MANAGEMENT

Using Practice and Theory to Develop Skill

DAVID BODDY



8TH EDITION

Pearson

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Using Practice and Theory to Develop Skill



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David Boddy Formerly of University of Glasgow

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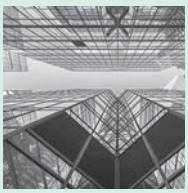
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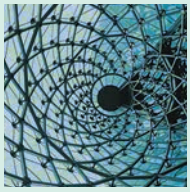
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PREFACE TO THE EIGHTH EDITION

This eighth edition takes account of helpful comments from staff and students who used the sixth edition, and the suggestions of reviewers (please see below). The book retains the established structure of six parts, and twenty chapters – though Managing Change replaces Finance and Budgetary Control (still available on the Companion Website). Within that structure each chapter has been updated where necessary, with many new and current examples both in the narrative and in the Management in Practice features. New empirical research maintains the academic quality.

Responding to concerns about 'textbook fatigue', this edition is shorter than previous ones, though the same amount of material is available to students. Each chapter contains what the author sees as the 'core' theories and approaches which will be most useful to students at an introductory level. Other material which is probably less essential is now included on the Companion Website, with a clear link from the text to the website where needed.

Examples of updating and revisions in chapter contents are:

Chapters

Chapter 1 (Managing in organisations) – includes the 'triple bottom line' as a way of assessing performance, and introduces the new 'Think clearly to connect practice, theory and skill' feature in Section 1.10. The idea that managers add value by performing tasks and processes within a context is also introduced.

Chapter 3 (Organisation cultures and contexts) – additional empirical material in the BBC case, and another study tracing the formation of a cultures in a call-centre which appeared to encourage misselling over customer care.

Chapter 5 (Corporate responsibility) – new empirical work applying CR principles to employees' welfare, and a new overview of CR research.

Chapter 6 (Making decisions (previously 7)) – new material in the IKEA case as it starts to make major changes to its way of working, and a study of investors using instinct as well as rationality in their decisions.

Chapter 7 (Planning (previously 6)) – more on the troubles at Crossrail, and some good research on how people plan to use their time – which is the new 'Develop a skill' topic.

Chapter 8 (Managing strategy) – more on GKN, with evidence about poor performance of senior managers in the time before the Melrose bid (which most media comment seemed to overlook). Also a new research-based example of a local manager successfully adapting an inadequate strategic plan.

Chapter 10 (Structure) – empirical research on formalisation and how it affects whether public employees follow rules; also more on developments in the Chapter case – GSK.

Chapter 13 (Entrepreneurship, creativity and innovation) – new (two-part) Management in Practice feature following an entrepreneur's early years in business.

Chapter 14 (Influencing) – new Chapter case – W. L. Gore and Associates in Europe, which illustrates their unusual, but successful, approach to managing.

Chapter 15 (Motivating) – much of the historical material is now on the Companion Website, with a table summarising the research outcomes. New empirical research on job characteristics theory.

Chapter 18 (Managing change) – a new chapter, with Amazon as the Chapter case. Outlines and illustrates Lewin's force-field theory, forms of change and alternative, and complementary, theories of change, as well as understanding stakeholders ('Develop a skill' feature).

Academic content This has been extended and updated where appropriate, with over 90 new references, mostly reporting empirical research to enable students develop the habit of seeking the empirical evidence behind management ideas. Examples include new research on social entrepreneurship in Chapter 1, on culture and risk taking amongst entrepreneurs in Chapter 3, on task and process conflict over strategy in Chapter 8, on bureaucratic intensity and performance, and on the 'big five' personality traits, in Chapter 14.

Cases These have been revised and updated where appropriate, and two are completely new – W. L. Gore (Chapter 14) and Amazon (Chapter 18).

Features Many of the Management in Practice features have been updated and renewed, as have some Key Ideas. There are over 90 new references and additional suggestions for Further Reading. Several of the Case Questions and Activities have been revised to connect more closely with the theories being presented. The Learning Objectives are reflected in Summary section at the end of each chapter, and in the 'Test your understanding' feature.

Test your understanding As before, there is a set of questions at the end of each chapter to help students assess their progress towards the learning objectives.

Think clearly to connect practice, theory and skill Section 1.8 in Chapter 1 presents the components of clear (formerly 'critical') thinking – assumptions, context, alternatives and limitations. Section 1.9 presents the view that these thinking skills are equally useful as students evaluate a management practice, a theory about management, and as they reflect on how they develop their management skills. The last numbered section in each chapter puts this idea into practice. The table provides a structure for them to consider systematically an aspect of management practice from the Chapter case, and to use the same structure to plan how they would organise their answer to a typical assessment question on the subject of the chapter. The 'Develop a skill' section follows, with the suggestion that they can also think clearly as they reflect on how they approached that.

This arrangement reflects a belief that students and employers are seeking more connections between academic work and employment. I hope this new section provides a coherent way to integrate practice, theory and skills throughout the text, as a firm foundation for students' careers. For teachers, the section offers many opportunities to build assignments, projects and tutorial work.

Develop a skill As before this feature is consistently based on two theoretical structures: (1) a theoretical model in the chapter showing the underlying rationale for developing this skill; and (2) an established model of skill development, which informs the structure of each 'Develop a skill' feature. The skills are listed here by Chapter.

Chapter 1 – Networking

Chapter 2 – Self-awareness

Chapter 3 – Present a reasoned case

Chapter 4 – Mindfulness

Chapter 5 – Clarifying values

Chapter 6 – Setting success criteria

Chapter 7 – Planning to use your time effectively

Chapter 8 – Setting clear goals

Chapter 9 – Identifying customer needs

Chapter 10 – Coordinating work

Chapter 11 – Preparing for an interview

Chapter 12 – Setting a project agenda

Chapter 13 – Practising everyday creativity

Chapter 14 – Setting 'end-of-event' goals when influencing

Chapter 15 – Design a motivating job

Chapter 16 – Present ideas to an audience

Chapter 17 – Observing team processes

Chapter 18 – Identifying stakeholders and their interests

Chapter 19 – Assessing what customers mean by quality

Chapter 20 – Monitoring progress on a task

I do not envisage that many will work on the skills in every chapter – it is a resource to be used as teachers think best. The *Instructors Manual* includes a suggestion on how it could complement the academic content of a course.

Read more For students who want to read more about the topic. The format varies, but usually includes a mix of classic texts, one or two contemporary ones, and a couple of academic papers which represent good examples of the empirical research that underlies study of the topic.

Go online Each chapter concludes with a list of the websites of companies that have appeared in it, and a suggestion that students visit these sites (or others in which they have an interest) to find more information related to the chapter. This should add interest and help retain topicality.

Part cases The Part cases are intended to help students engage with text material throughout the Part. The common principle is to encourage students to develop their 'contextual awareness' by seeing how organisations act and react in relation to, amongst other things, their environment. The common structure therefore is:

- The company – material on the company and major recent developments

- Managing to add value – some ways in which managers appear to have added value
- The company's context – identifying between three and five contextual factors
- Current management dilemmas – drawing on the previous sections to identify pressing issues
- Part case questions – now in two groups – the first looking back to the material in the text, the second more focused on the company, and so perhaps offering a link to 'employability skills' – see below.

As well as supporting individual learning, these extended cases could be suitable for group assignments and other forms of assessment.

Employability skills (Now on the Companion Website) This section on 'Employability skills – preparing for the world of work' is a response to the growing expectations that universities and colleges do more to improve the employability of their students. The organising principle is to provide a structured opportunity for the student to develop and record evidence about six commonly cited employability skills:

- Business awareness
- Solving problems
- Thinking critically
- Team working
- Communicating
- Self-management

To help do this, students are asked to work through tasks which link the themes covered in the Part to the six skills (sometimes called capabilities and attributes) which many employers value. The layout should help students to record their progress in developing these skills, and articulate them to employers during the selection processes.

The basis of these tasks is the large Part case. The Employability section builds on this by setting alternative tasks relating to the Part case (to be chosen by the student or the instructor as preferred). That task in itself relates to the business awareness theme – and concludes by asking the student to write a short paragraph giving examples of the skills (such as information gathering, analysis and presentation) they have developed from this task, and how to build this into a learning record.

The other skills are developed by successive tasks which ask them to reflect on how they worked on the 'Business awareness' task – solving problems, thinking critically and so on.

I do not envisage that many will work through all of the tasks in every Part – it is a resource to be used as teachers and their students think best. I hope that teachers and students find this new feature valuable, and look forward to feedback and comments in due course.

List of reviewers We would like to express thanks to the original reviewers and review panel members who have been involved in the development of this book. We are extremely grateful for their insight and helpful recommendations.

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PREFACE TO THE FIRST EDITION

This book is intended for readers who are undertaking their first systematic exposure to the study of management. Most will be first-year undergraduates following courses leading to a qualification in management or business. Some will also be taking an introductory course in management as part of other qualifications (these may be in engineering, accountancy, law, information technology, science, nursing or social work) and others will be following a course in management as an element in their respective examination schemes. The book should also be useful to readers with a first degree or equivalent qualification in a non-management subject who are taking further studies leading to Certificate, Diploma or MBA qualifications.

The book has the following three main objectives:

- to provide newcomers to the formal study of management with an introduction to the topic;
- to show that ideas on management apply to most areas of human activity, not just to commercial enterprises; and
- to make the topic attractive to students from many backgrounds and with diverse career intentions.

Most research and reflection on management has focused on commercial organisations. However, there are now many people working in the public sector and in not-for-profit organisations (charities, pressure groups, voluntary organisations and so on) who have begun to adapt management ideas to their own areas of work. The text reflects this wider interest in the topic. It should be as useful to those who plan to enter public or not-for-profit work as to those entering the commercial sector.

European perspective

The book presents the ideas from a European perspective. While many management concepts have developed in the United States, the text encourages readers to consider how their particular context shapes management practice. There are significant cultural differences that influence this practice, and the text alerts the reader to these – not only as part of an increasingly integrated Europe but as part of a wider international management community. So the text recognises European experience and research in management. The case studies and other material build an awareness of cultural diversity and the implications of this for working in organisations with different managerial styles and backgrounds.

Integrated perspective

To help the reader see management as a coherent whole, the material is presented within an integrative model of management and demonstrates the relationships between the many academic perspectives. The intention is to help the reader to see management as an integrating activity relating to the organisation as a whole, rather than as something confined to any one disciplinary or functional perspective.

While the text aims to introduce readers to the traditional mainstream perspectives on management which form the basis of each chapter, it also recognises that there is a newer body of ideas which looks at developments such as the weakening of national boundaries and the spread of information technology. Since they will affect the organisations in which readers will spend their working lives, these newer perspectives are introduced where appropriate. The text also recognises the more critical perspectives that some writers now take towards management and organisational activities. These are part of the intellectual world in which management takes place and have important practical implications for the way people interpret their role within organisations. The text introduces these perspectives at several points.

Relating to personal experience

The text assumes that many readers will have little if any experience of managing in conventional organisations, and equally little prior knowledge of relevant evidence and theory. However, all will have experience of being managed and all will have managed activities in their domestic and social lives. Wherever possible the book encourages readers to use and share such experiences from everyday life in order to explore the ideas presented. In this way the book tries to show that management is not a remote activity performed

by others, but a process in which all are engaged in some way.

Most readers' careers are likely to be more fragmented and uncertain than was once the case and many will be working for medium-sized and smaller enterprises. They will probably be working close to customers and in organisations that incorporate diverse cultures, values and interests. The text therefore provides many opportunities for readers to develop skills of gathering data, comparing evidence, reflecting and generally enhancing self-awareness. It not only transmits knowledge but also aims to support the development of transferable skills through individual activities in the text and through linked tutorial work. The many cases and data collection activities are designed to develop generic skills such as communication, teamwork, problem solving and organising – while at the same time acquiring relevant knowledge.

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To Gilly, with love



PART 1

AN INTRODUCTION TO MANAGEMENT

Introduction

This part considers why management exists and what it contributes to human wealth and well-being. Management is both a universal human activity and a distinct occupation. We all manage in the first sense, as we organise our lives and deal with family and other relationships. As employees and customers we experience management in the second sense, as members of an organisation, or as one with which we deal. This part offers ways of making sense of the complex activity of managing.

Chapter 1 clarifies the nature and emergence of management and the different ways in which people describe the role. It explains how management is both a universal human activity and a specialist occupation. Its purpose is to create wealth by adding value to resources, which practitioners do by influencing others – the chapter shows how they do this. It ends by suggesting that using the skills of clear thinking should help your learning and develop the practical skills that will help your career. Every chapter contains material that will help you practise and use clear thinking skills.

Chapter 2 explains how management theory relates to contemporary management practice. It organises theories within a coherent framework, which enables you to relate theories to the types of situation in which they might be most useful: relating theory and practice to context is a constant theme. Be active in relating these theoretical perspectives to real events as this will help you to understand and test them.

The Part Case is Apple Inc., one of the world's most valuable and innovative companies. It illustrates how those managing it have been able to add value so successfully over many years – and also the challenges it now faces from new competitors.



CHAPTER 1

MANAGING IN ORGANISATIONS

Aim

To introduce the tasks, processes and context of managerial work in organisations.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Explain that the role of management is to add value to resources
2. Give examples of management as a universal human activity and as a distinct role
3. Compare functional roles, and distinguish levels of responsibility within a hierarchy (CW)
4. Distinguish alternative ways to measure value, including the 'triple bottom line'
5. Distinguish between 'task', 'process' and 'context'
6. Give examples of how managers add value to resources by influencing others through:
   a. the tasks of managing
   b. the process of managing and
   c. the contexts within which they and others work
7. Think clearly to evaluate these management practices and theories, and as you begin to further develop your networking skills

Key terms

This chapter introduces these terms:

entrepreneur
social entrepreneur
management as a universal human activity
manager
management
management as a distinct role
role
organisation
competences
value
task (sometimes called content)
sustainability
triple bottom line
stakeholders
management tasks
process
context
networking
management skills
clear (or critical) thinking

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

Specialisation within management
Informational, interpersonal and decisional roles
Managers and their context

Case study

Ryanair www.ryanair.com

In 2018, Ryanair, based in Dublin, reported that it had carried over 130 million passengers in the 12 months to the end of March, 8 per cent more than in the previous year. Revenue had grown by 8 per cent and profit by 10 per cent. This growth was slower than in previous years, which management attributed to overcapacity in the industry, rising fuel costs, and to badly managing a new system for organising pilots' work. This led to many cancelled flights and to unrest amongst pilots, who pressed the company to recognise their trade union – which Ryanair had always refused to do. Later in the year, it reported that profits for the first six months of the 2019 financial year had fallen to £1.2 billion. Revenue had risen but so had costs, including a 20 per cent pay increase to pilots, and the costs of cancellations and delays caused by strikes. The company predicted that profits in the 2019 financial year would be lower than in 2018.

Tony Ryan (1936–2007), the son of a train driver, left school at 14 to work in a sugar factory and in 1954 joined Aer Lingus, the state-owned Irish airline, to work as a baggage handler. By 1970, he was in charge of the aircraft leasing division, lending Aer Lingus aircraft and crews to other airlines. This gave him the idea of creating his own aircraft leasing company, which he did without delay.

In 1985, he founded Ryanair, with a single aircraft flying between Ireland and the UK, to compete with his former employer. The Gulf War in 1990 discouraged air travel and caused financial problems for Ryanair. Rather than close it, he and his senior managers (including Michael O'Leary, now chief executive) decided it would be a 'no-frills' operator, discarding conventional features of air travel like free food, drink, newspapers and allocated seats. Staff (including pilots, ground staff and cabin crews) would serve customers who wanted a functional and efficient service, not luxury.

In 1997, changes in European Union regulations enabled new airlines to enter markets previously dominated by national carriers such as Air France and British Airways. Ryanair quickly opened new routes between Dublin and continental Europe, and between European cities: although based in Ireland,



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80 per cent of routes are between airports in other countries. Tony Ryan also turned Ryanair into a public company by selling shares to investors.

In May 2018, the chairman of the board presented the company's results for the latest financial year.

Measures of financial performance in recent financial years (ending 31 March)

	2018	2017
Passengers (millions)	130.3	120
Revenue (millions of Euros)	7,151	6,648
Profit after tax (millions of Euros)	1,450	1,316
Earnings per share (Euros)	1.2151	1.053

Sources: Kumar (2006); Doganis (2006); *Financial Times*, 31 January 2018, p.18, 5 October 2018, p.17; Ryanair Annual Report 2018; *The Guardian*, 23 October 2018, p.29.

Case questions 1.1

- Visit the company website. Go to 'Corporate Website' and 'Investor Relations' to find information on recent developments in the business.
- List examples of the resources Ryanair uses.
- Give three examples of external forces affecting the company's performance.

1.1 Introduction

The Ryanair case study shows how an experienced entrepreneur, Tony Ryan, saw a further opportunity to add value to the resources he had or could obtain, and how he created an organisation to turn his vision into a profitable business. He persuaded others to provide resources – especially investors willing to provide money for the aircraft and the costs of operating it – and organised these into a service that he sold to customers. The business changed frequently in the early years and, under the current chief executive, Michael O'Leary, it has continued to adapt to changes in the outside world by making internal changes to the way it operates. This book is about the knowledge and skills required to balance internal and external expectations, and so build a satisfying and rewarding career.

Entrepreneurs are people who see opportunities in a market, and quickly mobilise the resources to deliver the product or service profitably.

Social entrepreneurs identify opportunities, secure resources and establish ventures to provide goods or services to disadvantaged groups.

Entrepreneurs thrive on innovation as they try to make the most of opportunities. Some focus on financial gain, while **social entrepreneurs** identify opportunities, secure resources and establish ventures to provide goods or services to disadvantaged groups.

