentation of five living rooms for customers to view but the specific content and design of those rooms can be tailored to local tastes. New ideas emanating from employees are passed first to the service office in the relevant store, then to the service office in the relevant market and finally to the global service office. At each stage, new ideas can be rejected or passed on but, in all cases, the rationale for acceptance or rejection is articulated via the company's intranet. A formal system of store audits monitors individual stores' adherence to the IKEA concept but also identifies good practices and new ideas that are shared across the organisation. Expatriates play an important role as mentors and, when IKEA enters a new country, co-workers are sent to other countries to learn about IKEA.

IKEA, like most other multinationals, struggles to balance global and local pressures but, over time, has found ways of replicating its core business model and operating practices in flexible ways.

QUESTIONS

1. Porter's diamond model explains why some nations have an international competitive advantage with respect to particular industries. Does IKEA gain a competitive advantage from being Swedish? If so, how?
2. List five pros of IKEA globalising its supply chain.
3. IKEA has attempted to standardise its stores, product range and management practices in all the countries in which it operates. List some drawbacks of such an approach.

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ACKNOWLEDGEMENT

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CASE STUDY 5

The IT industry: who says there's no such thing as a free lunch?

In *BRW's* 'Best Places to Work in Australia: 100 or more employees' list for 2015, nine of the top 25 spots were filled by an IT company. Atlassian headed up the list in first place, with Adobe Systems, NetApp Australia, Autodesk Australia, Distribution Central, SAS Institute, InfoTrack, Odecee Pty Ltd and EMC Australia also making the cut.[1] Information technology companies' saturation of the coveted employers list occurred despite less than 2 per cent of Australia's workforce being employed in IT-related roles as at February 2016.[2]

Atlassian can boast single-digit staff turnover,[3] and the company's HR Business Partner Kelly Kirby credits their high employee engagement with Atlassian's focus on employee job satisfaction and making sure people are doing meaningful work. Here is how she describes attracting and retaining the very best people, and keeping them motivated during their time with company:

> We have a wonderful experience team who create events all the time for us as a company, so we have a big annual event; we have Thank God it's Friday events, just to celebrate and do something fun; and we also have random, irregular 'sillybrations'. It might be National Beard Day or National Dr Seuss Day . . . you might get a little gift on your table just to say, 'Hey it's National Rubber Ducky Day, here's a rubber duck'. So there's lots of fun interspersed throughout the company at any given time which contributes to motivation and engagement… Whilst we're doing the celebratory parties and special events, we also have on a regular basis in each of our offices wellness programs, so we provide Pilates classes, yoga classes, we have boot camp classes; so we're trying to make sure we have something for everyone.[4]

Atlassian's office in Sydney also has a billiard room, a fully stocked kitchen with free meals and snacks for all employees, beers on tap after hours and a chocolate-filled skill-tester. Given the demand for IT workers far exceeds the supply of qualified applicants, such perks communicate to employees that their companies value them and wish to retain them.

Why do IT companies like Atlassian focus so heavily on looking after their people? According to some, it is essential for IT companies to recruit, select, develop and retain the very best employees who suit this kind of work, since having great people is the key to creating and maintaining a competitive advantage in the dynamic IT sector. Consider two employees of Google Australia, for instance, which won the prestigious Best Place to Work title in 2011 and won third place in 2012.[5] Leticia Lentini joined Google when the company's Australian office had only 17 employees. After ten interviews, she moved from roles in recruitment and payroll until she became Google's 'events magician' — tasked with the responsibility of ensuring that Google's many events, from sales presentations and seminars to product launches, go off without a hitch.[6] James McGill, a programmer at Google Australia, says of his job:

> What we do every day at work is genuinely difficult, the problems we solve are really interesting and every conversation I have at work is fascinating. That's what's so great about coming to work, everyone is so interesting to talk to.[7]

It is clear from this quote that McGill's social needs are being met (well, being more than met!), and his self-esteem is being generated at a great rate as he reflects on working at such a great company with wonderful, ever-fascinating colleagues. It is also clear that James is deep into self-actualisation — because he's convinced that he works in the best job in the world.

Atlassian designs and distributes t-shirts in honour of special events; some of these are displayed proudly in their Sydney office.

What about some of the other IT companies on the list? While IT staff often work ridiculously long hours with real intensity, fast-growing IT companies tend to be characterised by relatively informal workspaces and provide many perks for the services of the employees — for instance, healthcare subsidies, free massages, additional time for leave, games rooms and free food. Adobe has a heavy focus on employee health and wellbeing as part of their incentive package, providing on-site health seminars, wellness competitions, flu vaccinations and free healthy snacks. Autodesk does not limit the number of sick days an employee uses in a given year, instead trusting their workers to use their sick leave in a responsible manner.[8] InfoTrack provides free breakfast, gym memberships, massages and arcade games for employees, with their chairman noting, 'take care of your staff, and your staff will take care of your customers'.[9]

Arguably, it is much easier for the Atlassians and the Googles of this world to offer such bounty to their staff. When a company is established from scratch, its leaders have a huge amount of freedom to design the workspaces that they want; create the reward systems and values that express their desired culture; and, where they achieve rapid profitability or have money to invest, pay their people attractively and provide all sorts of perks that most organisations could never afford to. Does this make the IT companies exemplars of best practice in motivating and rewarding people, or does it make them outliers and exceptions that are worth a quick look but little else — because, quite simply, the rest of the world just doesn't work like that?

After all, doesn't everyone want to work at an organisation that looks great, has a sense of fun, goes out of its way to look after them and makes them feel that they are contributing to something greater than themselves? If they are not in the highly profitable IT sector, how can today's managers and leaders even begin remaking their organisations in these ways?

QUESTIONS

1. Do you agree that the IT companies described in this case study have lessons for every organisation? If so, what are these lessons?

2. In sectors such as government (also known as the public sector), managers have relatively little room to move in providing the kinds of perks discussed in this case study. What else can they do to make their workplaces more attractive and motivating?

3. Can you see any hidden dangers or traps in the happiness that James McGill expresses about his life at Google? List and describe two or three of the potential downsides to James's view of work.