All organisations – from new ones like Facebook to established ones like Royal Dutch Shell or Marks & Spencer – depend on people at all levels who can run the current business efficiently, and also innovate. Figure 1.1 shows that they draw resources from the external world and transform them into outputs that they return to the world outside. The value they obtain in return (money, reputation, goodwill, etc.) enables them to attract new resources and continue in business (shown by the feedback arrow from output to input). If the outputs do not attract sufficient resources, the enterprise will fail.

This chapter begins by showing that 'management' is a widespread human activity, not the preserve of a few in commercial organisations. Managers are expected to add value to the resources they use, through an identifiable set of activities focused on the tasks, processes and contexts of managing. It introduces theories and practices relevant to these. It also invites you to use the material to develop the skills of clear thinking as these will help you develop the knowledge you need to do well on your course. The chapter concludes with an opportunity to further develop your skill of networking.

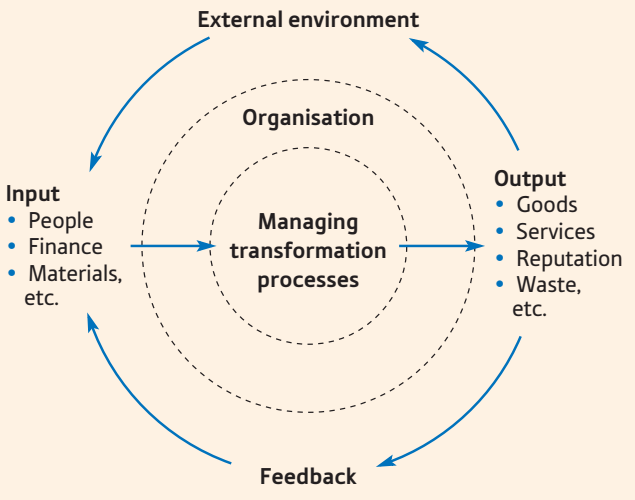


Figure 1.1 Managing organisation and environment

Activity 1.1 What is 'management'?

Make notes summarising what you think 'management' means.

- Think of instances in which you have encountered 'management' – such as when you have been managed in your school, university or job.
- Alternatively, reflect on an occasion when you have managed something, such as a study project.
- What were you, or those managing you, expected to achieve? By doing what?

1.2 Meanings of management

Management as a universal human activity

As individuals, we run our lives and careers: in this respect we are managing. Family members manage children, elderly dependents and households. Management is both a **universal human activity** and a distinct role. In the first sense, people manage an infinite range of activities:

Management as a **universal human activity** occurs whenever people take responsibility for an activity and consciously try to shape its progress and outcome.

> When human beings 'manage' their work, they take responsibility for its purpose, progress and outcome by exercising the quintessentially human capacity to stand back from experience and to regard it prospectively, in terms of what will happen; reflectively, in terms of what is happening; and retrospectively, in terms of what has happened. Thus management is an expression of human agency, the capacity actively to shape and direct the world, rather than simply react to it (Hales, 2001, p.2).

This, and the need to add value to resources, leads to the view that a **manager** is someone who is expected to add value to resources with the aid of people and other resources, and that **management** is the activity of intending to add value with the aid of people and other resources. This positions management as a universal human activity in domestic, social and political settings, as well as in organisations.

A **manager** is someone who is expected to add value to resources with the aid of people and other resources.

Management is the activity of intending to add value to resources with the aid of people and other resources.

In agricultural societies, people typically work alone or in family units, controlling their time and resources. They decide what to make, how to make it and where to sell it, combining work and management to create value. Self-employed craftworkers, professionals in small practices, and those in a one-person business do this every day. We all do it in household tasks or voluntary activities in which we do the work (planting trees or selling raffle tickets) and the management activities (planning the winter programme).

Activity 1.2 Think about the definition

Choose a domestic, community or business activity you have undertaken.

- What, specifically, did you do to 'add value to resources with the aid of people and other resources'?
- Decide if the definition accurately describes 'management'.
- If not, how would you change it?

Management as a distinct role

Management as a distinct role develops when activities previously embedded in the work itself become the responsibility not of the employee, but of owners or their agents.

Human action can also separate the 'management' element of a task from the 'work' element, thus creating 'managers' who are, in some degree, apart from those doing the work. **Management as a distinct role** emerges when external parties, such as a private owner of capital, or the state, gain control of a work process that a person used to complete themselves. These parties may then decide what to make, how to make it and where to sell it. Workers become employees selling their labour, not the products of their labour.

A **role** is the sum of the expectations that others have about the responsibilities of a person occupying a position.

The same evolution occurs when someone starts an enterprise, initially performing the *technical* aspects of the work – writing software, designing clothes – and also more *conceptual* tasks – deciding their markets, or how to raise money. If the business grows and the entrepreneur engages staff, they need to work on *interpersonal* tasks such as training and supervision. The founder gradually takes on more management roles – a **role** being the expectations that others have about the responsibilities of someone holding a job – what they should do (or not do). If growth continues, the founder begins to share the management role with others – they begin to build a management team. Levy (2011) shows that this proved controversial as Google grew. Founders Larry Page and Sergey Brin were not convinced that the hundreds of engineers they were recruiting needed managers – they could report to the head of engineering. The engineers disagreed:

> Page wanted to know why. They told him they wanted someone to learn from. When they disagreed with colleagues and discussions reached an impasse, they needed someone who could break the tie (p.159).

Google has since developed a robust system to measure managers' effectiveness and improve their skills (Garvin 2013; and see Chapter 12 Case study).

This separation of management and non-management work is not inevitable or permanent. People deliberately separate the roles, and can also bring them together. As Henri Fayol (1949) (of whom you will read more in Chapter 2) observed:

> Management ... is neither an exclusive privilege nor a particular responsibility of the head or senior members of a business; it is an activity spread, like all other activities, between head and members of the body corporate (p.6).

Someone in charge of a production department will usually be treated as a manager, and referred to as one. Those operating the machines will be called something else. In Ryanair, the boundary between 'managers' and 'non-managers' will be fluid, with all being expected to perform many tasks, irrespective of their title.

CWS More on specialisation within management

1.3 Managing to add value

An **organisation** is a social arrangement for achieving goals that create value.

We live in a world of managed **organisations**. We experience many every day – domestic arrangements (family or flatmates), large public organisations (the postal service), small businesses (the newsagent), large businesses (the jar of coffee), or a voluntary group (the club we attended). They affect us and we judge their performance. Did the transaction work smoothly or was it chaotic? Was the service good, reasonable or poor? Will you go there again? The answer is likely to depend on whether the organisation has used resources well.

Adding value

Good managers make things work – aid is delivered, roads are safe, shops have stock, mobiles work, hospitals function. They don't do the work themselves: they build an organisation with the resources *and* competences to deliver goods and services. To transform these resources into something with value, people work together on countless activities – to understand customers, deal with enquiries, and generally move work forward. They seek to improve, innovate and learn from experience. Good managers bring out the best in others so that they willingly 'go the extra mile': together they develop effective ways of working that become second nature. These 'ways of working' are **competences** – skills, procedures or systems that enable people to use resources productively. A manager's role is to obtain the resources, and develop the competences to use them, so that the organisation transforms them, adds **value** to them – by producing outputs that are more valuable to customers than the cost of the resources used.

Competences are the skills and abilities that an organisation uses to deploy resources effectively, such as systems, procedures and ways of working.

Value is added to resources when they are transformed into goods or services that are worth more than their original cost plus the cost of transformation.

Management in practice

Creating value at The Southbank Centre www.southbankcentre.co.uk

Jude Kelly was appointed Artistic Director of London's Southbank Centre in 2005. This is the UK's largest arts centre, receiving (in 2016–17) 43 per cent of its income from public funds, and the rest from ticket sales, commercial activities, and sponsorship. In 2016–17, over 6 million visitors engaged with their onsite activities, offered by more than 3000 artists. Are there any special challenges in managing creative people?

> **People who are confident about their creativity are confident about asking questions ... So you have to be flexible and excited about a variety of solutions ... The best leaders of creative projects are those who are excited by other people's imagination and not just their own.**

Ms Kelly stresses that artists are aware of practicalities:

> **To finish a piece of work an artist has [to know] to marshall the material [in time for an audience] coming through the door. Good arts organisations have to be highly entrepreneurial and flexible and make a little go a long way.**

FT Sources: *Financial Times*, 16 September 2013, p.16; *Southbank Centre Annual Review*, 2016–17.

Alternative measures of value

Commercial organisations (business start-ups, small and medium-sized enterprises, large private sector businesses, often operating internationally) measure value mainly (not only) in financial terms. They spend money on resources in the hope that what they produce and sell will bring in enough money to at least repay the original investment, together with an acceptable profit. Cooperatives (a growing form of UK enterprise according to their trade body Cooperatives UK (www.uk.coop) does the same. Some (like the Cooperative Group – see Chapter 5 Case study) are owned by customers, who receive a share of the profits as a dividend. HF Holidays (www.hfholidays.org.uk) provides walking and activity holidays for 60,000 people a year, and is owned by its members. Employees own others – the John Lewis Partnership (www.johnlewispartnership.co.uk) is the most prominent example, and another is Circle Health (www.circlehealth.co.uk), a healthcare provider founded and owned by clinicians.

Social entrepreneurs aim to create value for and with vulnerable sections of the population, giving priority to non-financial outcomes, including cultural, social and natural values (Ruskin et al. 2016). Charities and voluntary groups add value by educating people, counselling the troubled or caring for the sick. Parkrun (www.parkrun.org.uk) arranges hundreds of free runs in parks each weekend: volunteers do most of the organising. The British Heart Foundation (www.bhf.org) raised £170.2 million from legacies, fundraising activities and the retail business in 2017–18. Raising the income, and ensuring that what they use it for gives value for money, is a formidable management task – with over 700 shops, it is the largest charity retailer in the UK. Adding value here is at least as demanding a job as running a commercial business (see Part 5 Case).

Public sector organisations are expected to create public value. Performance and costs matter, but so do other criteria. Page et al. (2015) show (in the context of public-private collaboration in transport projects) that democratic responsiveness and process legitimacy (that procedures are fair, transparent and rational) are equally important values in public work.

Sustainability

Sustainability refers to economic activities that meet the needs of the present population while preserving the environment for the needs of future generations.

The **triple bottom line** is the idea that organisations can assess their performance on social and environmental criteria as well as financial ones.

Hawken et al. (1999) drew on years of advisory experience to show that companies who achieve **sustainability** in their performance – who make productive use not just of financial and physical resources, but also of human and natural ones – do well. They turn waste into profit by radical approaches to energy efficiency in buildings, processes and vehicles; by designing products to avoid waste; and by designing working practices that are satisfying for employees.

A term that sums up this approach is the **triple bottom line** – the idea that performance has social and environmental dimensions as well as financial ones. Figure 1.2 expresses this as 'planet, people and profit'. The text includes many examples of organisations trying to work more sustainably, including some in Chapter 5 (Corporate responsibility).

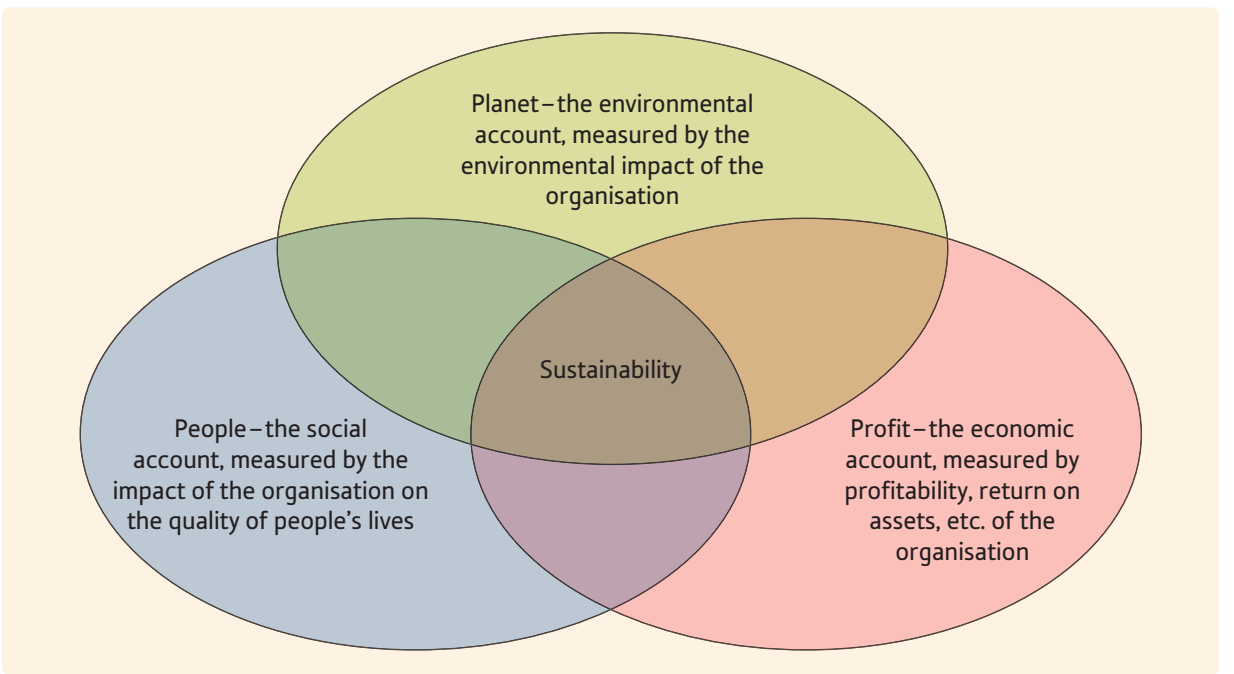


Figure 1.2 The triple bottom line

Many organisations fail to add value. If people do not arrange work efficiently they use more resources to make a product than customers will pay for, and so destroy value – as do pollution and waste. Motorways create value for drivers, residents of bypassed villages and shareholders – but destroy value for some people if the route destroys ancient woodland rich in history and wildlife. Deciding if managers have created value can be subjective and controversial.

Challenges vary with setting

Some management issues (setting targets, motivating staff, monitoring performance) arise in all organisations, while others are unique to their setting (charities must retain the support of donors). Table 1.1 illustrates this diversity, and their (relatively) unique, additional, challenges.

Table 1.1 Where people manage

Setting – industry or type	Examples in this book	'Unique' challenges
Entrepreneurs starting a business	innocent drinks in the early days – Chapter 2 Case study	Securing funding to launch, and enough sales to sustain cash-flow Building credibility
Small and medium-sized enterprises (SMEs)	Child Base Nurseries – MIP feature in Chapter 15	Generating enough funds to survive, innovate and enter new markets
Professional service firms	Hiscox (insurance) – MIP feature in Chapter 11	Managing highly qualified staff delivering customised, innovative services
Large private businesses, often working internationally	Virgin Group – Part 4 Case	Controlling diverse activities, meeting shareholder expectations
Voluntary, not-for-profit organisations and charities	Eden Project – Chapter 15 Case study	Providing quality visitor experience; fulfilling mission; retaining donors
Cooperatives – customer or employee-owned	The Cooperative Group – Chapter 5 Case study	Balancing democratic and commercial interests; raising capital
Public sector organisations	BBC – Chapter 3 Case study	Managing high profile political and commercial interests

1.4 Adding value by managing task, process and context

Bloom et al. (2012) provide strong quantitative evidence on the significance of management. Using interview and other data from thousands of factories, schools and hospitals in 20 countries, they show that those who adhered consistently to three management practices (targets, incentives, monitoring) performed significantly better (on criteria of productivity, growth in sales, return on capital, and company survival) than those that did not. McKenzie and Woodruff (2017) reach similar conclusions from a study of small and medium-sized enterprises in seven developing countries – confirming that good management adds value throughout an economy.

Good managers are expected to add value. They do this by transforming resources into outputs through identifiable pieces of work – 'tasks' and 'processes', within a context. The 'Key ideas' feature explains this.

Key ideas Task, process and context

When we are doing a piece of work we (often unconsciously) perform 'tasks' and 'processes', and do so within a unique context. Understanding the relationship between these three concepts affects the outcomes of our work – how much value we add to resources. This principle applies at all levels – from someone working on their own to those at senior levels of a large enterprise: all can draw on relevant theory and skills.

Task (sometimes called 'content') refers to the specific substantive piece of work that they have to complete – a 'deliverable'. At Ryanair, an individual could be preparing a duty-schedule for cabin-crew, maintaining an engine or preparing for take-off. A software development team may be working on a project to improve the website, while a team in marketing may be assessing the viability of a possible new route. At senior levels, individuals and teams may be working on probable aircraft requirements three years ahead, while others may be preparing the annual financial report. These and countless other examples will usually require relevant professional skills, knowledge of the task, ability to interpret technical information, and so on. They help to complete the task – *what* is to be done.

Process refers to *how* people work together – what they say or do to help them complete the task to the expected standard. At an interpersonal level, this includes how people communicate with each other, how they resolve disagreements, how they manage time, and many more. An example at Ryanair could be how members of the cabin crew pass information to each other to serve customers efficiently and quickly in a confined space. At an organisational level, it refers to such matters as how people make major decisions, whether they work mainly in teams or as individuals, and how they resolve conflicts. At Ryanair, the executive team regularly makes decisions about, for example, whether to add or remove a route: how do they decide – as a team or by leaving it to the chief executive? To deal with these matters effectively depends on applying an identifiable set of skills known as process skills – how to decide, how to communicate effectively, how to work as a team, and many more.

Context (sometimes called **environment**, or **situation**) refers to the setting in which people work. Section 1.7 distinguishes between the 'internal' or 'organisational' context and the 'external' context – the world outside the organisation. Elements of the internal context include its culture and structure, while the external context includes variables such as the strength of competitors or the state of the economy. The relevance of this to developing management knowledge and skill is that (as we shall find throughout this book) how much value a task or process skill adds to the resources used depends on the context. Methods that work well (add value) in one context do not necessarily do the same elsewhere. Good managers recognise this, and adapt what they do, and how they do it, to their setting.