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CASE STUDY 6

Quality can endure despite environmental shocks

Strategic capabilities are very difficult to imitate, better than the majority of the competition, and of excellent value to customers. Six generic strategic capabilities are quality, visionary leadership, innovation, staff with good technical skills, differentiated products or services, adaptability and flexibility.[1] Three crucial dynamic capabilities are flexible leadership, flexible organisational culture, and strategic thinking about the big-picture and the long-term — which enable an organisation to reconfigure its resources quickly in uncertain economic times.[2] This is particularly well demonstrated by the Mercedes car group in their production of the legendary Mercedes Benz vehicles.

Over a period of about 120 years, Mercedes has consistently developed and manufactured vehicles that are recognised all over the world as quality products par excellence.[3] Having focused on the strategic capabilities of innovation, technical knowledge and quality,[4] the Mercedes Benz is considered to be in the forefront of engineering, technology, comfort and safety. Its trademarked emergency sensing brake assist and electronic stability program are designed to keep the occupants out of harm's way. Furthermore, it is so strongly differentiated through branding that it is really hard to imitate, with the brand having achieved folklore status. A Mercedes was gifted to Nelson Mandela on his release from prison, and the name was even eulogised by the late Janice Joplin in a song entitled *Mercedes Benz*. In the film *The Rookie*, Clint Eastwood referred to a Mercedes Benz as a precision-engineered vehicle after escaping unscathed from a major crash. Notwithstanding the efficacy of their products, competing cars produced by BMW and Lexus are still not spoken of in the same breath as Mercedes Benz, despite the fact that it is an expensive vehicle.[5]

In the boating world, Haines Marine Industries is a family business in south-east Queensland that produces the Haines Signature range of runabouts and cabin cruisers. It has been doing this for almost 60 years. These boats are known among small power craft operators as the 'Mercedes Benz of boats'. Compared to its competitors in Australia, Signature boats are much more aesthetic, and have better instrumentation and hatches, more comfortable seating and superior finishes. More importantly, the Signature range is differentiated by a trademarked variable deadrise hull. This hull is the result of enterprising work by highly skilled and creative staff in the research and development team committed to producing the most innovative and finest quality trailerable boat in the industry.

By definition, the variable deadrise hull is impossible to imitate, but this special feature also makes the craft so stable that small five-metre boats are able to operate in the shipping lanes and submarine channels off Australia's coast. Measures of the Signature's success are 15 'Boat of the year' awards, including three such awards in 2007 alone from the Australian Marine Industry Federation; and, incredibly, a successful sea crossing of a 5.5-metre Signature from Australia to Japan. This has also differentiated the boat, giving it a brand name that is almost impossible to imitate — just like Mercedes. Also like the Mercedes Benz, it is relatively costly — but its strategic capabilities conduce in the end to a quality product that can override price considerations and recessionary conditions.[6]

It's not only 'traditional' businesses that are differentiated and adapt well to exigencies. AC/DC is an Australian hard rock band that has experienced enduring popularity around the world since it was formed in 1973. When the lead singer Bon Scott died prematurely in 1980, he was replaced by Brian Johnson who slotted into the group seamlessly — meaning that the fans did not have to adapt to a new 'sound'. Not only does the band comprise outstanding musicians and songwriters, but their lead guitarist and sole constant member, Angus Young, is known around the world for his trademark school uniform and duckwalk.

The band's Black Ice concert tour of 2008–10 was seen by almost five million people around the world, grossing almost half a billion dollars in revenue. AC/DC merchandise branded with the band's logo remains hugely popular, and not just at their concerts. Stubby coolers, beach towels, key rings, clothing, action figures and even board games all form a part of the familiar AC/DC global brand. In addition, the band's online fan club — which includes access to advance concert tickets and exclusive merchandise — demonstrates how a band from the 1970s has been able to adapt to changing technologies in order to remain current for fans both young and old, while retaining its trademark 'sound'.[7]

There are many smaller Australian businesses and enterprises that also adapt or reconfigure in the face of turbulence and/or provide outstanding services or products, delivered with care to their customers. Word-of-mouth recommendations and reviews on social networking sites serve to assist in maintaining business through economic challenges. Such small businesses can often provide superior service that is rendered for a price less than that of their larger competitors because overheads are comparatively lower. Even in instances where small businesses are more expensive than large enterprises, they are often able to withstand tough economic conditions due to positive referrals (with the ability to receive a more 'personalised service' often a deciding factor for consumers).

On the other hand, not all businesses are successful at adapting to changing times; for example, think of a shop, office or restaurant where you've seen a 'staff wanted' sign displayed in the window. There are so many more effective methods of recruiting even casual staff, like posting an ad on Seek.com.au or LinkedIn; and yet, these businesses are relying on the right candidate walking past and glancing in.

QUESTIONS

1. What elements of the general environment would have most impact on Mercedes cars and Haines Signature boats?
2. What do you feel the cultures of these companies would be like?
3. What strategic and dynamic capabilities would you imagine these companies and the band possess in order to keep ahead of the competition and thrive in changing economic environments?
4. What are some businesses that you know of that haven't been able to keep up with fast-paced environmental change? Why?

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CASE STUDY 7

Nespresso

Nespresso is the brand name of a coffee brewing system developed in the late 1970s by Nestlé, the multinational food company founded and headquartered in Switzerland. Nespresso allows consumers to brew high-quality coffee at the push of a button by placing hermetically sealed, aluminium covered, coffee capsules into a specially designed machine. While the idea sounds simple, the technology behind Nespresso is, in fact, complex because it requires air and water to be passed through ground coffee at the right temperature and pressure. At the time of its development, Nespresso constituted a major departure for Nestlé from its core operations that were based on the large-scale production and mass marketing of food products. In the late 1970s Nestlé's presence in the coffee market centred on instant coffees with products like Nescafé accounting for 80 per cent of its revenue from coffee sales.