Task (sometimes called content) refers to the specific substantive task that is the focus of individual or team effort.

Process refers to how people work together – what they say or do to help them complete the task to the required standard.

Context (sometimes called environment or situation) refers to the settings in which people and organisations work.

Figure 1.3 develops the 'Managing transformation' at the centre of Figure 1.1 to show that managers perform **tasks** – planning, organising, acting/leading and controlling – see Section 1.5; by using **processes** – deciding, influencing, motivating, communicating – see Section 1.6; within **contexts** – other parts of their organisation, and the external environment – Section 1.7.

In deciding how to approach these areas of work people can draw on the accumulated knowledge of managing, and of the skills that enhance performance. Sections 1.8 and 1.9 show how this text will help you to use those resources.

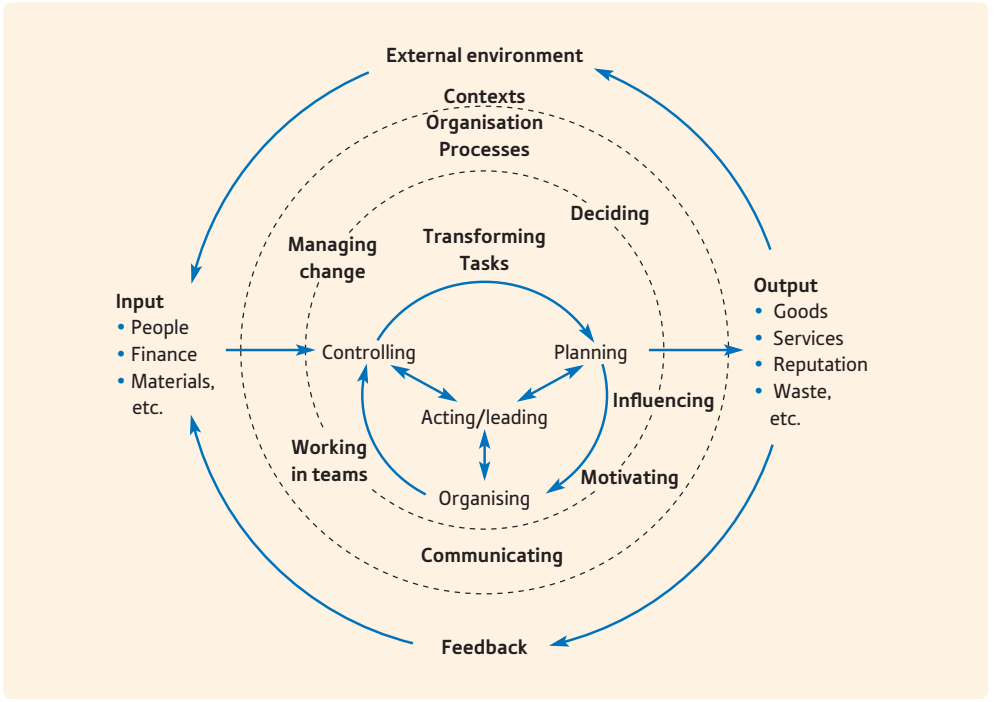


Figure 1.3 Managing tasks, processes and context

1.5 Influencing through the tasks of managing

Whatever their role, people add value to resources by influencing others, including internal and external **stakeholders** – those parties who affect, or who are affected by, an organisation's actions. The challenge is that stakeholders will have different priorities, so managers need to influence them to act in ways they believe will add value. One approach to this is by shaping the generic **management tasks**. Figure 1.4 repeats the central circle of Figure 1.3 – the tasks of planning, organising, acting/leading and controlling the use of resources to add value to them. Although presented as a sequence, we typically perform them simultaneously, switching emphasis as required.

Stakeholders are individuals, groups or organisations with an interest in, or who are affected by, what the organisation does.

Management tasks are those of planning, organising, acting/leading and controlling the use of resources to add value to them.

People draw inputs (resources) from the environment and transform them – through these tasks – into goods and services that they pass as output into the environment (context). The feedback loop indicates that this output is the source of future resources.

External environment (or context)

Organisations depend on the external environment for the resources they need to do their work, and on people in that environment being willing to buy or otherwise value their outputs. They also face the challenge of using natural resources efficiently and sustainably. Part 2 of this book deals with the environment of management.

Planning

Planning sets out the overall direction of the work. It includes forecasting future trends, assessing resources, and developing performance objectives. It means deciding on the scope of the business, the areas of work in which to engage, and how to allocate resources between different projects or activities. Managers invest time and effort in developing a sense of direction for the organisation, or their part of it, and express these as goals. Part 3 deals with planning.

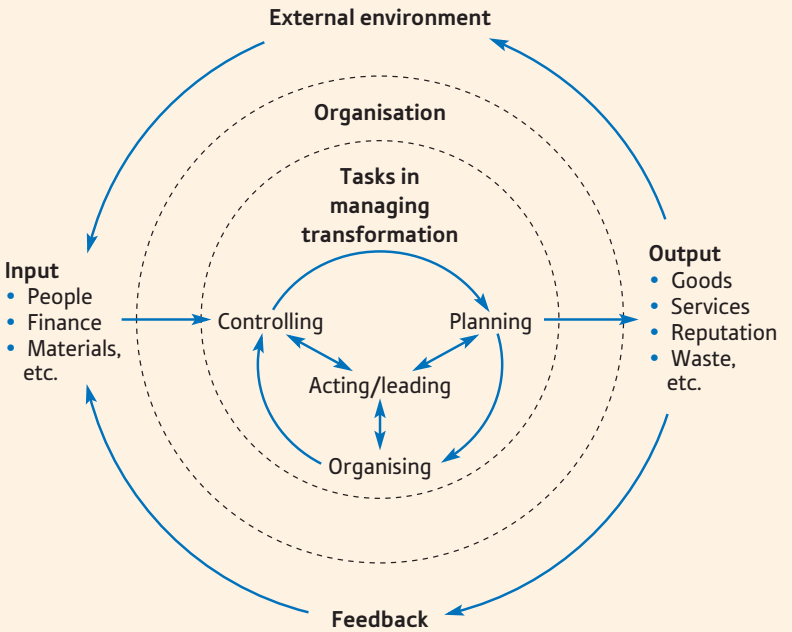


Figure 1.4 The tasks of managing

Management in practice

Geely plans for the long term www.geely.com

Chinese billionaire Li Shufu, founder and chairman of Zhejiang Geely, made a bold move in 2010 when he bought Swedish car maker Volvo from Ford. But it was not a sudden move – he had been thinking about Volvo since 2002, even before he had established the Geely car business:

> **I just felt that with Ford owning all these brands, at some point it could give us an opportunity to get one of them, and Volvo was my favourite.**

Hakan Samuelson, Volvo's chief executive, says the Swedish group has prospered under Geely's ownership thanks to the stability and investment it has brought.

Mr Li believes there is much more the Swedish company could do in communication and marketing, particularly of its vaunted reputation for safety, a big asset in China. Talking about Volvo's brand and what he sees as its respect for the environment and human beings, he says that his investment is for the long term as the brand's image is in tune with the way the world is developing.

FT Source: *Financial Times*, 7 April 2014, p.16.

Organising

Organising moves abstract plans closer to reality by deciding how to allocate time and effort. It includes creating a structure for the enterprise, developing policies for HRM, deciding what technology people need, and how to encourage entrepreneurship and innovation. Part 4 deals with organising.

Acting and leading

If someone is working on their own, we say that they 'act' or 'move into action' to get the job done. If they depend on the work of others, as is generally the case in managing, then we tend to use the term 'leading' to describe the bundle of practices they use to influence others to act.

People perform physical and mental actions to transform resources into things of greater value. An individual shapes a piece of metal, types an email, serves a customer; their immediate manager schedules next week's work, meets a supplier or fixes a delivery delay; a senior manager presents a report on current performance to the chief executive, or appoints a new member of staff. As they do these things, managers are, often at the same time, engaging in the other tasks – of planning, organising and controlling these and other pieces of work. Leading includes influencing, motivating, communicating and working in teams – Part 5 deals with leading.

Controlling

Control is the task of monitoring progress, comparing it with plan, and taking corrective action. Managers set a budget for a housing department, an outpatients' clinic, or for business travel. They ensure there are systems to collect information regularly on expenditure and performance – to check they are keeping to budget. If not, they decide how to bring actual costs into line with budget. Are the outcomes consistent with the objectives? If so, they can leave things alone. But if by Wednesday it is clear staff will not meet the week's production target, the manager needs to act – perhaps by authorising overtime.

Monitoring progress is also a good way to learn from experience. Good managers create and use opportunities to learn from what they are doing. Part 6 deals with control.

The tasks in practice

Managers typically switch between tasks many times a day. They deal with them intermittently and in parallel, as this manager in a not-for-profit housing association explains:

> My role involves each of these functions. Planning is an important element as I am part of a team with a budget of £8 million to spend on particular forms of housing. So planning where to spend it is very important. Organising is important too, as staff have to be clear on which projects to take forward, clear on objectives and deadlines. Controlling is also there – I have to compare the actual money spent with the planned budget and take corrective action as necessary.

And a manager in a professional services firm:

> As a manager in a professional firm, each assignment involves all the elements to ensure we carry it out properly. I have to set clear objectives for the assignment, organise the necessary staff and information to perform the work, supervise staff and counsel them if necessary, and evaluate the results. All the roles interrelate and there are no clear stages for each one.

Activity 1.3 Gather evidence about the tasks of managing

Reflect on a time when you have been responsible for managing an activity. Alternatively, draw on your experience of being managed and recall your manager at the time as the focus of the activity:

- Do the tasks of managing in Figure 1.4 cover all of your work, or did you do things that it misses?
- Give an example of something you did that would add value.
- If possible, compare your results with other members of your course – trying to identify alternative ways of doing things, or limitations in how your tasks were set up.

Case study

Ryanair – the case continues www.ryanair.com

Top management is organised by function. In 2019, under Michael O'Leary as chief executive, are two deputy chief executives who are chief operating officer and chief financial officer respectively. There are executives in charge of pilots, customer service, engineering, legal affairs, ground operations, and personnel/inflight. The board of directors consists of the chief executive and eight non-executive directors – people with significant experience in other businesses.

Managers are responsible for delivering the strategy – to bring the benefits of flying to as many people as possible. They control costs rigorously by:

- Using a single aircraft type (Boeing 737-800) which simplifies maintenance, training and crew scheduling.
- Using secondary airports (away from major cities) with low landing charges and less congestion.
- Staff prepare an aircraft for its next flight in 25 minutes (many airlines take an hour) which allows aircraft to spend more time earning revenue (11 hours a day compared to 7 at others).
- Not assigning seats simplifies administration, and passengers arrive in time to board early.
- Flying directly between cities avoids transferring passengers and baggage between flights.
- Cabin staff collect rubbish from the cabin, saving costs.

The company traditionally refused to recognise trade unions. In late 2017, there was a worldwide shortage of airline pilots, while demand for their services continued to grow. Ryanair mismanaged a change to its crew scheduling system, and had to cancel 2000 flights in September and October. The British Airline Pilots Association (BALPA) renewed its pressure on the company to recognise it as representing Ryanair pilots. The company changed its long-standing policy and, in 2018, reached a five-year pay deal with the union, which included a 20 per cent increase in pilots' pay. Similar changes were being discussed at bases in other countries, with the company on occasion threatening to close a base and move the aircraft elsewhere if they could not reach a satisfactory agreement with staff.

The company has always sought to minimise staff costs by introducing productivity-based incentive payments – such as awarding a bonus to cabin staff based on in-flight sales, and to pilots based on the number of hours they fly, within the legal limits. The proportion of flights that arrive on time is an important measure of performance, so the company holds a daily conference call between central operating staff and local staff at each base airport. These record the reasons for any flight or baggage delays, in the hope that by identifying their root causes, staff may be able to prevent them happening again.

FT Sources: *The Economist*, 20 July 2004; *Financial Times*, 19 January 2018, p.18, 12 February 2018, p.17; *The Guardian* 31 July 2018; company website.

Case questions 1.2

- Give examples of management tasks and processes mentioned in the instalment.
- How has Ryanair's context changed, and what effects may that have on management?
- What assumptions may have guided management's traditional policy towards trade unions, and what has led them to change those assumptions?

1.6 Influencing through the process of managing

The processes of management refer to the way in which people work, rather than to the work itself. Chapters 6 and 7 consider theories about how people make decisions, set plans, while Part 5 of the book presents theories about influencing and motivating

others, communicating, working in teams and managing change. Another perspective on the management process is how managers interpret their roles – which Henry Mintzberg investigated.

Mintzberg – ten management roles

Mintzberg (1973) observed how (five) chief executives spent their time, and used this data to create a model of management roles. He saw that managers' work was varied and fragmented, and contained ten roles in three categories – informational, interpersonal and decisional. Managers use these to influence others to get things done. Table 1.2 describes them, and illustrates each with an example provided by the manager of a school nutrition project.

Table 1.2 Mintzberg's ten management roles

Category	Role	Activity	Examples from a school nutrition project
Informational	Monitor	Seek and receive information, scan reports, maintain interpersonal contacts	Collect and review funding applications; set up database to monitor application process
	Disseminator	Forward information to others, send memos, make phone calls	Share content of applications with team members by email
	Spokesperson	Represent the unit to outsiders in speeches and reports	Present application process at internal and external events
Interpersonal	Figurehead	Perform ceremonial and symbolic duties, receive visitors	Sign letters of award to successful applicants
	Leader	Direct and motivate subordinates, train, advise and influence	Design and coordinate process with team and other managers
	Liaison	Maintain information links in and beyond the organisation	Become link person for government bodies to contact for progress reports
Decisional	Entrepreneur	Initiate new projects, spot opportunities, identify areas of business development	Use initiative to revise application process and to introduce electronic communication
	Disturbance handler	Take corrective action during crises, resolve conflicts amongst staff, adapt to changes	Holding face-to-face meetings with applicants when the outcome was negative; handling staff grievances
	Resource allocator	Decide who gets resources, schedule, budget, set priorities	Ensure fair distribution of grants nationally
	Negotiator	Represent unit during negotiations with unions, suppliers, and generally defend interests	Working with sponsors and government to ensure consensus during decision making

Source: Based on Mintzberg (1973), and private communication from the project manager.

CWS More on informational, interpersonal and decisional roles

Mintzberg observed that every manager's job combines these roles, with their relative importance depending on the manager's personal preferences, position in the hierarchy and the type of business. Managers usually recognise that they use many of the roles as they influence others.

Key ideas **Managerial work in small businesses**

O'Gorman et al. (2005) studied the work of ten owner-managers of small growing businesses to establish empirically if the nature of their work differs from those in the large businesses studied by Mintzberg. They concluded that it was in some ways similar to that in large organisations, finding brevity, fragmentation and variety; mainly verbal communication; and an unrelenting pace.

Managers also moved frequently between roles, switching from, say, reviewing financial results to negotiating prices with a customer. They were constantly receiving, reviewing and giving information, usually by telephone or in unscheduled meetings. They reacted immediately to live information by redirecting their attention to the most pressing issues, so that their days were largely unplanned, with frequent interruptions. Finally, the owners of these small businesses spent 8 per cent of their time in non-managerial activities – twice that in Mintzberg's study.

Managerial work in small, growth-orientated businesses had the same brevity and fragmentation as in large organisations, but much more informal communication.

Source: O'Gorman et al. (2005).

Managers as networkers

Does the focus of a manager's influencing activities affect their performance? Mintzberg's study gave no evidence on this, but work by Luthans (1988) showed that the relative amount of time spent on specific roles did affect outcomes. The team observed 292 managers in four organisations for two weeks, recording their behaviours in four categories – communicating, 'traditional management', networking, and human resource management. They also distinguished between levels of 'success' (relatively rapid promotion) and 'effectiveness' (work-unit performance and subordinates' satisfaction). They concluded that *successful* managers spent much more time networking (socialising, politicking, interacting with outsiders) than the less successful. *Effective* managers spent most time on communication and human resource management.

Networking refers to behaviours that aim to build, maintain and use informal relationships (internal and external) that may help work-related activities.

Wolff and Moser (2009) confirmed the link between **networking** and career success, showing building, maintaining and using internal and external contacts were positively associated with current salary, and with salary growth. Good networks help entrepreneurs to secure resources, information and status – which then further extend their network. A manager who wants to understand society and markets will benefit from meeting socially with a broad circle of friends, from widely different backgrounds.

Key ideas **Networking skills**

Trought (2017) develops ideas on the practical values of networking, including being a way to find job opportunities, through being active in professional associations or joining websites such as LinkedIn. How you manage your network is unique to you – reflecting your personality and circumstances, including the networks of those who are in *your* network. She suggests how you can build a more valuable network:

Face-to-face networks

- Find ways to attend formal networking events – perhaps through your careers service.
- Use casual conversations to seek out additional people with whom to network.
- Create events that others want to attend – it may widen your network.
- Maintain your network – keep in touch, and try to ensure people benefit from it.

Social media networks

- Build an active online network on professional sites such as LinkedIn.
- Ensure that the image you present there is the right one for the goals you have in mind.

Source: Trought (2017), pp.88–91.

Activity 1.4 Gather evidence about Mintzberg's model

Recall a time when you were responsible for managing an activity. Alternatively, draw on your experience of being managed, and recall your manager at the time as the focus for the activity:

- Do the ten roles cover all of your/their work, or did you do things not on Mintzberg's list? What were they?
- Give examples of what you/they did under five of the roles.
- On reflection, were there any of these roles to which you/they should have given more time? Or less?
- Try to compare your results with other members of your course.
- Decide if the evidence you have collected supports or contradicts Mintzberg's theory.
- Can you identify any weaknesses or limitations in this theory?