Early development

The original technology underpinning Nespresso was developed by the Battelle Institute, an independent research organisation based in Geneva,[1] but Nestlé acquired the rights to develop the idea commercially in 1974 and went on to file a large number of patents on the product.[2] Camillo Pagano, who was at that time the senior executive in charge, felt that the product had potential despite the fact that sales in the coffee market were sluggish. At the time, the gourmet coffee market was beginning to expand and Nestlé saw Nespresso as a vehicle by which it could expand coffee sales by moving into the restaurant market. Many of Pagano's colleagues were sceptical about the innovation, questioning whether Nespresso could be commercialised and expressing concern about the amount of time and effort that would be taken up in launching such a niche product that had a poor fit with Nestlé's mainstream operations. Pagano felt that in order to flourish the Nespresso project needed to be taken outside of Nestlé's day-to-day operations so, in 1984, he established Nespresso as a separate company (100 per cent owned by Nestlé) which was free to develop its own marketing, operations and personnel policies.

Nespresso developed its system in conjunction with a number of partners: it collaborated with a Swiss company to improve the design of the machines; it licensed the manufacture of the machines to Turmix, a Swiss domestic appliance manufacturer; it partnered with Sobal, a distributor, to sell the product to end-users. The Nespresso system was launched in 1986 in Italy, Switzerland and Japan but the product flopped. By the end of 1987, only half the machines that had been manufactured had been sold and without sales of machines there could be no sales of the specially designed capsules. It looked very likely that Nestlé headquarters would kill off the project but it was decided to give it a further chance by bringing in an outsider to see whether a turnaround could be achieved. The person selected for this role was Jean-Paul Gaillard, a former executive with Philip Morris, the tobacco company.[3]

The turnaround

Rupert Gasser, head of research at Nestlé, described Gaillard as 'ambitious and strong headed. He wanted to do something outstanding. [Gaillard] had personality; he was a force. And importantly, he did not carry all the trappings of the company history.'[4] Gaillard made a number of changes, the most important of which were as follows.

- *Changing the customer focus*. Gaillard reasoned that the Nespresso system was more suited to the household than the restaurant market. Although his intuition was not supported by explicit market research, market trends in the late 1980s pointed in that direction. Gaillard's strategy was to target high-income households and, in line with that strategy, he sought to ensure that the coffee machines were retailed through high-end stores.
- *Establishing a direct channel to the end-users through the establishment of Nespresso Clubs*. Selling Nespresso coffee capsules through supermarkets did not fit well with the exclusive brand image Gaillard

wished to create, and so he had the idea of establishing the Nespresso Club. When households bought a machine, they automatically became members of the Club that offered around-the-clock ordering of coffee capsules, prompt delivery of orders and advice on coffee making and machine maintenance. The Club had the additional advantage of providing the company with up-to-date customer information.

- *Positioning the brand at the top end of the market*. The company developed partnerships with kitchen appliance makers such as Alessi, Krups, Magimix and Philips to produce well-designed machines sold through upmarket retail outlets.

By the time Gaillard left Nespresso in 1996, sales had taken off and there were 220 000 club members across Europe.

After Gaillard's departure, Nespresso continued to grow as it expanded geographically, extending its target market into small offices and businesses, while widening its range of coffee capsules. The range of machines was increased to offer a number of sophisticated design options and the company opened a number of retail outlets – Nespresso boutiques – that sold coffee-related paraphernalia as well as the Nespresso system. Augmenting a marketing campaign that relied heavily on social media, Nespresso launched a long-running and successful television and billboard advertising campaign featuring George Clooney to further promote the product. By 2014, Nespresso had estimated annual sales of SFr 4 billion (A$5.3 billion), margins on earnings before interest and tax (most of which came from pods rather than machines) of more than 30 per cent and accounted for around 8 per cent of Nestlé's total operating profit.[5]

More recent challenges

As might be expected, the success of Nespresso paved the way for new competitors to enter the market. Despite having more than 1700 patents on Nespresso capsules and machinery, more than 20 years had elapsed since the product was first developed and early patents were beginning to expire. In addition, the product had proved relatively simple for new players to re-engineer without infringing Nestlé's patents. Nonetheless, Nestlé had built a strong brand and was the global market leader in 2014 (Table 6.4). In the US however, Keurig Green Mountain and its Keurig K-Cup system dominated the market, along with several other players, including both Starbucks and Walmart. In 2014, Nespresso launched its Vertuo-Line range designed to make the larger coffee servings preferred by Americans.

TABLE CS.1 **Suppliers of single-serve coffee systems**

Parent company	Brand	Estimated global market share in 2014 (%)
Nestlé	Nespresso	35
Sara Lee	Senseo	18
Keurig Green Mountain	Keurig (K-Cup system)	8
Kraft	Tassimo	8

The bulk of the profit from single-serve pod coffee makers came from selling capsules rather than the machines themselves and this opened up a second route for new entrants. A number of companies, including one set up by Nespresso's former head, John-Paul Galliard, started selling substitute coffee pods for Nespresso machines. Nestlé robustly defended its property rights but in a landmark case in 2013 the UK High Court ruled that Dualit, a UK manufacturer of small domestic appliances, had not infringed Nestlé's patents by making substitute capsules for its Nespresso regime. Similar rulings followed in test cases in other European countries with significant repercussions for the viability of Nespresso's business model.

Nespresso and other makers of pod coffee machines also found themselves under increasing pressure from environmental campaigners, who highlighted the fact that capsules were difficult to recycle and added to waste and environmental damage. Nespresso launched a recycling campaign allowing consumers to return the single-use aluminium containers in special bags but this did little to dampen criticism.

By 2014, Nespresso was faced with a number of dilemmas with regard to its future direction. Could it sustain rapid growth in the face of increasing competition? Was it possible for Nespresso to retain and develop its exclusive image or should it move downmarket to increase its target market? Should Nestle re-integrate Nespresso into its mainstream organisation to stimulate a new wave of innovation?

QUESTIONS

1. What insights into the innovation process can be gained from this case?

2. The Nespresso innovation took more than 20 years to come to fruition. How would you account for the slow commercialisation of this product?

3. Nespresso's patents have not prevented competitors from offering coffee pods which fit Nespresso machines. How big a problem is this for Nespresso?

4. Do you think that Nespresso has a sustainable competitive advantage? What suggestions would you make to Nespresso's management regarding future strategy?