1.7 Influencing through shaping the context

A third way to influence others is by changing the context in which they work – the office layout, reporting relationships, reward system. The context influences managers, and is a tool they use to influence others:

> It is impossible to understand human intentions by ignoring the settings in which they make sense. Such settings may be institutions, sets of practices, or some other contexts created by humans – contexts which have a history, within which both particular deeds and whole histories of individual actors can and have to be situated in order to be intelligible (Czarniawska, 2004, p.4).

Managers aim to create contexts that will support their objectives.

Dimensions of context

Internal context

Figures 1.3 and 1.4 showed the links between managers, their organisation and the external environment. Figure 1.5 builds on Figure 1.4 by enlarging the 'organisation' circle to show the elements that make up the internal context within which managers work. Any

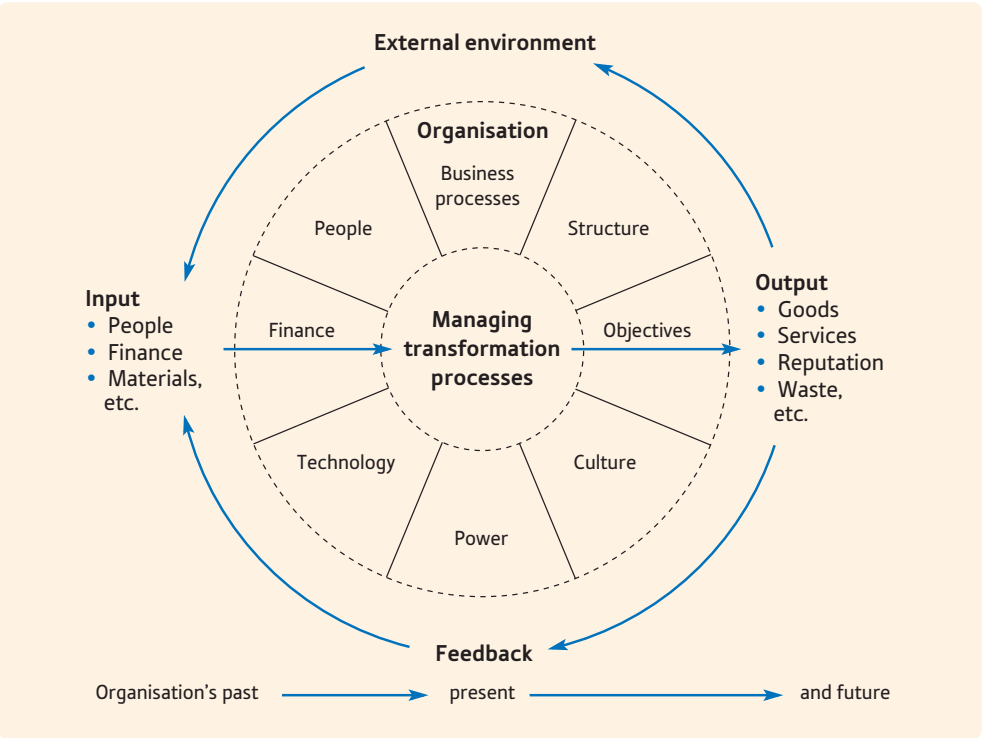


Figure 1.5 The internal and external context of management

organisation contains these elements – they represent the immediate context of the manager's work. As Apple grew into a major business, the management team made decisions about structure, people, technology, business processes – and indeed about all the elements in the figure, which later chapters examine:

- **Culture** (Chapter 3) – norms, beliefs and underlying values of a unit.
- **Objectives** (Chapters 6 and 8) – a desired future state of an organisation or unit.
- **Structure** (Chapter 10) – how tasks are divided and coordinated to meet objectives.
- **Technology** (Chapter 12) – facilities and equipment to turn inputs into outputs.
- **Power** (Chapter 14) – the amount and distribution of power with which to influence others.
- **People** (Chapter 15) – their knowledge, skills, attitudes and goals.
- **Business processes** (Chapter 19) – activities to transform materials and information.

Effective managers do not accept these as constraints or limitations – all represent opportunity as well as threat. They also try to change these contexts to support their goals (Chapter 18).

Historical context

We all work in the flow of history, as past events and future uncertainties shape beliefs and assumptions. Practitioners typically focus on current issues, ensuring things run properly. At the same time, history influences them, being the source of the structure and culture within which they and others work. People at all levels welcome the familiar, and may resist attempts to change it.

Effective managers also look to the future, questioning systems and observing external changes. Are we wasting resources? What are others doing? The arrow at the foot of the figure represents the historical context.

External context

Chapter 3 shows that the external context includes an immediate competitive (micro) environment and a general (or macro) environment. These affect performance and part of the manager's work is to identify, and adapt to, external changes. Managers in the public sector are expected to deliver improved services with fewer resources, so they seek to influence people to change the internal context (such as how staff work) to meet external expectations. They also seek to influence those in the external context to secure more resources and/or lower their expectations.

Case study

Ryanair – the case continues www.ryanair.com

Michael O'Leary joined the company in 1988 (he was previously financial adviser to Tony Ryan) and became chief executive in 1994. He depends on securing agreements with airport operators, and on persuading authorities to allow Ryanair to open a route. This often leads him into public disputes with airport operators and/or with the European Commission. O'Leary takes a deliberately aggressive stance to these controversies, believing that as long as it's not safety-related, there's no such thing as bad publicity.

He is outspokenly dismissive of traditional high-cost airlines, the European Commission, European Air Traffic Control, airport operators, and governments that subsidise failing airlines.

The company has traditionally been hostile to trade unions, but Mr O'Leary has accepted that recognition is now inevitable. Phillip von Schoppenthau, head of the organisation which brings together 36 national pilots' unions:

> **Ryanair could finish everything by the end of [2018] if they wanted to, if they were sincere and stopped playing one union against another ... It is a question of political will of the Ryanair board and leadership. [A swift resolution is in the interests of investors and staff.] (*Financial Times*, 15 October 2018, p.15.)**

Airline seats have no value if they are not filled on a flight, so companies aim to maximise the proportion sold, using a technique known as dynamic pricing – typically fares rise the nearer the date is to that of departure, though if seats are empty near the flight date, fares fall.

It earns revenue by charging for services such as checking baggage into the hold, booking by credit card, priority boarding and refreshments. It also earns commission if passengers rent a car, book a hotel room or buy insurance on the Ryanair website. The company expects revenue from ancillary activities will grow more rapidly than ticket sales, and in 2018 they brought in 35 per cent of total revenue (25 per cent in 2015).

FT Sources: *Financial Times*, 5 October 2015, p.14, 15 October 2018, p.15; *Ryanair Annual Report 2018*.

Case questions 1.3

- Ryanair seeks to earn as much revenue as it can from each flight. How has it tried to increase this (what variables has it changed?)
- Note the assumptions the company may have made in charging for previously free services.
- What specific examples of Mintzberg's management roles can you identify in the case (all instalments)?

Table 1.3 summarises ideas from Sections 1.6 and 1.7 on how managers can influence others as they perform tasks affecting internal, micro and macro contexts.

Table 1.3 Examples of influencing others by managing tasks in each context

	Internal (organisational)	Micro (competitive)	Macro (general)
Planning	Clarifying the objectives of a business unit, and communicating them clearly to all staff	Reducing prices in the hope of discouraging a potential competitor from entering the market	Lobbying for a change in a trade agreement to make it easier to enter an overseas market
Organising	Changing the role of a business unit and ensuring staff understand and accept it	Creating a new division to meet a competitive challenge more robustly	Lobbying government to simplify planning laws to enable more rapid business development
Acting/ heading	Redesigning tasks and training staff to higher levels to improve motivation	Arranging for staff to visit customers so that they understand more fully what they need	Sending staff to work in an overseas subsidiary to raise awareness of cultural differences
Controlling	Ensuring the information system keeps an accurate output record	Implementing an information system directly linked to customers and suppliers	Lobbying for tighter procedures to ensure all countries abide by trade agreements

CWS More on managers and their context

1.8 Managing needs clear thinking

The previous sections have presented examples of what practitioners do as they try to add value (however defined) to resources. They also presented three theories about how they do that – by influencing tasks, processes or contexts. You are reading this within the stable, orderly context of a textbook and companion website. The actions described here took place in the relatively chaotic worlds of human activity in which people navigate their way through life – as individuals, in families and societies, and as members of organisations.

Clear (or critical) thinking identifies the assumptions behind ideas, relates them to their context, imagines alternatives and recognises limitations.

How does someone trying to add value, in however modest a way, to the world's resources decide what to do? Thinking clearly is a start, and this concluding section describes four practices that may help you. It draws on a work by Brookfield (1987) entitled *Developing Critical Thinkers*, but changes the terminology: some associate 'critical thinking' with a negative, adversarial or confrontational perspective. **Clear thinking** seems to describe the practices just as well, so this text uses that term.

Check the assumptions

Clear thinkers look for the assumptions behind an action or proposal, and consider how valid they are. We approach a situation with ideas or beliefs (assumptions) about the factors – variables – that influence what is happening. If we want to change the situation, we need to have some idea about the likely effects of changing one or more of these factors – if we change variable 'a' how will that affect variable 'b'? What if we change another variable ('a1')? Will that add to the effect of changing 'a', or cancel it out? The 'Management in practice' feature on page 23 illustrates this dilemma. At the time, the team at innocent could not know the answer – so they had to make *assumptions* about the likely effects of

changing the container before deciding what to do. We are all in the same position – we make assumptions, often unstated, that guide what we do: they may be broadly right, or dramatically wrong.

Management in practice **innocent drinks – cartons or bottles?**

innocent drinks (the Case study in Chapter 2) initially sold the smoothies in 750ml cardboard cartons (variable 'a'). A few years later, someone proposed using transparent plastic bottles instead. To decide what to do, the management team would have considered how changing variable 'a' (the container) might affect other variables ('b') – such as cost ('b1'), appearance on the shelf ('b2'), or sales ('b3'). They do not know – so they have to make *assumptions* about the likely effects before deciding what to do. Such assumptions, often unstated, guide our decisions.

Source: Chapter 2 Case study.

These variables are of many types – for the moment just note that they can be about what we want to achieve (dependent variable), or about the factors that may affect that (independent variables). Clear thinking means stating explicitly what assumptions we (or others) are making: we can then check whether they seem valid – is 'a' really the main influence on 'b1' (or 'b2' or 'b3')? Or is the main influence 'a1', 'a2' – or something else altogether? If we think clearly, we can discard a proposal that no longer seems valid.

Recognise that context matters

Management takes place in a context, so practitioners need to identify not only the effect of 'a' on 'b', but also how contextual factors ('c') may affect this. Whatever people believe about the relation between 'a' and 'b' will be mediated by 'c' – one or more of the countless variables elsewhere in their organisation, and in the world outside. In the innocent example, two contextual factors influencing the container decision might be what competitors have done ('c1'), or the likelihood that retailers and consumers will avoid plastic for environmental reasons ('c2').

Thinking clearly means knowing that context matters: it influences thought, actions and results. Clear thinkers constantly observe the context as it is, how it is changing, and how this may affect their area of responsibility. Thinking carelessly means assuming that ideas and methods that work in one context will work in another, or that what works now will work in the future. Clear thinkers look for methods that seem to suit the context. They ask 'ABC?' – the endless question about the effect of 'a' on 'b' in the context of 'c' – shown in Figure 1.6.

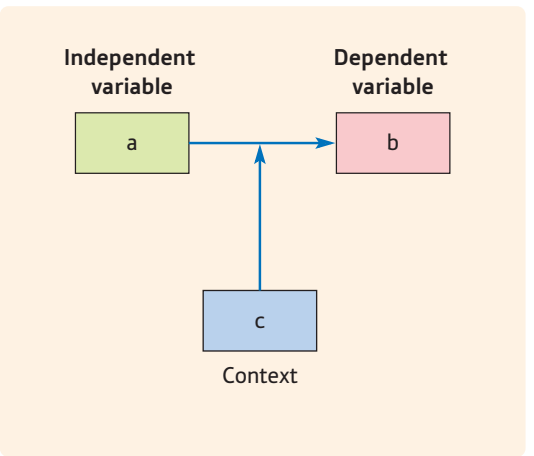


Figure 1.6 The ABC model

Imagine alternatives

Clear thinkers explore evidence from other situations because they know there are alternative ways of doing things beyond the ones with which we are familiar. They develop a sense of curiosity, and enjoy finding how others do something, and whether it works. This widens their repertoire of ideas – they know how others dealt with a situation, and have evidence about what worked and what didn't. As long as they remember the different contexts, they then have a wider range of possible realistic alternatives which they can adapt and use.

Acknowledge limitations

Clear thinkers are also aware of the limitations of knowledge and practice. They are sceptical towards research or proposals which seem to over-state the benefits, and cautious about whether they suit their unique situation. They are open to new ideas, but only when supported by convincing evidence and reasoning.

Key ideas **How we develop skill**

Whetten and Cameron (2011) show that individuals develop skill through five steps:

- **Assessment** – to show learners their present level of skill, and to motivate improvement;
- **Learning** – to know the theory and research showing why the skill is valuable;
- **Analysis** – to help learners see links between skills used and results achieved;
- **Practice** – to give learners the chance to practise and adapt skills to suit the way they work, and to local circumstances. Feedback enables further improvement;
- **Application** – to give learners the chance to use new skills in practical situations (Whetten and Cameron, 2011, pp.35–7).

In a training course designed to develop skills, learners repeat these steps many times to gain confidence in using them. In a degree course designed to develop theoretical knowledge, there is not time for that. However, the 'Develop a skill' features use this model to help you to begin connecting one piece of theory to a management skill. It also helps you to understand how you can begin to develop that skill by following these five steps.

1.9 Think clearly to connect practice, theory and skill

Figure 1.7 shows the belief that clear thinking will help you develop knowledge of theory and of practical skills.

Develop knowledge of theory

Thinking clearly should help your learning. An essay or exam paper that uses the components of clear thinking to analyse or evaluate a theory or piece of research will show the quality of your thinking and understanding: examiners will view it more favourably than work which only describes or summarises. At the end of each chapter, a 'Think clearly' feature encourages you to deepen your understanding of an aspect of theory presented in the chapter, and you can use the same method in preparing work for assessment.

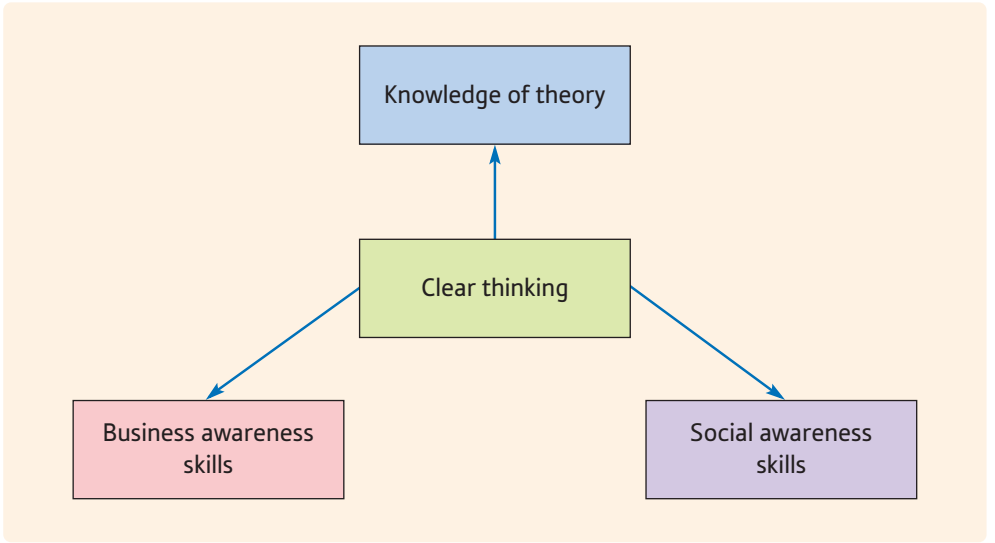


Figure 1.7 Clear thinking develops knowledge of theory and of practical skills

Develop a skill: business and social awareness

Management skills are identifiable sets of actions that individuals perform to produce an outcome they value. They show the person has expertise, dexterity – the reliable ability to do something practical to an acceptable standard. Jiang et al. (2012) reviewed the evidence from over one hundred studies of the link between skill and performance, and found, as they expected, that practices to enhance employees' training and education had a positive effect on their skills, including management skills. That in turn improved performance.

Management skills are identifiable sets of actions that individuals perform to produce an outcome they value.

Each chapter will help you develop practical skills of business and social awareness. The Chapter Cases studies, 'Management in practice' features and most of the research studies help you to develop your business awareness, as they illustrate alternative ways of doing things. You will gradually become aware of the many contrasting approaches that practitioners use – if one method does not work, what are the possible alternatives? These examples of practice extend the 'repertoire' that you can call upon as you deal with new situations in your career. Each chapter also includes a 'Develop a skill' feature, which gives you an opportunity to begin to develop a management skill (usually an aspect of social awareness), using an idea from the chapter. It shows how theory can guide practice. You can also think clearly (now, or far into the future) about how you applied that skill – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives you could have used, and the limitations of what you did?

Clear thinking will deepen your understanding of management. It will help you develop knowledge and skill throughout your career, as you practise the habits of checking assumptions, recognising context, imagining alternatives and acknowledging limitations. Sections 1.8 and 1.9 are based on work by Brookfield (1987), which the companion website explains more fully.

CWS More on thinking skills

Use the text to develop clear thinking

This text includes material to help you develop these thinking skills. Each chapter contains a case study, in three or four sections, which illustrates management practice in a (usually) recognisable organisation. It asks you to answer questions about the case, one of which may ask about the value people were adding to resources (what they were expected to achieve)? Another may ask you to list examples of people performing tasks and processes, as they sought to add value. Others may ask you how contextual factors influenced events or what variables managers tried to change.