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CASE STUDY 8

A flood of decisions

The management of water supply in south-east Queensland over the last decade provides an interesting example of engineers working in new and rapidly changing contexts. They have had to manage their own time, set priorities, and learn to operate the water supply and flood mitigation systems during periods of extreme weather conditions: firstly, during long periods of drought between 2001 and 2009, when the combined water storage in the region's three largest dams dropped to less than 17 per cent; and then over the 2010–11 summer, when record-breaking rainfall events were experienced.[1]

The largest dam in the system, Wivenhoe Dam, was built by the Queensland government following the devastating Brisbane flood in 1974. The dam was designed to augment Brisbane's water supply and to protect the city from similar flood events in the future. It holds 1 165 000 megalitres (ML) when its water supply compartment (i.e. its base capacity) is at 100 per cent, and a further 1 420 000 ML when its mitigation compartment (i.e. its top-up capacity) is at 100 per cent.[2] Thus, the dam's total capacity is 2 585 000 ML. The flood mitigation compartment is designed to temporarily store upstream floodwaters and then release that water in a controlled manner to minimise flows in the Brisbane River, and thus minimise downstream flooding in Brisbane and Ipswich. The personnel who manage the dam are, under Queensland legislation, required to follow the operating manual to avoid any liability for losses resulting from water releases from the dam. Because approximately 50 per cent of the Brisbane River catchment lies below Wivenhoe Dam, the dam can only be used to mitigate floods, not prevent them.

During 2010, the controlling weather pattern shifted from El Niño to La Niña, resulting in increased rainfalls and, in some areas, record-breaking rains. There had been celebrations in April 2009 when Wivenhoe Dam reached 40 per cent capacity and water restrictions were relaxed. However, many people did not believe the drought was over until the dam reached 100 per cent of its water supply capacity on 4 October 2010 and the flood gates were opened for the first time since 2001.[3] By the end of December 2010, the dam was at 102 per cent capacity, and the catchment was saturated following record rainfalls during the month. At 12.26 pm on Wednesday 5 January 2011, operations personnel at Brisbane's Wivenhoe Dam received a timely alert from Wivenhoe Dam engineering officer Graham Keegan. It was entitled 'Bureau of Meteorology (BOM) severe weather warning — dam flood operations', and warned that significant rainfall of 100 mm to 200 mm 'may occur during the next few days' and that:

> Somerset and Wivenhoe Dams are still above (full supply level) and rising slowly due to continuing base-flows from their catchments. As the catchments are still wet it is likely that we will be releasing floodwaters in the near future if BOM's forecasts are accurate. Please be prepared. We will keep you up to date with our plans as this event develops.[4]

Instead of draining the dam's flood compartment as the waters rose with the heavy rainfall on 9–10 January 2011, the water levels were permitted to rise, eroding the dam's capacity for flood storage. This delay resulted in an emergency release of water on 11 January when the levels got so high that they threatened the stability of the dam. Prior to this, the government advised the residents of south-east Queensland that the release of this water into the Brisbane River, together with the peak flows from Lockyer Creek and other tributaries, would lead to severe flooding in Brisbane and Ipswich on Thursday 13 January. The rest is history and, although the flood did not reach the 1974 peak, it caused enormous damage to both cities.

In the following week, the government established the Queensland Floods Commission of Inquiry to report on, among other matters, flood modelling and warning systems, the operating manual, and the management of Wivenhoe Dam and other flood mitigation systems. The Commission's report found that the dam was operated in breach of the manual over 8 and 9 January, and one of its 172 recommendations was that the Crime and Misconduct Commission should investigate the documents prepared by three of the four approved flood engineers and their oral evidence.[5] Clearly, over the last decade the water engineers working for south-east Queensland water authorities have learnt to manage the infrastructure at both ends of the climate spectrum. During the long periods of drought, they learnt to manage dwindling water supplies across the region and advised government on the strategies that could be used to guarantee water supplies should the drought continue into the future. To do this, they would have used a range of rainfall and water use patterns to develop and analyse the different scenarios. They would have then advised the relevant government and water supply agencies about water restriction policies and their implementation.

They would have also managed decreasing water levels and the large tracts of land that emerged as water levels dropped in Wivenhoe and other dams. In late 2010, the system moved to the other extreme, and the management focus switched from water supply to flood mitigation. In the first week of January 2011, the Wivenhoe operations team were managing a system that had reached critical levels. John Truman, national president of the Institute of Public Works Engineering Australia, highlighted the lessons that could be learnt from the many flood events that occurred over the 2010–11 summer:

> The scale of these events will provide many lessons and new information. These lessons will be at each of the individual local areas that have been affected and they will also be at the broader engineering profession level where standards and policies will need to be reviewed.[6]

The management of Wivenhoe Dam during the south-east Queensland floods demonstrates the importance of accurate information in the workplace.

Generally, good decisions are consultative decisions, but when is consultation finite, and who decides that? For example, former Queensland Water Minister Stephen Robertson was briefed in October 2010 by the Bureau of Meteorology that the impending wet season would be 'unusually intense'. He then sought advice from the water grid manager, who had no direct role in managing the dams — but not from the government department responsible for flood mitigation and dam safety. In March 2012, the

Flood Commission handed down its findings, which included a recommendation that the Crime and Misconduct Commission (CMC) investigate the conduct of the dam operators.[7]

In August 2012, the CMC ruled that the engineers concerned had, in fact, acted appropriately in the stressful situation. The Commission also found that some of the information presented in the dam's operating manual was contradictory, which meant that there was little evidence of misconduct by the engineers themselves.[8] This presents a perfect example of the importance of clear, consistent and accurate information in the workplace, which serves to aid the decision-making processes of both staff and management.[9]

QUESTIONS

1. What information sources (or potential information sources) could have been used to assist with the decision-making process for Wivenhoe Dam in this case?

2. With reference to decision-making theory covered in the chapter, describe the type of managerial decision-making evident in this case, and the conditions under which decisions were made.

3. Evaluate the decisions made in the case in relation to the classical, behavioural and judgemental heuristics approaches to decision-making that are outlined in the chapter. Which model do you believe best describes the situation and subsequent decision-making process in this case? Justify your answer.