Each chapter also includes activities, some of which focus on clear thinking. One may ask you to consider the assumptions that an author makes about the variables that are relevant in a situation, and the extent to which factors in the context may affect the outcome. Another may ask you to discuss alternative theories to the one presented, or to identify limitations of the theory – such as the nature of the evidence used.

At the end of each chapter, there is a table (see Table 1.4) that helps you to practise the skills of clear thinking, by reflecting on the Chapter Case study, and one aspect of theory from the chapter.

Sources of 'management practice'

The activities aim to link theory and practice. When working on these activities, be imaginative about the sources of management practice you can use.

These include:

- your experience of being managed – student, customer, employee, volunteer and many more
- people you know with experience of managing – family members and friends
- when you have taken responsibility for a student activity, leading a sports team, running a charity event – all provide examples of management practice
- your experience of managing – whether in part-time or full-time work
- published sources of practice – from this text, other publications, company websites.

All are potentially legitimate sources of evidence to help you learn – simply explain the source and why you have chosen to use it.

Practice and theory

The *second* column in Table 1.4 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). *These are examples only – not a comprehensive analysis*. You can disagree with these and /or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *How useful to a manager is the idea that their role is to add value to the resources they use? (50%) Explain, with examples, how they can transform resources into outputs that add value. (50%)*

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 1.4 'Clear thinking' questions about practice and theory

Clear thinking practices	From the Chapter Case study – Ryanair's relations with staff	Theory – a question on the manager's job being to add value (Sections 1.3 and 1.4)
Check assumptions (task and process)	Pilots would still be willing to work without trade unions – that assumption was incorrect That pilots in separate bases would not support each other – also incorrect That having to negotiate with trade unions will threaten the low-cost model – experience over the next year will provide evidence	Outline the idea: • adding value to resources is essential to provide means to acquire future resources • do so by managing tasks and processes in contexts Measures of value vary with the setting – is a manager working on same measures as others expect him or her to use? Are they all equally 'measurable' in objective terms? Are some criteria preferred because they are easier to measure than others? Both the tasks (what) and processes (how) can be done in many ways – how valid are the assumptions implied by using one method rather than another? Does evidence support an assumption that focusing on planet and/or people will not damage profit?
Recognise contexts	Worldwide shortage of pilots altered power balance – did Ryanair take that into account? Installing a new rota system was a greater hazard than expected – have management learned any lessons for future projects from that misreading of the risks of change? Established policy of not recognising trade unions has now had to change under pressure. Can they learn to work with trade unions in the new context? The unions claim that will be less likely with present top managers, and has proposed changes	Appropriate measures of value vary with context/setting – how to ensure measures used are suitable (in the sense of being a measure of how effectively management is using resources) Tasks and processes that add value vary with context. Answers can draw on many examples of this in other chapters Managers unable or unwilling to adapt methods to circumstances will add less value How might adding value in an enterprise committed to triple-bottom-line differ from conventional private and public enterprises?

(continued)

Table 1.4 (*continued*)

Clear thinking practices	From the Chapter Case study – Ryanair's relations with staff	Theory – a question on the manager's job being to add value (Sections 1.3 and 1.4)
Imagine alternatives	Is Ryanair willing to learn that the familiar context has changed, and adjust to building a constructive relationship with unions? Would new senior management find that easier to do than the current team?	'Self-managed' or communal activities – such as parkrun (Chapter 13, Section 13.6) are also managed, but in a different way. Are they adding value? Almost certainly, but on different measures and in different ways As later chapters show, there are many alternative ways of performing management tasks and processes
Acknowledge limitations	Recognising unions may damage a low-cost model, but it would still have lower costs than most competitors Less confrontational relations with staff will raise costs and ticket prices – but should reduce flight disruption caused by strikes. Do passengers place more value on low prices or reliable flights?	Concept of adding value may have little to offer in areas of life where individuals work in creative isolation, or in situations of great emotional stress Value added has to be recognised by those directly or indirectly supplying resources. Can managers ensure value added by an activity is recognised and credited by those allocating resources?

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of networking.

Develop a skill: networking

Networking skills can benefit your career progression, so this exercise may help.

- **Assessment.** How good do you consider you are at networking? Thinking of one area of your life, how many people are in that 'network'? Do you actively try to extend it, or do you prefer doing things alone or with a small number of people?
- **Learning.** Section 1.6 defined networking and reported research by Luthans and later by Wolff and Moser. This showed the implications of this practice for career success. Read that section again, paying especial attention to the 'Key ideas' feature on page 24 which gives tips on networking. Summarise the principles about networking in these theories. How would you distinguish a good networker from a poor one? Why is networking likely to help career success?
- **Analysis.** Consider the possible implications for you of this evidence in Section 1.6. Identify someone (whom you know, or can read about) who seems to be a good networker. Consider what they do, what the effects seem to be, and what you may be able to learn from them.
- **Practice.** Identify one way in which you may be able to improve your networking skills (see Trought (2017)) for ideas – 'Key ideas' feature on page 24). Identify a suitable opportunity to practise this for a few days. Then record the results, and reflect on what you can learn.
- **Application.** Following your reflection, identify how you will try to further improve your skill, and seek another opportunity to practise it within the next week.

Summary

1 **Give examples of management as a universal human activity and as a distinct role**

- Management is an activity that everyone undertakes to some extent as they manage their lives. In another sense, management is an activity within organisations, conducted in varying degrees by many people. It is not exclusive to those called 'managers'. People create the distinct role when they separate the work itself from the management of that work, and allocate the tasks to others. The distinction between management and non-management work is fluid and the result of human action.

2 **Explain that the role of management is to add value to resources**

- Managers create value by transforming inputs into outputs of greater value: they do this by developing competences within the organisation which, by constantly adding value (however measured) to resources, is able to survive and prosper. The concept of creating value is subjective and open to different interpretations. Managers work in an infinite variety of settings, and Table 1.1 shows how each setting raises unique challenges.

3 **Distinguish alternative ways to measure value, including the 'triple bottom line'**

- Commercial organisations tend to measure value mainly in economic terms, but others, such as social entrepreneurs, charities and cooperatives, use different measures, such as cultural, social and natural values.
- Public organisations may also value democratic responsiveness or procedural fairness.
- The triple bottom line refers to attempts to create value in relation to 'planet' and 'people', as well as in terms of financial profit.

4 **Distinguish between 'task', 'process' and 'context'**

- Task refers to the specific substantive work someone does.
- Process refers to how people perform the task – such as how they make decisions, or how they communicate during the task.
- Context refers to the setting in which people work, and includes inner, outer and historical contexts.

5 **Explain how managers influence others to add value to resources through the following**

- **The tasks (or content) of managing.** Planning involves developing the objectives and direction of task (at any level), the resources needed and what it will achieve; organising is the activity of deciding how to deploy resources (at all levels) to deliver plans, acting alone or leading others, while controlling monitors results against objectives.
- **The processes of managing.** These refer to how people work together – how they solve problems, make decisions and communicate with each other. Mintzberg studied how managers worked and identified ten management roles – grouped as informational, interpersonal and decisional. Luthans and, more recently, Moser show the value of networking widely with people inside and outside an organisation.
- **The contexts within which people work.** The internal context consists of elements that help or hinder the manager – such as objectives, technology, business processes, structure, culture, power and people. The historical context also influences events, as do the competitive and general environments.

6 **Use clear thinking to evaluate management practices and theories, and as you begin to develop your skill of networking**

- Clear thinking means checking assumptions, recognising context, imagining alternatives and acknowledging limitations.
- Developing networking skills is likely to be more effective if someone questions the assumption that networking is always appropriate, and whether their context encourages the practice. They are also likely to benefit more if they seek alternative ways to network, and are conscious of the limitations of their chosen approach.

Test your understanding

1 How do non-commercial organisations add value to resources?
2 What is the difference between management as a general human activity and management as a distinct role?
3 How has this division happened, and what are some of its effects?
4 Explain the meaning of the 'triple bottom line'.
5 Give examples from your experience or observation of each of the tasks of management.
6 How does Mintzberg's theory of management roles complement that which identifies the tasks of management?
7 What is the significance to someone starting a career in management of Luthans' theory about roles and performance?
8 How can clear thinking help you to learn both theory and skill?
9 Review and revise the definition of management that you gave in Activity 1.1.

Read more

Drucker, P. (1999) *Management Challenges for the 21st Century*, Butterworth/Heinemann, London.

Insightful observations from the enquiring mind of this great management theorist.

Timpson, J. (2010) *Upside Down Management: A Common Sense Guide to Better Business*, Wiley, Chichester.

Few successful entrepreneurs have the ability to explain what running a business entails: John Timpson, owner and chairman of the dominant chain of shoe-repair shops, does.

Bloom, N., Sadun, R. and Van Reenen, J. (2012) 'Does management really work?', *Harvard Business Review*, vol. 90, no. 11, pp.76–82.

A substantial empirical study assessing the extent to which management adds value.

Ruskin, J., Seymour, R.G. and Webster, C.M. (2016) 'Why create value for others? An exploration of social entrepreneurial motives', *Journal of Small Business Management*, vol. 54, no. 4, pp.1015–37.

Valuable insights into the motives and commitment of social entrepreneurs.

Go online

These websites have appeared in the chapter:

www.ryanair.com
www.southbankcentre.co.uk
www.uk.coop
www.johnlewispartnership.co.uk
www.circlepartnership.co.uk
www.hfholidays.org
www.bhf.org
www.parkrun.org.uk
www.geely.com

Visit two of the business sites in the list, or others that interest you, and navigate to the pages dealing with recent news, press or investor relations.

- What are the main issues that the organisation is facing?
- Compare and contrast the issues you identify on the two sites.
- What challenges may they imply for those working in, and managing, these organisations?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



CHAPTER 2

THEORIES OF MANAGEMENT

Aim

To show how theories of management can guide practice and develop skill.

Objectives

By the end of your work on this chapter and companion website (CW), you should be able to outline the terms below in your words and:

1. Explain how theory can inform your approach to the tasks, processes and contexts of managing
2. State the structure of the competing values framework, and how this knowledge can add value
3. Give examples of management practices that reflect these theories:
   a. Rational goal
   b. Internal process
   c. Human relations and
   d. Open systems and contingency approaches
4. Identify the prevailing models in an organisation, and consider possible effects on managers' roles
5. Use clear thinking to evaluate these management practices and theories, and as you begin to develop further your self-awareness skills

Key terms

This chapter introduces these terms:

theory (or model)
self-awareness
scientific management
bureaucracy
administrative management
human relations approach
system
open system
system boundary
feedback
subsystem
contingency approach

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

rational goal models
internal process models, especially Henri Fayol
human relations models, especially on Mary Parker Follett and Elton Mayo
socio-technical systems

Case study

innocent drinks www.innocentdrinks.com

Richard Reed, Jon Wright and Adam Balon founded innocent drinks in 1998, having been friends since they met at Cambridge University in 1991. The business was successful and, in 2013, the founders sold most of their shares to Coca-Cola for an undisclosed amount, but which observers estimated at £100 million. They stressed the sale would not affect the character of the company, as Coca-Cola had owned 30 per cent of the company since 2009. This provided innocent with the money to finance expansion and introduce new products – such as 'nutritionally-powered' smoothies in 2014. In 2018, it employed about 450 staff (of whom 250 are at Fruit Towers in London).

After graduating, Reed worked in advertising, while Balon and Wright worked in (different) management consultancies. They often joked about starting a company, considering several ideas before deciding on 'smoothies' – which they built into one of the UK's most successful entrepreneurial ventures of recent years.

Smoothies are blends of fruit that include the pulp and sometimes contain dairy products such as yogurt. They tend to be thicker and fresher than ordinary juice. Some are made to order at juice bars and similar small outlets, but the trio decided to focus on pre-packaged smoothies sold through supermarkets, and to offer a premium range. These contain no water or added sugar and cost more than the standard product.

Any new business requires capital and must also be assured of further cash for expansion. This is a challenge, as the product is usually unknown, and the business has no record to show whether the promoters can make a profit. If investors doubt that they will get their money back, they will not lend it. Even if the initial plan succeeds, growth will require more funds – launching a new product or entering a new geographical market always drains cash before it becomes profitable. The founders eventually persuaded Maurice Pinto, a private investor, to put in £235,000 in return for a 20 per cent share.

innocent sales grew quickly, and Pinto advised the founders to consider expanding in Europe and/or extending the product ranges. They started by selling the core range in continental Europe and are now active in 15 countries, mostly in Europe. They also



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diversified the product range, which in 2018 included smoothies, juices, super juices, dairy-free, coconut water, bubbles (fruit and spring water) and 'kids range'.

The founders knew their success would depend on the quality and commitment of their staff, including professional managers from other companies. Reed says:

> **we've always set out to attract people who are entrepreneurial – we want them to stay and be entrepreneurial with innocent. But inevitably ... some want to do their own thing by setting up their own businesses. We help and support them with whatever we can.**
> **(Quoted in *Director*, June 2011).**

The founders believe they are enlightened employers who look after staff well. All receive shares in the business which means they share in profits.

Sources: Based on material from 'innocent drinks', a case prepared by William Sahlman (2004), Harvard Business School, Case No. 9-805-031; Germain and Reed (2009); *Marketing Week*, 21 February 2014; company website.

Case questions 2.1

- What aspects of the context may have helped or hindered innocent in the early years?
- What assumptions may they have made about what their potential customers wanted?
- As well as raising finance, what other issues would they need to decide once they had entered their chosen market?

2.1 Introduction

The story of innocent drinks illustrates three themes that run through this book. First, they were entrepreneurs who created a business – which would only survive if it offered something that customers valued. Second, their personal values meant they wanted to leave the world a better place – by enabling staff to enjoy work (and supporting some to become entrepreneurs), treating suppliers fairly, and operating sustainably. Third, while based in the UK, they manage internationally – sourcing materials from around the world, turning them into products, and selling these throughout Europe.

To achieve this, they created an organisation – securing resources, turning them into products that customers value, reinvesting profits to grow the business. Most managers cope with similar issues. All need to recruit willing and capable people to help them create value. Many share innocent's commitment to responsible business practice. Sustainability is on the agenda of most management teams, as is the challenge of working internationally.

As they dealt with these practical issues, the innocent team drew, perhaps implicitly, on their stock of theories – about what might work in this situation, and what might work in that. We probably all do this every day. For regular routine events, we follow our habits; for others we follow a rule, or do what someone else suggests. For some we need to think for ourselves, and it is then that we draw on our mental toolkit – our stock of theories about what we might do.

Sometimes a single familiar theory serves us well, but in the complex situations that most practitioners face, it will not – theories usually deal with only part of the situation. Customers want innovation, but at low cost; they expect efficient and predictable working, while staff value varied and creative work. Others expect firms to work transparently and openly, while also expecting them to control customer and staff information very securely. Managers balance these conflicting expectations while also ensuring the organisation adds value and survives. Heracleos (2013) shows how Apple Inc. has balanced intense efficiency in operations with outstanding creativity in product design – see Part 1 Case. Someone aware of several theories, who can draw upon the most suitable for their situation, is likely to add more value than colleagues with a single perspective.

The next section considers the value of theories to practitioners. Section 2.3 presents the competing values framework – whose four theoretical perspectives (models) have different implications for a manager's skills. Subsequent sections outline each model.

2.2 Theories illuminate tasks, processes and contexts

Since each situation is unique, some managers ignore theory. Magretta (2013) answers:

> without a theory of some sort it's hard to make sense of what's happening in the world around you. If you want to know whether you work for a well-managed organization – as opposed to whether you like your boss – you need a working theory of management (Magretta, 2013, p.10).

A **theory** (or model) represents a complex phenomenon by identifying the major elements and relationships.

A **theory** (or model) represents a complex reality. Focusing on the essential elements and their relationship helps to understand that complexity, and how change may affect it. The challenge is to identify theories that suggest an acceptable way forward in a given situation. Good theories save time – they identify relevant variables which helps to focus attention. Zenger (2013) relates Apple's success to Steve Jobs' enduring theory that:

> consumers would pay a premium for ease of use, reliability and elegance in computing and other devices, and that the best means for delivering these was relatively closed systems, significant vertical integration and tight control over design' (p.76).

Theories suggest ways to manage tasks

Chapter 1 presented a model of the tasks of managing – planning, organising, acting/leading and controlling. People at all levels of an enterprise (think of how you approach an essay or study project) use them (iteratively) as they work. Each task includes identifiable smaller tasks:

- **Planning** – setting objectives for the work or project, including what we want to achieve and how we will judge success; deciding who will do the work and by when; ensuring resources will be available when needed; setting targets and measures of performance.
- **Organising** – deciding how to divide and coordinate work; allocating responsibilities and resources; ensuring communication systems will support coordination; deciding what to do 'in-house' and what to 'buy in'.
- **Acting/leading** – individuals turn plans into physical or mental action to transform resources into a product or service. In organisations, practitioners make decisions, influence, motivate and communicate with others, and manage teamwork.
- **Controlling** – monitoring progress towards the objective – resources used outputs achieved; comparing actual results with targets and measures of performance; reflecting, learning and adapting plans to reflect experience.

Throughout the book there are theories that use experience and research to suggest how people do these tasks to add value.

Theories suggest ways to manage processes

Chapter 1 also presented a model of the process of managing – explaining what 'process' means and giving examples. People at all levels use one or more of these processes during their tasks. Typical process issues include:

- **Influencing and motivating** – how best to persuade others to act in a particular way, and to secure their willing commitment.
- **Team working** – how to ensure that teams work together well and bring benefit to members and the organisation.
- **Communicating** – how to ensure rapid and accurate communication when needed.
- **Making decisions** – how to reach decisions that add value, and that others will accept.

Throughout the book there are theories that use experience and research to suggest ways of conducting these processes in ways that add value. The 'Management in practice' feature shows two managers' contrasting theories about how to manage staff.

Management in practice

Practice reflects managers' theories
www.apple.com www.timpson.co.uk

Two successful managers offer contrasting theories about how to motivate staff.

- Individual responsibility: [Steve] Jobs had insisted that a named individual be responsible for every task, however large or small:

  at Apple you can figure out exactly who is responsible. This principle is enshrined in the Directly Responsible Individual' – DRI: this is the person the company calls to account if anything goes wrong. Any meeting at Apple will have an action list – next to [each item] will be the DRI.

Source: Part 1 Case, quoting Lashinsky, 2012, pp.67–8.

- Supporting staff: John Timpson, chairman of the shoe repair and key cutting chain, believes the most important people in the company are those who cut customers' keys and re-heel their shoes:

  You come back for the service you get from the people in the shops. They are the stars ... we need to do everything to help them to look after you as well as possible. [A bonus based on shop takings] is fundamental to the service culture I want. It creates the adrenalin. That is the reason why people are keen to serve you if you go into one of our shops. And why they don't take long lunch breaks.

FT Source: *Financial Times*, 3 August 2006.

Theories suggest how to observe and manage contexts

Chapter 1 presented a model of the internal and external contexts of managing – the setting in which people work. The nature of these has significant implications for how to manage tasks and processes to add value. Typical contextual questions include:

- **Observing competition** – analysing how competitors may affect the enterprise.
- **Scanning the general environment** – how demographic change is affecting staff and customers.
- **Shaping the organisation** – how to adapt it to satisfy a major customer's needs. Figure 2.1 develops the 'organisation' part of Figure 1.5 to show some variables within each element: 'structure' could include variables such as roles, teams or control systems.

Case questions 2.2

- Give examples of three significant variables in Figure 2.1 that managers at innocent will probably have dealt with as they extended the product range.
- What does your list imply about the areas of knowledge upon which they would need to draw?

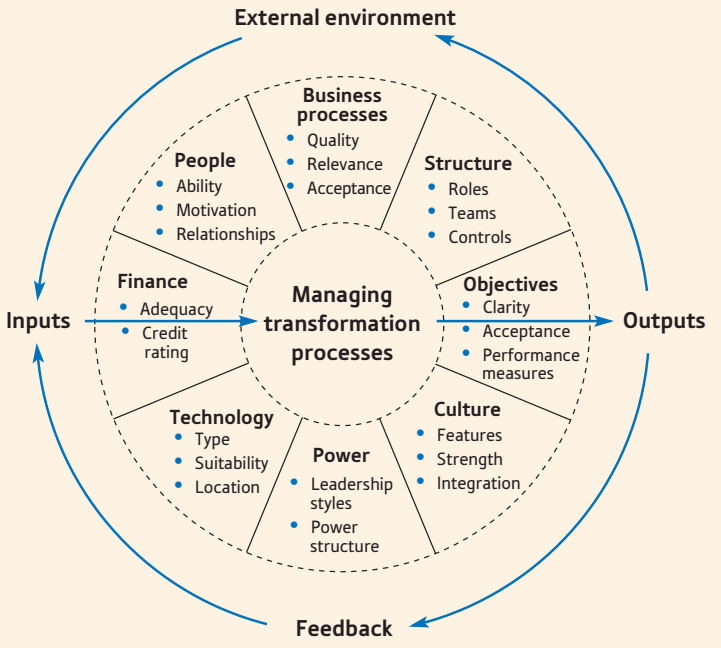


Figure 2.1 Some variables in the internal context of management

Later chapters present evidence and theory on how contexts influence management tasks and processes.

2.3 The competing values framework

As long as people have engaged in productive activities, they have, consciously or unconsciously, and in varying degrees, created their personal theory about what they were doing. As they farmed, sailed, made things or traded, their human curiosity will have sparked reflection on why this worked and that didn't, and how they might get better results for their effort. If a method worked, they would repeat it, so it became their normal practice – it was their (probably unstated), mental theory: 'If I sow this crop in late April, it will grow more quickly than if I sow in the middle of March'. They would soon elaborate that by taking account of other variables – type of soil, rainfall and so on. Some farmers, then as now, do better than others – largely because they learned practices that were consistently more productive. They used their practical experience to develop theories, and in turn drew on these to refine practices to add more value.

Managers do the same today, but they can also draw on the work of earlier managers (and other observers and scholars) who reflected on what they were doing, saw what worked, and recorded it. There are countless such theories, and each on its own may not be much use. If we can see some pattern to relate them, this may show how they can guide practice.

Kiechel (2012) offers a historical overview of management theories, while Bodrozic and Adler (2018) suggest why each group of theories emerged when they did. Quinn et al. (2015) believe that successive theories of management complement each other as all are:

> subdomains of a larger construct: organizational effectiveness. Sometimes organizations benefit from stability, and sometimes they benefit from change. Often [they] need both ... at the same time (p.12).

They identify four underlying philosophies – 'rational goal', 'internal process', 'human relations' and 'open systems' – proposing that while each adds to our knowledge, none is sufficient. They integrate them by placing their underlying values within a 'competing values' framework – see Figure 2.2.

The vertical axis represents the tension between flexibility and control. Some practitioners seek flexibility to cope with rapid change. Others try to increase control – apparently the opposite of flexibility. The horizontal axis distinguishes an internal focus from an external one. Some focus on internal issues, others on the world outside.

The framework shows the values and criteria of effectiveness by which others judge organisations, and units within them. These call for different types of action, so Quinn et al. (2015) attach labels (Compete, Control, Collaborate, and Create) to each as a shorthand expression to refer to the complex set of activities.

- The rational goal model (lower right quadrant: Compete) focuses on maximising output, and stresses how ideas on direction, goals, productivity and accomplishment help to achieve that.
- The internal process model (lower left: Control) focuses on consolidation and continuity, and stresses how ideas on documentation, information, stability and control help to achieve that.
- The human relations model (upper left: Collaborate) focuses on developing people, and stresses how ideas on commitment, morale, participation and openness help to achieve that.
- The open systems model (upper right: Create) focuses on expansion and change, and stresses how ideas on innovation, adaptation, growth and acquiring resources help to achieve that.

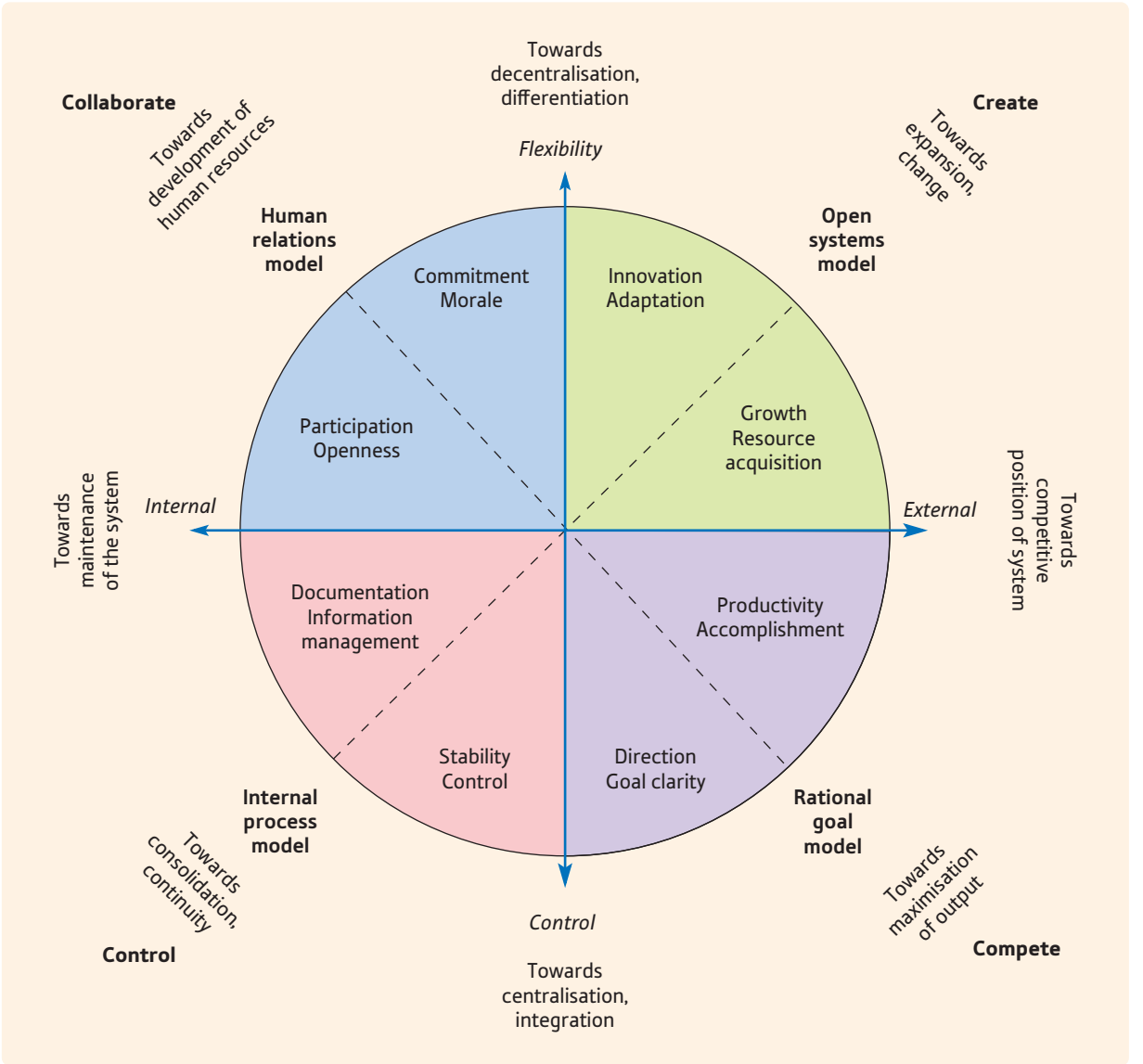


Figure 2.2 Competing values framework

Source: Quinn et al. (2015), p.14.

Competing values and management skills

Each value implies that a manager using that approach needs corresponding skills. Using a 'rational goal' approach is likely to need skills in the areas of developing a vision, setting goals and working productively; a 'human relations' approach will need skills in developing employees, encouraging participation, building teams; and so on. Quinn et al. (2015):

> Managers tend to become trapped in their own style, and in the organization's cultural values. They tend to employ very similar strategies in a wide variety of situations ... Each model in the framework suggests value in different, even opposite strategies [reflecting] the complexity confronted by people in real organizations. It ... provides a tool to broaden thinking and to increase choice and effectiveness (p.15).

Successive sections of the chapter refer to some major theories corresponding with each value, and the companion website contains a fuller account. The 'Develop a skill' feature

asks you to identify your 'preferred' model, as reflecting on that may help you develop the skill of **self-awareness** – see 'Key ideas'.

Self-awareness refers to a person's understanding of their preferred reaction to people and situations.

Key ideas Self-awareness

An implication of the competing values idea is that we need to be aware of our preferred model of managing in a given situation, *and* that there are other possibilities. Those who are **self-aware** – in the sense of understanding their instinctive reaction to people and situations, are more likely to use the model effectively to guide what they say and do.

Quinn et al. (2015) outline the skills associated with the respective quadrants. This includes the skill of being aware of self and others:

> **One of the most important skills a managerial leader can possess is that of understanding themselves and others. To be effective a managerial leader must be able to inspire others to action and so must [understand how they] are seen by others. [They must also] know how to monitor their reactions to situations, and determine the basis for their reactions. By developing this type of self-awareness, they develop a greater capacity for self-control (p.31).**

Source: Quinn et al. (2015).

Activity 2.1 The model and practice

Use the model to reflect on an organisation of your choice:

- Which of the competing values seems dominant in *one* department?
- Identify examples of how the assumptions of that model may (implicitly) have shaped management practices.
- Do any practices seem inconsistent with the dominant model?

2.4 Rational goal models

The availability of powered machinery during the Industrial Revolution enabled business owners to transform manufacturing and mining processes. These technical innovations encouraged the growth of the factory system in place of the earlier system in which people worked at home on materials supplied and collected by entrepreneurs. Those with capital gained more control if they built a factory and brought workers into it:

> the employer could dictate the general conditions of work, time and space; including the division of labour, overall organisational layout and design, rules governing movement, shouting, singing and other forms of disobedience (Thompson and McHugh 2002, p.22).

This still left entrepreneurs across Europe and later the United States with the problem of how to manage these new factories. Competition was intense, and the risk of business failure was high. It was in this historical context that the rational goal model of management emerged. The basic assumption here is that clear direction brings more production. This brings an emphasis on clarifying goals and using rational analysis to decide how to achieve them. The focus is on productivity and accomplishment, sometimes drawing on the principles of **scientific management** (Taylor, 1917):

Scientific management: the school of management called 'scientific' attempted to create a science of factory production.

- Use scientific methods to determine the best way to do a task, rather than rely on tradition.
- Select the best person to do the job, by assessing physical and mental qualities.

- Train, teach and develop the worker to follow the defined procedures precisely.
- Provide financial incentives to ensure workers follow the prescribed method.
- Move responsibility for planning and organising from the worker to the manager.

Practitioners are balancing the need to know what customers want (external focus) with the need to create a system to meet those requirements efficiently and consistently (control). How they achieve that balance will affect whether they add value. The 'Management in practice' feature gives an example: the firm wishes to give customers the same high-quality experience wherever they are, and uses the principle of systematic work methods (an aspect of structure, Chapter 10) within the business to achieve this.

Management in practice — Making a sandwich at Pret A Manger www.pret.com

It is very important to make sure the same standards are adhered to in every single shop, whether you're in Crown Passage in London, Sauchiehall Street in Glasgow, or in New York. The way we do that is very, very detailed training. So for example how to make an egg mayonnaise sandwich is all written down on a card that has to be followed, and that is absolutely non-negotiable.

When somebody joins Pret they have a ten-day training plan, and on every single day there is a list of things that they have to be shown, from how to spread the filling of a sandwich right to the edges (that is key to us), how to cut a sandwich from corner to corner, how to make sure that the sandwiches look great in the box and on the shelves. So every single detail is covered. At the end of that ten days the new team member has to pass a quiz, it's called the big scary quiz, it is quite big and it is quite scary, and they have to achieve 90 per cent on that to progress.

Source: Interview with a senior manager at the company.

Table 2.1 summarises modern applications of rational goal principles.

Examples of rational goal approaches are common in manufacturing and service organisations:

- Analysing data to make decisions (Chapter 6).
- Specifying roles in detail (Chapter 10).
- Separating 'planning work' from 'doing work' (Chapter 10).
- Dividing jobs into small units (to make training easier) (Chapter 10).
- Incentive payment systems (Chapter 11).
- Just-in-time production systems (Chapter 19).

Table 2.1 Modern applications of the rational goal model

Principles of the rational goal model	Modern applications
Systematic work methods	Work study and process engineering departments develop precise specifications for processes
Detailed division of labour	Where staff focus on one type of work or customer in manufacturing or service operations
Centralised planning and control	Computer-based information systems increase the scope for central control of worldwide operations
Low-involvement employment relationship	Using temporary staff as required, rather than permanent employees

Activity 2.2 Finding current examples

Try to find an original example of a 'rational goal' approach. There are examples in office and service areas as well as in factories. Compare your examples with those of colleagues.

Have you found examples of possible limitations of these principles?

CWS More on rational goal models

2.5 Internal process models

Here the emphasis is on establishing control to ensure stability and continuity. While armies, navies and governments have used the basic idea of hierarchy for centuries, the main principles of the 'professional bureaucracy' were only codified in the early twentieth century. The model is complementary to the rational goal model, in that the focus is the enterprise, rather than the individual worker.

Max Weber (1864–1920) was a German social historian who noted that as societies became more complex, they concentrated responsibility for core activities in large administrative units. Government departments and large industrial or transport businesses were hard to manage, so those in charge created systems – rules and regulations, hierarchy, precise division of labour, detailed procedures. Weber observed that **bureaucracy** brought routine to office operations just as machines had to production – see 'Key ideas'.

Bureaucracy is a system in which people are expected to follow precisely defined rules and procedures rather than to use personal judgement.

Key ideas Characteristics of bureaucracy

- **Rules and regulations –** these define and control what people do, and are intended to ensure uniform procedures and operations. They enable top managers to coordinate middle managers and, through them, first-line managers and employees. Managers leave, so rules bring stability.
- **Impersonality –** rules leads to impersonality, which protects employees from managers' whims. Although the term has negative connotations, Weber believed it ensured fairness, by evaluating subordinates objectively on performance rather than subjectively. It limits favouritism.
- **Division of labour –** managers and employees work on narrowly defined tasks, which are easier to learn.
- **Hierarchy –** jobs are ranked by the amount of authority to make decisions. Those in higher positions have authority over those in lower positions.
- **Authority –** a system of rules, impersonality, division of labour and hierarchy forms an authority structure – the right to make decisions of varying importance at different levels.
- **Rationality –** this refers to using the most efficient means to achieve objectives. Managers should run their organisations logically and 'scientifically' so that all decisions help to achieve the objectives.

Activity 2.3 Bureaucratic management in education?

Reflect on your role as a student and how rules have affected the experience. Try to identify one example from your institution to add to those below:

- Rules and regulations – the number of courses you need to pass for a degree
- Impersonality – admission criteria, emphasising exam performance, not friendship

- Division of labour – chemists not teaching management, and vice versa
- Hierarchical structure – to whom your lecturer reports, and to whom that person reports
- Authority structure – who decides whether to recruit an additional lecturer
- Rationality – appointing new staff to departments that have the highest ratio of students to staff.

Compare your examples with those of other students and together consider the effects of these features of bureaucracy on the institution and its students. Have you noticed any limitations?

Record any alternatives – how do other places deal with these issues?

What assumptions about people appear to lie behind bureaucratic models of management?

Administrative management is the use of institutions and order rather than relying on personal qualities to get things done.

The companion website summarises the work of another major contributor, Henri Fayol, and his ideas on **administrative management**. While Taylor focused on production systems, Fayol (1841–1925) devised principles that would apply to the whole organisation. He was an engineer who became one of France's most successful managers.