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ACKNOWLEDGEMENT

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CASE STUDY 9

Scenario planning at Royal Dutch Shell

On 16 October 1973, a great oil crisis began when Organization of Petroleum Exporting Countries (OPEC) raised the price of oil by 70 per cent and reduced production. This was in response to the decision by the United States to re-supply the Israeli military during the Yom Kippur war, lasting until March 1974. As a consequence, the market price of oil rose substantially — from $3 a barrel to $12. The trend of recessions and high inflation in the world financial systems until the 1980s meant that the price of oil continued to increase until 1986.[1] This, according to Shell, meant that 'An era of cheap energy had come to an end and oil was no longer a buyer's market'.[2]

However, when the oil shock came in October 1973 after the Yom Kippur war, Shell was the only oil major prepared for it. In the early 1970s, Pierre Wack was a planner in Royal Dutch Shell in London, and had calculated the impact of a possible rise in the oil price and a likely increase in the world's appetite for oil. He and his colleagues had mapped out a scenario in which the OPEC demanded much higher prices for their oil following the 1967 Arab–Israel six-day war. In effect, Shell's managers were able to plan for this eventuality and apply this planning to the crisis following the Yom Kippur war while other oil companies struggled.[3]

In order to survive, Shell adopted a policy of diversification, branching out into the areas of coal, nuclear power and metals. Firstly, in 1970 Shell purchased Billiton, an established metals mining company (which it later sold). In 1973, the company moved into nuclear power by forming a partnership with Gulf Oil to manufacture gas-cooled reactors and their fuels. Shell's success in coal was limited. In the 1970s, the company also continued its work in developing the oil fields in the North Sea. While a huge investment was required due to the adverse weather conditions and the instability of the sea bed, the cost was justified due to the sheer size of the oil fields in the North Sea, as well as the fact that supply from the Middle East was reduced at the time.[4]

Royal Dutch Shell became a leader in profitability, and continues to use scenario planning as an aid to opportunity-framing and strategy formulation.[5] With the world making commendable efforts to limit its consumption of fossil fuels in the face of 'peak oil' (the time when demand exceeds supply) and increasing its reliance on wind and solar power, the long-established 'legacy expectations' of enduring access to easily accessible oil remain stubbornly fixed in the minds of both developed and developing nations. Scenario planning is using careful research inputs to examine the prejudices of policy-makers and the demands of populations to arrive at sustainable solutions to energy needs, and to avoid the catastrophe of a war over oil. Is such a crisis likely, or even possible? Consider the following somewhat less conservative analysis.

Firstly, we know that drilling for oil in shallow seas is much safer and less technologically difficult (and, therefore, less expensive) than deepwater drilling. When, in 2010, the BP Macondo Deepwater Horizon oil well off the coast of Louisiana blew out and spilled many thousands of litres of oil into the Gulf of Mexico each day for months before it could be shut down, it created the greatest environmental disaster in the history of the United States. An immediate two-year ban on deep-sea drilling in the US gave BP a chance to clear up the damage, although it cost the CEO his job and many people along the Louisiana coast their livelihoods, as their businesses failed amidst the massive pollution. Some say that one failure out of the 5000 wells in the Gulf is not an unacceptable risk, but the Macondo rig was one of the most advanced platforms, operating at the depth limits of deepwater exploration and extraction. Only about 40 other platforms were so complex. Critics respond that odds like that encourage a much more cautious regulation to manage the risks involved. In spite of this, oil companies are embarking on ever more challenging projects, drilling in the Arctic, Russia and the deep waters off Africa.[6]

Secondly, in the years since Macondo exploded, public opinion has moved towards more opposition to deep drilling, along with a general push to limit carbon emissions and oil consumption. Our motor vehicles are increasingly powered by smaller, more efficient engines, and automobile manufacturers care — committing research and production resources to hybrid power systems and electric propulsion. The constraints of battery technology are gradually being reduced.

Shell uses scenario planning as an aid to opportunity-framing and strategy formulation.

Thirdly, the discovery of vast reserves of coal seam gas in Australia, China and other countries, plus the development of commercially viable technology to extract oil from shale deposits in the US and Canada, is causing a reassessment of the global energy situation. Remarkably, some observers believe that by 2050 the US could be a net exporter of oil — something unanticipated just a few years ago. Alternative sources such as solar and wind power are increasingly attractive to many governments, as profound suspicion about nuclear power in the years after the Fukushima earthquake and tsunami disaster has prompted the shutdown of many nuclear plants worldwide. Where does this leave us?

QUESTIONS

1. If you were a regulator responsible for planning your government's energy policy, how would you decide on your priorities? Safety and environmental sustainability would loom large as principles guiding your planning, but what else?

2. To keep all the variables in play, is there likely to be any better planning approach than scenario planning? What other planning approach might you investigate?

3. In relation to energy planning, can you compare scenario planning with contingency planning? Which do you think is most useful, and why?

4. The global agreement on the reduction of climate change forged in Paris in late 2015 carries with it the responsibility for all participant countries to plan their future energy generation and usage carefully. What are the obvious questions that will need to be asked at organisation, community and government levels? How will an organisation begin to contemplate the management of its planning process in relation to climate change and sustainability?

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CASE STUDY 10

Sick leave costing employers

Sick leave is leave that employees can take when they can't attend work because they are sick or injured; however, the Australian 'sickie' originally in work agreements to protect sick workers from pay reduction has turned into a national pastime without any consequences for the impact that this theft has on business. Stealing time that you are not entitled to — the sickie — is so entrenched in the work culture in Australia that it is seen as an entitlement. Employers struggle with the fine line of trust and betrayal. Should employees need to produce a doctor's certificate for a missed day? This puts considerable pressure on the health system for what could be a genuine sickness — say, a migraine that only needs sleep and medication. Is this a deterrent for workers if they have to spend half their day going to the doctor?

According to a 2016 survey by Clipp, Australia Day is the most popular day of the year to take a sickie.[1] In fact, Australia Day in 2016 was projected to cost employers $62 million, as workers gave themselves an unofficial long weekend ahead of the Tuesday public holiday. It was estimated that more than 180 000 people nationwide were expected to dial in a sickie.[2] A lack of flexibility in an organisation can cause an increase in the sick leave rate. An employee requesting two hours to go to the dentist reflects a need, and the time can be made up if permitted by managers. However, refusing this request could result in a full day off and the lost productivity that entails.