CWS More on Henri Fayol's contribution

How Google decides to add a new feature to its search process provides a current example of the rational approach, in that data is at the centre of the decision. An assistant product manager:

> can order up a 1 per cent A/B experiment (in which one out of a hundred users gets a version of the product with the suggested change), then go to the team and say 'users with this new experience are doing 11 per cent more page views and clicking on ads 8 per cent more'. With ammunition like that, a decision to include the new feature in the product wouldn't be based on a power struggle but on a mathematical calculation. Nothing personal. It was data (Levy 2011, pp.161–2).

As well as creating bureaucratic structures, managers were using scientific management techniques to control production and impose discipline on factory work. The two systems complemented each other. Hierarchical structures of management centralise power, and aid functional specialisation. Imposing close discipline on employees and minimising their discretion ensures controlled, predictable performance (Thompson and McHugh, 2002) – though it may have unintended consequences for motivation. If people aim for stability and continuity, they can plausibly assume that establishing clear routines will achieve this. If the situation requires close control (such as innocent aiming for sustainable production at distant suppliers), practitioners can plausibly give clear instructions and require regular information so they know what is going on.

Table 2.2 summarises some modern applications of the internal process principles.

Critics of bureaucracy believe it stifles creativity, fosters dissatisfaction and hinders motivation. Others credit it with bringing fairness and certainty to work, as it clarifies roles and responsibilities, makes work effective – and so helps motivation. Adler and Borys (1996) reconcile this by distinguishing between bureaucracy that is:

- enabling – designed to enable employees to master their tasks

from that which is:

- coercive – designed to force employees into effort and compliance.

Table 2.2 Examples of modern applications of the internal process model

Some principles of the internal process model	Modern applications
Rules and regulations	All organisations have these, covering areas such as expenditure, safety, recruitment and confidentiality
Impersonality	Appraisal processes based on objective criteria or team assessments, not personal preference
Division of labour	Setting narrow limits to employees' areas of responsibility – found in many organisations
Hierarchical structure	Most organisation charts show managers in a hierarchy – with subordinates below them
Authority structure	Holders of a particular post have authority over matters relating to that post, but not over other matters
Centralisation	Organisations balance central control of (say) finance or online services with local control of (say) pricing or recruitment
Initiative	Current practice in many organisations is to increase the responsibility of operating staff
Rationality	Managers are expected to assess issues on the basis of evidence, not personal preference

Their empirical research showed that 'enabling bureaucracy' had a positive effect on motivation, while 'coercive bureaucracy' had a negative effect.

Public organisations and commercial businesses with geographically dispersed outlets – like hotels, stores and banks – routinely use bureaucratic methods. Citizens and customers expect equal, predictable service wherever they are, so management design centrally-controlled procedures and manuals – how to recruit and train staff, what the premises must look like and how to treat customers. If managers work in situations that require a degree of change and innovation that even an enabling bureaucracy will have trouble delivering, they need other models.

Management practices include:

- written rules, procedures and guidelines (Table 2.2)
- making decisions objectively on the basis of accurate information (Chapter 7)
- mechanistic systems (see Chapter 10)
- measuring and recording performance against goals (Chapter 19)
- checking and auditing procedures to ensure compliance and control (Chapter 19)

Case study

innocent drinks – the case continues www.innocentdrinks.com

Another early decision (after finance) was how to set up the roles to build the business. Reed, from advertising, took care of marketing. Balon, who had been selling Virgin Cola, took on sales, while Wright (who had studied manufacturing engineering) was in charge of operations. They agreed that rather than have one chief executive all three would jointly lead the company.

They had assumed they would build a factory but soon realised that it would be smarter to work with a manufacturing partner, as this would allow the founders to focus on the core tasks of growing the business and building the brand. The team found a UK supplier who was able to take on this work, enabling the company to increase sales rapidly with little capital.

Despite the fun image, they ran the business very firmly and everyone had to pull their weight. Staff worked in functional teams such as people, finance, production, and fruit and ingredients. The latter is especially significant, as a core value at innocent is that products and production methods are as environmentally sustainable as possible – requiring growers and processing plants around the world to follow specified procedures. Fruit comes from thousands of farms, and the company tries to ensure they are certified by independent environmental and social organisations who certify their agricultural practices and treatment of staff: innocent only buys bananas from plantations with a Rainforest Alliance certificate.

To reduce the carbon footprint they process fruit near the farms. Packaging has a low environmental impact, and all cartons use cardboard from sources certified by the Forestry Stewardship Council (FSC). In 2014, innocent's head of sustainability joined a Coca-Cola team developing a global approach to sourcing ingredients sustainably.

Sources: Based on material from 'Innocent Drinks', a case prepared by William Sahlman (2004), Harvard Business School, Case No. 9-805-031; Germain and Reed (2009); *Marketing Week* 21 February 2014; company website.

Case question 2.3

- What examples can you see in the case so far of elements of the 'competing values study framework'? Note especially those that are consistent with the internal process model.
- There are four examples in this instalment of the founders considering alternative ways to run the firm. Select *one* and note how their choice would have affected managers' tasks.

CWS More on internal process models

2.6 Human relations models

Human relations approach is a school of management that emphasises the importance of social processes at work.

These models developed as scholars and practitioners became conscious that the earlier theories paid little attention to the human factors in work, and found evidence that doing so could benefit both employer and employee. The companion website summarises the work of Mary Parker Follett (1922, who drew attention to the significance of groups in both communities and in organisations. Her work, and studies at the Hawthorne electric plant in Chicago, influenced what is known as the **human relations approach**.

CWS More on Mary Parker Follett

Hawthorne studies

In 1924, managers of the Western Electric Company initiated experiments at their Hawthorne plant in Chicago to measure how changing the physical environment would affect output. They first studied the effects of lighting. The researchers established a control and an experimental group, varied the light level and measured the output. As light rose, so did output. More surprisingly, as light fell, output continued to rise: it also rose in the control group, where conditions had not changed. The team concluded that changing physical conditions had little effect, so set up a more comprehensive experiment to identify other factors.

They assembled a small number of workers in a separate room and systematically altered variables – working hours, length of breaks and providing refreshments. The experienced workers were assembling small relays for telephone equipment. A supervisor was in charge and an observer recorded how workers reacted to successive changes. The researchers took care to prevent external factors disrupting the effects of the variables – for example by

explaining what was happening, ensuring workers understood what they should do and listening to their views.

They also varied conditions every two or three weeks, while the supervisor measured output regularly. This showed a gradual, if erratic, increase – even when the researchers returned conditions to those at an earlier stage: see Figure 2.3.

Activity 2.4 Explaining the trend

Describe the pattern shown in Figure 2.3. Compare in particular the output in periods 7, 10 and 13. Before reading on, how would you explain this?

In 1928, the company invited Elton Mayo to present the research to a wider audience (Smith, 1998; Roethlisberger and Dickson, 1939; Mayo, 1949). They concluded from the relay-assembly test room experiments that the increase in output was not related to the physical changes, but to changes in the social situation:

> the major experimental change was introduced when those in charge sought to hold the situation humanly steady (in the interests of critical changes to be introduced) by getting the cooperation of the workers. What actually happened was that 6 individuals became a team and the team gave itself wholeheartedly and spontaneously to cooperation in the environment (Mayo, 1949, p.64).

The group felt special: managers asked for their views, were involved with them, paid attention to them and they had the chance to influence some aspects of the work.

The research team also observed another part of the factory, the bank wiring room, which revealed a different aspect of group working. Workers were paid according to a piece-rate system, in which management pays workers a set amount for each piece they produce. This reflects the assumption that financial incentives will encourage effort, yet the researchers observed that employees regularly produced less than they could have done.

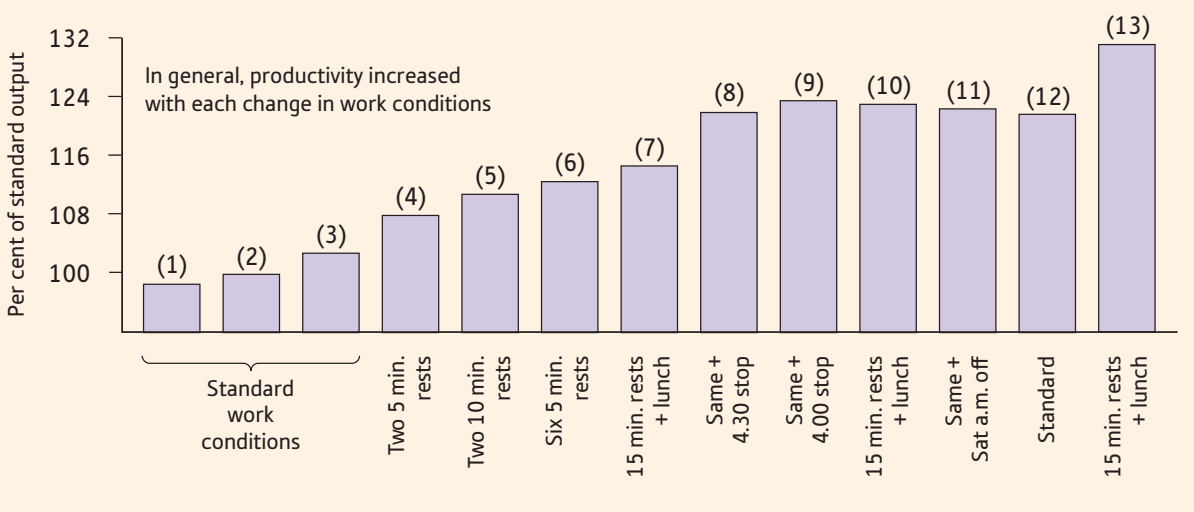


Figure 2.3 The relay assembly test room – average hourly output per week (as percentage of standard) in successive experimental periods

Source: Based on data from Roethlisberger and Dickson (1939). From *Behavior in Organizations*, 6th edition, Greenberg and Baron, © 1997. Reprinted by permission of Pearson Education, Inc. Upper Saddle River, NJ.

They had developed a sense of a normal rate of output, and ensured that all members adhered to this, believing that if they produced, and earned, too much, management would reduce the rate for each piece. Workers exercised sanctions against colleagues who worked too hard (or too slowly), until they conformed. Members who did too much were 'rate-busters' while those who did too little were 'chisellers'. Anyone who told the supervisor was a 'squealer'. Sanctions included being 'binged' – tapped on the shoulder to show that what they were doing was wrong. Managers had little or no control over these groups.

Activity 2.5 **A comparison with Taylor**

Compare this evidence with Frederick Taylor's belief that piece-rates would be an incentive to individuals to raise their performance. What may explain the difference?

Finally, the research team interviewed employees, asking about the working environment, how they felt about their job, and their life in general. The responses showed that work affected home life more than expected, and domestic circumstances affected their feelings about work. This implied that supervisors needed to think of a subordinate as a complete person, not just as a worker.

Mayo's reflections drew attention to aspects of human behaviour that practitioners of scientific management had neglected. He introduced the idea of 'social man', in contrast to the 'economic man' of earlier theories. Financial rewards would influence the latter, group relationships and loyalties would influence the former:

> Man's desire to be continuously associated in work with his fellows is a strong, if not the strongest, human characteristic. Any disregard of it by management or any ill-advised attempt to defeat this human impulse leads instantly to some form of defeat for management itself (Mayo, 1949, p.99).

People have social needs, and how they satisfy them may support or oppose management interests.

Although some scholars have drawn attention to potential weaknesses in the research, the Hawthorne studies stimulated interest in social factors at work. Scientific management stressed the technical aspects of work. The Hawthorne studies drew attention to the human factors, leading to the human relations approach. Advocates of this believe that employees will work better if managers are interested in their well-being and supervise them humanely.

A current example

A current example of using the human relations approach in practice comes from a study by Arnaud et al. (2016) in a French bank. Managers at HQ of the newly privatised bank developed a strategy to ensure staff in the branches were more customer-centred, more professional and more efficient. They designed new procedures, using scientific management principles. In four branches, staff opposed the strategy and it was never implemented. In one branch, the manager designed three sets of local procedures and documents ('texts') using a human relations approach, which he believed would meet the needs of staff and of HQ. This was the only branch that implemented HQ's strategy. The texts were of three types: operating (what to do and how to do it); geosocial (where and who); and timing (when). Table 2.3 gives examples of what he did, and how staff responded.

The focus in the human relations model is on commitment, cohesion and morale – the means-ends assumption is that involving people in decisions leads to commitment, and the values include participation, resolving conflict and building consensus. People aim to

Table 2.3 Examples of texts created in branch which implemented strategy

Texts	Writing the texts in order to enact ...		
	Global managerial goals targeted in design	Local managerial intents targeted in design	Effects of employees reading these texts
Operating – closing account procedure	*Be more customer-oriented and efficient* Created document to avoid customer complaints and produce good performance figures	*Develop versatility* Simplified the process, ensuring a better quality of service, created a tool to let staff work on different tasks	They could read exactly what to do. Helped them to feel more versatile and able to meet customer demands in this area
Geosocial – architecture of the workplace	*Develop professionalism* Rather than 'specialist silos', created space that supported flexible collective action by staff	*Take account of employees' demands* Responded to staff requests about layout, and ensured they remained versatile	They read this as evidence he had taken account of their views as well as those of HQ
Timing – daily memo	*Be more efficient* Put in writing work schedule for the day and levels of work waiting to be done	*Develop versatility and accountability* He ensured workers could read what had to be done and why, and who was responsible for each task	They felt this showed what they had to do and helped a common understanding of priorities for the day

Source: Based on Arnaud et al. (2016) pp.43–4.

communicate openly, which depends on a deep understanding of others' motivations and interests as well as one's own. Managers create teams to take responsibility for areas of work, and so develop the skills of team-working that also take account of individual needs – see 'Key ideas'.

Key ideas The variety of human needs www.Tesco.com

Lynda Gratton (2011) recalls a study conducted by Tesco which revealed the variety of needs that their employees brought to work:

> **Once they had collected data about individual employees, they began to combine people with similar aspirations into segments. [They found that] employees' aspirations for work were highly individual. Some wanted to ascend the corporate hierarchy and to bask in the status of money. Others wanted more than anything else to have flexible working arrangements that allowed them to occasionally spend time with their children or ageing parents during the day. Some came to work to play and have as much fun as possible, while others didn't much care what they did as long as they got paid fairly.**
>
> **What is crucial is that we both acknowledge and celebrate the variety of human needs and aspirations ... By understanding this, we can begin to shift our view of working lives towards [being] more accepting of unique needs, and towards the idea that work can be crafted to acknowledge and meet these needs (p.310).**

Source: Gratton (2011).

Management practices include:

- forms of employee participation and empowerment (Chapters 14 and 15)
- job enrichment and work redesign (Chapter 15, and the bank example)
- communication schemes, suggestion schemes (Chapter 16)
- team working with various degrees of autonomy (Chapter 17).

CWS More on human relations models

Current status

Writers such as McGregor (1960), Maslow (1970) and Alderfer (1972) developed Follett's and Mayo's emphasis on human factors, by suggesting ways of integrating human needs with those of the organisation. As business environments began to change more rapidly, scholars and practitioners began to develop 'open systems' models.

Activity 2.6 Finding current examples

Try to find an original example of a 'human relations' approach. There are examples in office and service areas as well as in factories. Compare your examples with those of colleagues.

Have you found examples of possible limitations of these principles?

2.7 Open systems models

Here the emphasis is on being able to adapt to change and acquire external support from customers and other external institutions like banks or governments. The organisation has to compete in uncertain and competitive environments, so the key measures of effectiveness are adaptability and external support (Burns and Stalker (1961); Lawrence and Lorsch (1967)). The means–end assumption is that continuous adaptation and innovation to help the enterprise deliver what people want, and so retain external support. There is an emphasis on creative problem solving, innovation and change. All managers are expected to adapt and change with circumstances, but this is especially relevant in this quadrant.

A **system** is a set of interrelated parts designed to achieve a purpose.

An **open system** is one that interacts with its environment.

A **system boundary** separates the system from its environment.

Feedback (systems theory) refers to the provision of information about the effects of an activity.

Subsystems are the separate but related parts that make up the total system.

The open systems approach builds on general systems theory, advocating that managers think of their organisation not as a **system**, but as an **open system**.

The open system approach draws attention to the links between the internal parts of a system, and to the links between the whole system and the outside world. The system is separated from its environment by the **system boundary**. An open system imports resources such as energy and materials which are transformed within the system, and leave as goods and services. It emphasises that organisations depend on their environment for resources – see Figure 2.4 (based on Figure 1.1).

The figure shows input and output processes, transformation processes and feedback loops. The organisation must satisfy those in the wider environment well enough to ensure that they continue to provide resources. The management task is to sustain those links. **Feedback** refers to information about the performance of the system. It may be deliberate, through customer surveys, or unplanned, such as losing business to a competitor. Feedback can prompt remedial action.