A 2015 Direct Health Solutions survey of 97 organisations, that employ 220 000 employees across Australia, found that Monday was the most popular days for employees to call in sick, with a whopping 40 per cent of sick days falling on a Monday.[3] The same survey estimated that 'sickies' are costing Australian businesses $32.5 billion a year — which equates to an average of $347 per day per employee. Paul Dundon from Direct Health Solutions says that 6.5 days of sick leave absenteeism each year is an acceptable level; however, Australians are currently clocking up an average of 8.6 days per year.

One mid-career consultant from a big-name firm said she took 'sickies' that were really 'stress leave', but had never been quizzed over them. 'I don't think you're allowed . . . but I take them', she says. 'I think it makes up for the fact that people do heaps of overtime. It's overlooked if they are a bit flexible with their interpretation of sick leave.'

She said sickies in the corporate world were not a big issue, and that the most she had seen taken was when she was working as a retail assistant. 'People just don't show up. They don't even get paid for it. Maybe it's correlated to how dreadful your job is.'

Dundon says that an average of one in every forty workers is off sick on any given day. Conversely, in some organisations, it can be common for staff to take no, or very few, sick days. Often this is because employees feel that their work is so urgent that they can't contemplate having a day off — even when they are genuinely sick. Dundon's company offered absentee management, whereby staff are required to phone a call centre and talk to a nurse rather than phoning in to their immediate manager. It is claimed that this has halved the levels of absenteeism for some of his clients, as 'People taking a sickie are more reluctant to fake it to a kindly nurse on the other end of the phone line'.

The national president of the Australian Human Resources Institute, Peter Wilson, says that a high level of absenteeism can indicate that something is not quite right in an organisation — such as 'industrial unrest, job insecurity and redundancies, and bad job design'. Mary Wyatt, an occupational physician and manager of Return to Work Matters, says sickness absence comes down to management by individual organisations. She says workers' perceptions of how they are treated by management can be an indicator of the likelihood of large amounts of sick leave — as is having a large number of workers doing the same thing (such as working on a factory line or in a call centre).[4]

However, sickies are not only an Australian phenomenon; unauthorised absenteeism occurs internationally. Asia and Africa have the lowest rates of absenteeism, whereas the United States and Western European countries such as Germany and France have the highest rates, with Australia and New Zealand falling in the middle.[5]

Caring for (sick) family members and worker job dissatisfaction are cited by most workers as the main causes of absenteeism. Some reasons for taking a sickie are far less obvious; for example, an Air New Zealand employee was sacked because she took a sick day to see a Robbie Williams concert. She would not have been caught had she not flown from Auckland to Wellington using her staff discount on the airfare.[6] In some countries, legislation supports an employer's right to request a medical certificate for the purpose of establishing the genuineness of an application for paid sick leave — even for a single sick day.[7] However, organisational psychologist Dr Peter Cotton asserts that everyone, at some stage, wakes up in the morning and just doesn't feel like going to work, for a variety of reasons. Cotton's belief is that employers should sanction 'doona days' twice a year so that, for those rare mornings, employees can just put the doona back over their head and not go into work. The belief is that this will help to reduce stress, particularly in an era where up to 20 per cent of workers in Australia and New Zealand work more than 50 hours per week.[8]

QUESTIONS

1. Do you take sickies? Why or why not? Would your perspective change as a manager, as opposed to being an employee?
2. Many organisations have very generous leave plans for their employees. Do you think that this approach will ultimately reduce the abuse of sick leave?
3. How do you counter your employee's statement, 'It's part of the Australian culture'?
4. What approaches could managers take to reduce a high sick leave cost to the bottom line?

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ACKNOWLEDGEMENT

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CASE STUDY 11

Twitter — rewriting (or killing) communication?

Twitter's 140-character text-based messages, or 'Twitter-speak', permeate everyday life. But questions about its influence are being asked — by parents, relationship partners, teachers and employers. Is Twitter reinventing social communication or just abbreviating it? Do tweets create meaningful conversations or dumb down our abilities to write and communicate effectively, and respectfully, with one another?

Twitter was conceived on a playground slide during a burrito-fuelled brainstorming session by employees of podcasting company Odeo. Co-founder Jack Dorsey, now Twitter's CEO, suggested the idea of using short, SMS-like messages to connect with a small group. '[W]e came across the word twitter, and it was just perfect,' Dorsey said. 'The definition was "a short burst of inconsequential information" and "chirps from birds." And that's exactly what the product was.'[1]

Dorsey, also CEO and founder of Square, a mobile payments company, developed a working prototype based on an instant messaging platform. It was first used internally by Odeo employees, but was refined and released to the public. Within three months and sensing the magnitude of the invention, Dorsey and other members of Odeo, including product strategist Evan Williams and creative director Biz Stone, acquired Odeo and picked up Twitter.com in the process.

A channel with capacity

Twitter has become a vehicle for communicating carefully crafted messages of self-promotion and branding by major companies, not-for-profits, activist groups, politicians, actors, athletes, musicians and media personalities. Top Twitter topics or 'trends' driving tweets include sports, politics and music as well as natural disasters, human conflicts and crises. According to an internet study by Pew Research, Twitter usage is pervasive among technology early adopters and widespread among a range of demographic groups.[2]

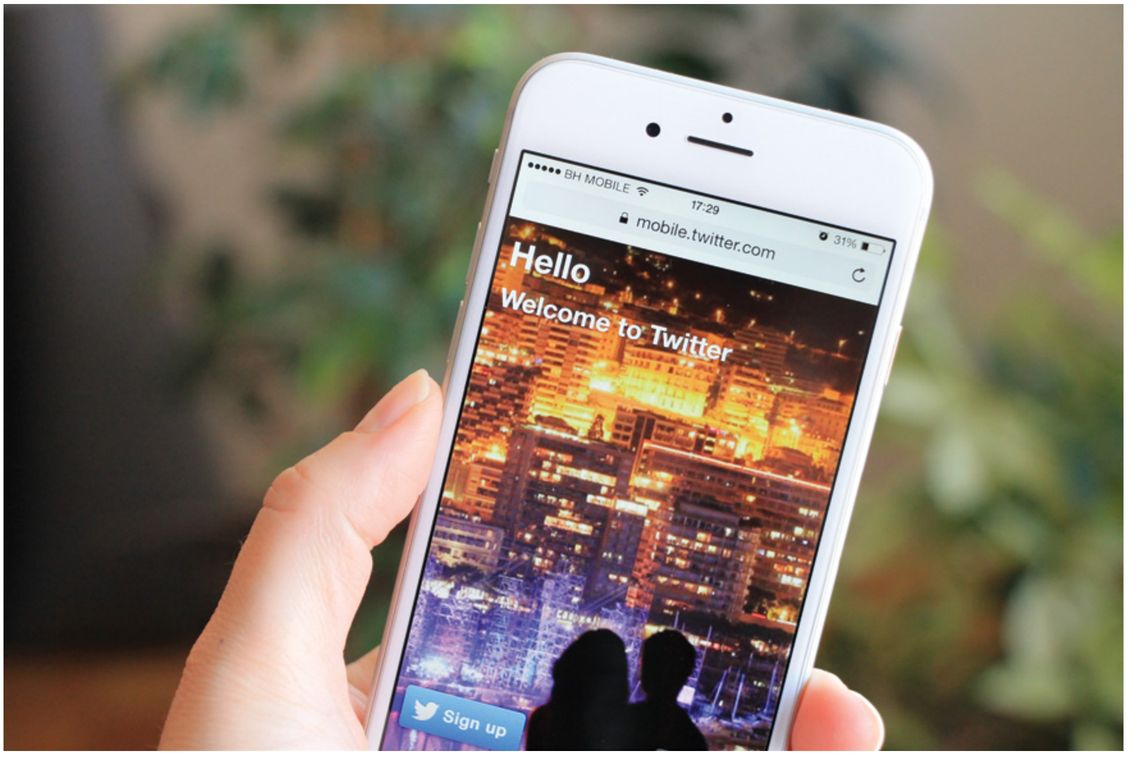
Messages with(out) meanings

Twitter's 140-character limit keeps messages terse and to the point. However, there's no guarantee they'll be pertinent or that each message will be meaningful. Market research firm Pear Analytics analysed 2000 tweets sent during daytime hours over two weeks and concluded that 40 per cent of them represented 'pointless babble'.[3] While avid Twitter users may agree that not all tweets are gems, the service has found a place in digital culture. Social network researcher Danah Boyd has criticised Pear Analytics' results, pointing out that pointless babble could be better characterised as social grooming, where tweeters 'want to know what the people around them are thinking and doing and feeling'.[4]

Tweets travel faster

Twitter's low overhead translates into instantaneous broadcast communication. And for some users, that's part of the appeal. 'Twitter lets me hear from a lot of people in a very short period of time,' says tech evangelist Robert Scoble.[5] In addition, Twitter has become a de facto emergency broadcast network for breaking news. It is a means to transmit up-to-date information during disasters and other unfolding situations.[6] Real-time news, video clips and images rapidly spread through the 'Twitterverse', often providing faster information than formal news media.[7]

More managers are using Twitter and it's becoming essential for teams, whose leaders and members use it as a fast-channel way to send announcements about upcoming events, post rapid-response items and share links that bear on what's happening within the organisation. Twitter is also being used in educational settings as a way to promote student interactions with faculty and administration and with one another.



Impulse leads to apology

Twitter's quick and short messages are shortening the stages of communication — quick thoughts warrant a tweet. They're increasing the frequency of communication — more time efficient than a direct message or an email. But, it's not uncommon for well-known tweeters to apologise and explain a tweet or two after it was misinterpreted. The immediacy of tweeting can make it impulsive communication — tweets are so easy to send out — and regret later.

Trolls

Twitter has a problem with abuse that has long attracted headlines. 'Trolls', those who post deliberately inflammatory messages on Twitter or other online platforms in order to incite a reaction, are often not held accountable for what they write on Twitter, as users can choose to remain anonymous. Facebook has a real-name policy, and as such, it is easier to hold users accountable for their content.[8] In one case of online behaviour having real-life ramifications, Australian feminist writer Clementine Ford posted a screenshot of a vile Facebook message she had received from troll Michael Nolan, tagging Meriton Apartments, who he'd listed on his profile as his employer, in the post. Nolan was subsequently fired from his job.[9] Dick Costolo, who was the CEO of Twitter up until 2015, wrote in an internal memo that was leaked to tech website *The Verge*, 'we suck at dealing with abuse and trolls on the platform and we've sucked at it for years'.[10] In early 2016 however, Twitter announced the formation of the Twitter Trust and Safety Council, 'to ensure that people feel safe expressing themselves on Twitter'.[11]

QUESTIONS

1. What are the advantages and disadvantages of communicating via Twitter? Can a 140-character tweet really be effective? What guidelines would you recommend for maximising the effectiveness of a tweet?
2. Choose a national brand or entertainment personality and discuss how the use of Twitter has helped to create a following and desired brand image. How about a university course? How could a lecturer use Twitter to

improve the in-class or online learning experience? Is Twitter more appropriate for the national brand and entertainment personality than for an academic instructor? Why or why not?

3. You've been given a first assignment as the new intern in the office of a corporate CEO. The task is to analyse Twitter and make a presentation to the CEO and her executive team recommending whether or not it should be used for corporate purposes. What points will you make in the presentation to summarise its potential uses, possible downsides and overall strategic value to the firm?

4. Research current developments with Twitter's Trust and Safety Council. What are the actions the council is taking to combat abuse? Has this resulted in decreased levels of trolling on the platform?

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CASE STUDY 12

Zara International: fashion at the speed of light

In this world of rapidly moving trends, no company does fast fashion better than Zara International. Shoppers in a growing number of countries — 88 as of April 2016 — are fans of Zara's knack for bringing the latest styles from sketchbook to shopfront at lightning speed and reasonable prices.[1]

In fast fashion, moments matter

Zara's parent company Inditex is known for year-on-year strong sales gains. Low prices and a rapid response to fashion trends have pushed it into the top ranks of global clothing vendors. The chain specialises in lightning-quick turnarounds of the latest designer trends at prices tailored to the young — about A$35 an item.[2] Louis Vuitton fashion director Daniel Piette has described Zara as 'possibly the most innovative and devastating retailer in the world'.[3]

Inditex shortens the time from order to arrival using a complex system of just-in-time production and inventory management that keeps Zara ahead of the competition. Their distribution centres can have items in European stores within 24 hours of order receipt, and in American and Asian stores in less than 48 hours.[4] 'They're a fantastic case study in terms of how they manage to get product to their stores so quick', said Stacey Cartwright, executive vice president and CFO of Burberry Group PLC. 'We are mindful of their techniques.'[5]

The firm carefully controls design, production, distribution and retail sales to optimise the flow of goods, without having to share profits with wholesalers or intermediary partners. Customers win with access to new fashions while they're still fresh off the runway.[6] Twice a week Zara's finished garments are shipped to physical distribution centres that all simultaneously distribute products to stores worldwide. These small production batches help the company avoid the risk of oversupply. Because batches always contain new products, Zara's stores perpetually energise their inventories.[7] Most clothing lines are not replenished. Instead they are replaced with new designs to create scarcity value — shoppers cannot be sure that designs in stores one day will be available the next day.

The Zara store in Melbourne's CBD is located on a busy thoroughfare near other flagship stores.

Store managers track sales data with handheld devices. They can reorder hot items in less than an hour. Zara always knows what's selling and what's not. When a look doesn't pan out, designers promptly put together new products. New arrivals are rushed to shop sales floors still on the black plastic hangers used in shipping. Shoppers who are in the know recognise these designs as the newest of the new; soon after, any items left over are rotated to Zara's standard wood hangers.[8]

Inside and out, Zara's stores are designed to strengthen the brand. Inditex considers this to be very important because that is where shoppers ultimately decide which fashions make the cut. In a faux shopping street in the company's headquarters, stylists craft and photograph eye-catching layouts that are emailed every two weeks to store managers for replication.[9]

Zara stores sit on some of the hottest shopping streets, including Bourke St Mall in Melbourne, near the flagship stores of Sportsgirl, General Pants and Myer. While those adjacent stores all vie for the same consumer dollar, Zara sells fashion items at a lower price point. It's all part of the strategy. 'Inditex gives people the most up-to-date fashion at accessible prices,' said Luca Solca, senior research analyst with Sanford C Bernstein in London. That is good news for Zara as many shoppers trade down from higher priced chains.[10]

A single fashion culture

The Inditex group began in 1963 when Amancio Ortega Gaona, chairman and founder of Inditex, got his start in textile manufacturing.[11] After a period of growth, he assimilated Zara into a new holding company, Industria de Diseño Textil.[12] Inditex has a tried-and-true strategy for entering new markets: start with a handful of stores and gain a critical mass of customers. Generally, Zara is the first Inditex chain to break ground in new countries, paving the way for the group's other brands, including Pull and Bear, Massimo Dutti and Bershka.[13]

Inditex farms out much of its garment production to specialist companies, located on the Iberian Peninsula, which it supplies with its own fabrics. Although some pieces and fabrics are purchased in Asia — many of them not dyed or only partly finished — the company manufactures about half of its clothing in its hometown of La Coruña, Spain.[14] Inditex CEO Pablo Isla believes in cutting expenses wherever and whenever possible. Zara spends just 0.3 per cent of sales on ads, making the 3–4 per cent typically spent by rivals seem excessive in comparison. Isla disdains markdowns and sales as well.[15]

H&M, one of Zara's top competitors, uses a slightly different strategy. Around one-quarter of its stock is made up of fast-fashion items that are designed in-house and farmed out to independent factories. As at Zara, these items move quickly through the stores and are replaced often by fresh designs. But H&M also keeps a large inventory of basic, everyday items sourced from inexpensive Asian factories.[16]

Ethical fashion

How can a company turn fashion items around quickly and sell them at such an inexpensive price point while turning a solid profit? Is there a human price to be paid? According to the 2016 Australian Fashion Report — an annual report that assesses fashion companies' labour rights systems in a bid to illuminate how they are addressing the alarming issues of forced labour, child labour and worker exploitation overseas, and then rates them from A to F — Zara ticks all of the right boxes when it comes to their transparent labour rights system. The 2016 report gave Inditex a rating of A, the highest performing company after two Fairtrade companies Etiko and Audrey Blue. This rating is not reflective of actual conditions on the ground, but is an analysis of the strength of Zara's labour rights systems. Their high rating implies that Inditex makes a concerted effort to trace back where the source materials for their clothing have come from, and is transparent with the public about this information. Ratings are based on four key elements of the labour rights management system:

1. policies
2. knowing suppliers
3. auditing and supplier relationships
4. worker empowerment.

Inditex's score of A was averaged from an A+ rating on numbers 1–3 of the above elements and a B for worker empowerment.[17]

Is Zara expanding too quickly — opening about 400 stores per year?[18] Will its existing logistics system carry it into another decade of intense growth? Can fast-fashion win the long-term retailing race?

QUESTIONS

1. In what ways are elements of the classical and behavioural management approaches evident in how things are done at Zara International? How can systems concepts and contingency thinking explain the success of some of Zara's distinctive practices?
2. Zara's logistics system and management practices can handle the current pace of growth, but they will need updating at some point in the future. How could quantitative management approaches and data analytics help Zara executives plan for the next generation of its logistics and management approaches?
3. As a consultant chosen by Zara to assist with the expansion of its Australian stores, you have been asked to propose how evidence-based management might help the company smooth its way to success with an Australian workforce. What areas will you suggest to be looked at for evidence-based decision making, and why?
4. Gather the latest information on competitive trends in the apparel industry, and on Zara's latest actions and innovations. Is the firm continuing to do well? Are other retailers getting just as proficient with the fast-fashion model? Is Zara adapting and innovating in ways needed to stay abreast of both its major competition and the pressures of a changing global economy? Is this firm still providing worthy management benchmarks for other firms to follow?

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