Another idea is **subsystems**. A course is a subsystem within a department or faculty, the faculty is a subsystem of a university, the university is a subsystem of the higher education

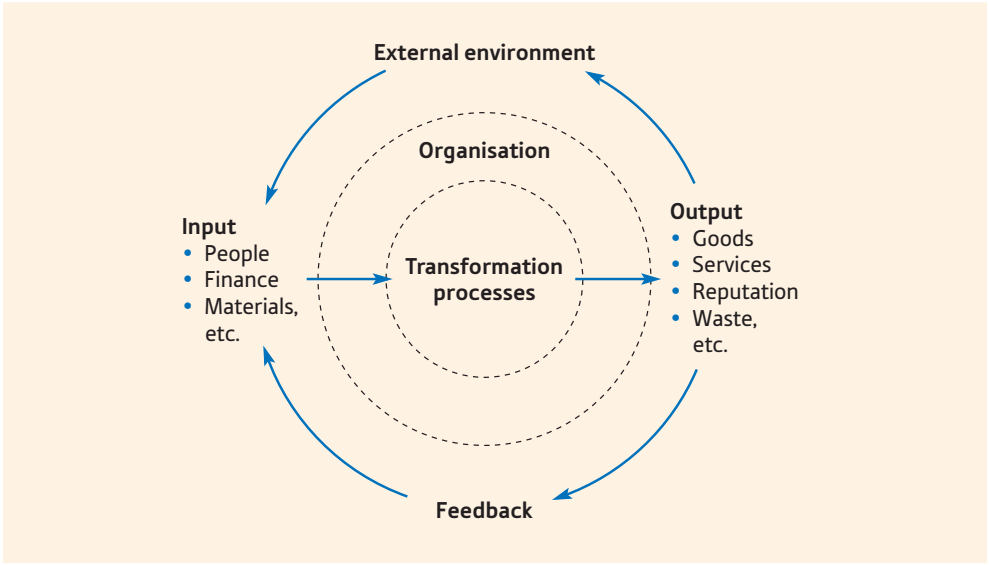


Figure 2.4 The systems model

system. This in turn is part of the whole education system. A course itself has several subsystems – for quality, enrolment, teaching, assessment and so on. Each organisational element is a subsystem – technical, people, finance, as Figure 2.5 shows.

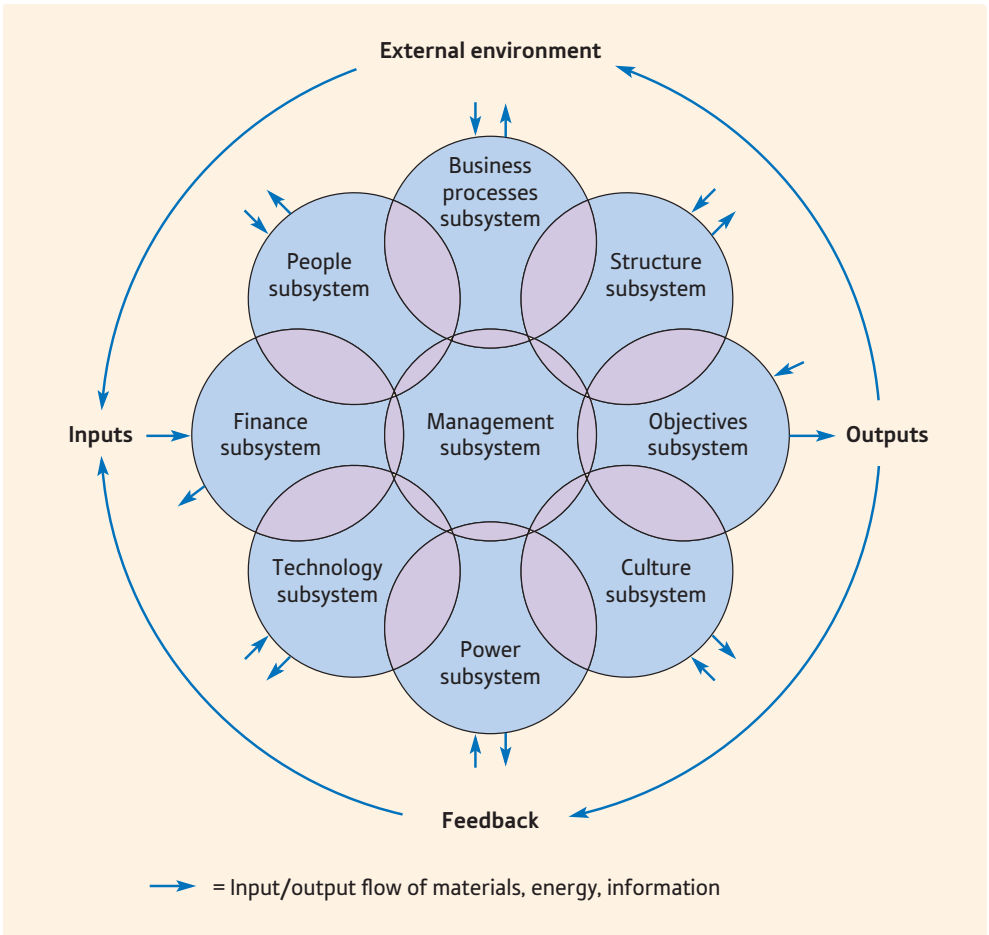


Figure 2.5 Interacting subsystems in organisations

These subsystems interact, and how well people manage this affects the whole: when a university significantly increases admissions to a popular course, this affects many parts of the system – accommodation (*technology*), teaching resources (*people*), and examinations (*business processes*).

A systems approach emphasises the links between systems, and reminds managers that a change in one will have consequences for others. For example, Danny Potter, Managing Director of Inamo (www.inamo-restaurant.com – a London restaurant where customers place their order directly to the kitchen from an interactive ordering system on their table) explains:

> I think the greatest challenge we face is communicating our ideas down through the business about what we're trying to achieve. There is a big overlap between the computer software side and the restaurant side. To unite those in a way that people [new staff, suppliers etc.] understand has proven rather tricky.

Things that managers in an open system environment need to do include being aware of the external environment and emerging trends; fostering entrepreneurship and innovation; and building a power-base to enable them to influence others to support change.

Case study

innocent drinks – the case continues www.innocentdrinks.com

Reed and his colleagues realised that while continental Europe was a major potential market, in each country they would compete with large established companies, who could spend heavily to defend their position. In September 2008, they decided to raise more finance: Coca-Cola invested £30 million in return for 20 per cent of the shares (which increased to almost 100 per cent in 2013). Some customers complained, believing that selling part (then almost all) of the business ran counter to its values. The founders believe that the deals enabled the company to continue growing, and spreading its values. They retain a small share and sit on an executive committee.

A friend, Dan Germain, joined the business in 1999 and suggested printing off-beat messages on the cartons, which became a brand 'hallmark' as the tone was offbeat, honest, irreverent and distinctly non-corporate. Germain became the unofficial voice of the brand – writing labels and a customer newsletter.

As the company grew, it incorporated more traditional marketing approaches, such as bus and London Underground advertisements:

> **We have to balance Big Brand with Little Brand – the former being a row of cartons on a supermarket shelf, the latter being an innocent fridge covered with grass in a café next door.**

An experienced marketing consultant commented:

> **They have a really astute understanding of what makes a young metropolitan audience tick. It's almost anti-marketing.**

They want to prove that business can be a force for good:

> **We want to leave things a little better than we found them. Our strategy for doing so is simple – firstly, only ever make 100% natural products that are 100% good for people. Secondly, procure our ingredients ethically. Thirdly, use ecologically sound packaging materials. Fourth, reduce and offset our carbon emissions across our entire business system. Fifth, lead by example at Fruit Towers by doing good things.**

The company gives 10 per cent of annual profits to charity through the innocent Foundation. Reed, recalled:

> **that took about ten seconds to make at our first business meeting. I'm a huge believer in the benefits that business can [bring] to society in addition to creating wealth and employment. Charitable giving was fundamentally part of the strong brand [and was] one of the reasons Coke bought it. Doing a deal with Coke meant bringing money in to do the things we've always cared about (from an article by Emma Featherstone in *The Guardian*, 20 March 2017).**

In 2018, the foundation decided to focus on two goals: to stop children dying from hunger; and to help the poorest families feed themselves. It channels

donations through established partners in Africa and SE Asia – such as Phase Worldwide projects to help remote Himalayan villages in Nepal to become more self-sufficient.

innocent staff constantly communicate with customers – thousands of whom receive a weekly email. As one observer noted:

> **Consumers are looking for businesses to trust, and they want to reward that trustworthiness. innocent is a model of the values all businesses should aspire to.**

Sources: Based on material from 'innocent drinks', a case prepared by William Sahlman (2004), Harvard Business School, Case No. 9-805-031; Germain and Reed (2009); *The Guardian*, 20 March 2017.

Case questions 2.4

- What assumptions may have encouraged Coca-Cola to buy this small UK company?
- Identify three significant ways, from any part of the case study, where innocent interacted with its context to add value to the brand.

Management practices associated with open systems theories include:

- organic systems of managing (Chapter 10)
- high performance work systems (Chapters 11 and 15)
- close links, helped by new technology, with customers and suppliers to aid responsiveness (Chapters 12)
- techniques to encourage creativity and innovation (Chapter 13).

CWS More on open systems and contingency approaches

2.8 Contingency management

A further part of the open systems view is the contingency approach (Chapter 10). The companion website summarises the work of Burns and Stalker (1961), Woodward (1965) and Lawrence and Lorsch (1967). Their contribution was to show that to perform well managers should adapt the structure of their organisation to external conditions. The **contingency approach** tries to identify those aspects of the environment which managers are most advised to monitor closely – probably technology, new competitors and changing consumer tastes.

Contingency approaches to organisational structure are those based on the idea that the performance of an organisation depends on having a structure that is appropriate to its environment.

Contingency theorists also recognise that within any organisation some functions need to work in a stable and predictable way, using the values of the internal process model, while others use ideas from the open systems model to meet external requirements. The manager who is aware of the full range of models is likely to do better than one who is only aware of a single approach.

Table 2.4 links the framework to management. It does so by showing the four models in columns two to five, and the rows allow us to compare them with each other on four dimensions.

Table 2.4 Four models compared

Theory	Rational goal	Internal process	Human relations	Open systems
Criteria of effectiveness	Productivity, profit	Stability, continuity	Commitment, cohesion, morale	Adaptability, external support
Means–end theory	Clear direction adds most value	Rules, routines, lead to stability	Involvement brings commitment	Continuous innovation secures resources
Practices emphasised	Clarifying goals, rational analysis	Clear roles, documentation measurement	Participation, team working, development	Creating, solving problems, innovating
Focus of action	Compete	Control	Collaborate	Create

CWS More on open systems models

2.9 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 2.5 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). *These are examples only – NOT a comprehensive analysis*. You can disagree with these and /or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *Draw the figure showing the 'competing values framework', and then summarise the main features of an internal process approach to managing. Illustrate your answer with contemporary examples, and comment on the strengths and limitations of the approach.*

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 2.5 'Clear thinking' questions about practice and theory

Clear thinking practices	From the Chapter Case study – innocent's approach to making the product	Theory – a question about internal process approach (Section 2.5)
Check assumptions (task and process)	In a production environment people need to follow close rules about safety, contamination and environmental protection Setting rules assumes that people will follow them How confident can anyone be that that happens at all stages of a supply chain?	Set out approach: Rules, discipline, objective selection, etc. bring the benefits as set out in the chapter. The approach is widely used Assumes: • a stable working environment in which order is important • an effective way to control large, dispersed organisation where direct supervision is hard • that staff understand the need for order and control • that practices are implemented intelligently, consulting staff to take account of their views (see, for example, W.L Gore Case study in Chapter 14) What happens if managers misjudge the context, and so design unsuitable rules, and/or mishandle the process of implementing them? Might they also work in other contexts, with few negative consequences?

Clear thinking practices	From the Chapter Case study – innocent's approach to making the product	Theory – a question about internal process approach (Section 2.5)
Recognise contexts	Production operations on this scale, across the world, inherently carry a health hazard People consume what they produce, so essential to prevent harmful substances entering the product Remote operations are hard to supervise directly	The approach is expected to be most suitable in contexts where the focus is on control, and internal A practitioner in other contexts may find that using these methods is unsuitable – they need methods suited to their contexts Remember 'context' depends on the unit of analysis – it could be a unit of a business, not the whole business So internal process approaches could be suitable in some units of an organisation that uses other approaches elsewhere Large, dispersed organisations are hard to manage by direct contact. Fearing loss of control they are to use internal process approaches more readily for that reason, but with the risks of seeming too bureaucratic How do they check that rules are being followed in remote places? Major scandals have shown that HQ is often unaware of practice in distant units, until great damage has been done. People notice if rules are not enforced, and act accordingly
Imagine alternatives	Could more automatic monitoring and sensing equipment limit consequences of human error or carelessness?	Modern technology makes it easier to exercise control – often by unobtrusive monitoring Another approach is to limit bureaucracy to places where staff can see that it is necessary in that situation, through genuine consultation
Acknowledge limitations	May automation reduce job interest and discourage personal initiative?	Controls and rules have damaging and negative effects (powerlessness and its consequences) if they are applied too tightly, or beyond what is needed

Skill

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of self-awareness.

Develop a skill: self-awareness

Self-awareness is a useful attribute in building a satisfying career, and this exercise is intended to help you become more aware of the values that guide what you do.

- **Assessment.** Assess how self-aware you are – are you conscious of the ideas and beliefs that lie behind what you think or express? Are you conscious of people who seem to be more – or less – self-aware than you?
- **Learning.** Section 2.3 outlined the competing values framework, and the 'Key ideas' feature on page 39 introduced the benefits of self-awareness. Read both of these again. Summarise the main ideas in the framework. Why is knowing your preferred values likely to help you in what you do?
- **Analysis.** Decide which of the values corresponds most closely to how you prefer to relate to others, how you get things done, what gives you satisfaction.
  - Read again the section that outlines that model of management (e.g. if you preferred the rational goal model, re-read Section 2.4).
  - Identify someone (whom you know, or can read about) who seems to use that approach to managing, or is close to it. Consider what they do, what the effects seem to be, and what you can learn from them. Try to identify specific practices. Examples you may look for could be:
    - *Rational goal* – setting clear goals, showing people exactly how to do a job.
    - *Internal process* – making responsibilities clear, setting out how to check progress.
    - *Human relations* – being a considerate supervisor, checking for good work – life balance.
    - *Open systems* – identifying sub-systems and how they affect each other, taking account of external changes.
- **Practice.** Identify one such practice associated with your values that may help you become more skillful in applying those values to what you do. Identify a suitable opportunity or activity in which you can try to use it in the next week.
  - Practise it, and record the results to see what you can learn from the experience.
  - Ideally, discuss your work with a colleague who preferred different values, which led them to a different approach.
- **Application.** Decide on another opportunity to practise this, or another, technique linking values and practice, in the next week.

Summary

1 **Explain how theory can inform your approach to the tasks, processes and contexts of managing**
   - Theories represent more complex realities, and illuminate the generic tasks, processes and contexts of managing.

2 **State the structure of the competing values framework and evaluate its contribution to our understanding of management**
   - A way of placing theories of management in a coherent framework. Organisations experience tensions between control and flexibility and between an external and an internal focus. Placing these on two axes allows theories to be allocated to one of four types – rational goal, internal process, human relations and open systems.

3 **Give examples of identifiable management practices that reflect these theories**
   - Rational goal: clear direction leads to productive outcomes, with an emphasis on rational analysis and measurement. Encourages techniques of time and motion study,

work measurement and planning systems. Also specifying duties narrowly and separating management and non-management work.

- Internal process: routine leads to stability, so an emphasis on defining responsibility, documentation and administrative processes. Encourages setting clear targets, measurement and creating tight reporting structures. Also making decisions objectively on the basis of rules and procedures, rather than on favouritism or family connections.
- Human relations: people are motivated by social needs, and recognising these will secure commitment. Practices include considerate supervision, participation and seeking consensus. considerate supervision, consultation and participation in decisions affecting people.
- Open systems: continual innovation secures external support, achieved by creative problem solving. Practice emphasises understanding external factors and being able and willing to respond to them through individual and organisational flexibility.

4 **Identify the prevailing model in a business and consider the possible effects on managers' roles**

- You can achieve this objective by asking people (perhaps others on your course) to identify which of the four cultural types in the competing values framework most closely correspond to the unit in which they work. Ask them to note ways in which that cultural type affects their way of working. Compare the answers systematically, and review the results.

5 **Use clear thinking to evaluate these management practices and theories, and as you begin to develop further your self-awareness skills**

- Case questions and Activities through the chapter, and Table 2.5, illustrate how you can develop the practice of using the techniques of clear thinking to evaluate practice and theory.
- Developing self-awareness skill is likely to be more effective if someone questions the assumption that this should always be at the forefront of thinking, and whether their context encourages the practice. They are also likely to benefit more if they seek alternative ways to use this skill, and are conscious of the limitations of their chosen approach.

Test your understanding

1 Name three ways in which theoretical models help the study of management.
2 Draw the two axes of the competing values framework, and then place the theories outlined in this chapter in the most appropriate sector.
3 List Taylor's five principles of scientific management and evaluate their use in examples of your choice.
4 List three features of bureaucracy that you have seen used in an organisation.
5 What are the two features of bureaucracy that Adler and Borys identified?
6 Compare Taylor's assumptions about people with those of the human relations approach.
7 Compare the conclusions reached by the Hawthorne experimenters in the relay-assembly test room with those in the bank wiring room.
8 Name one of the central assumptions of the human relations approach.
9 In what context is the open systems approach likely to work best?
10 What is the central idea of the contingency approach to management?

Read more

Taylor, F.W. (1917) *The Principles of Scientific Management*, Harper, New York.

Fayol, H. (1949) *General and Industrial Management*, Pitman, London.

The original works of these writers are short and lucid. Taylor (1917) contains illuminating detail that brings the ideas to life, and Fayol's (1949) surviving ideas came from only two short chapters, which again are worth reading in the original.

Kiechel, W. (2012) 'The management century', *Harvard Business Review*, vol. 90, no. 11, pp.62–75.

A useful, illustrated, historical overview of management theory, prepared to mark the 90th anniversary of *Harvard Business Review*.

Heracleous, L. (2013) 'Quantum Strategy at Apple Inc', *Organizational Dynamics*, vol. 42, no. 2, pp.92–9.

Shows how Apple's ability to follow two apparently conflicting models at the same time has been part of its success.

Go online

These websites have appeared in the chapter:

www.innocentdrinks.com
www.inamo-restaurant.com
www.apple.com
www.timpson.co.uk
www.pret.com
www.tesco.com

Visit two of the sites in the list, or those of other organisations in which you are interested, and navigate to the pages dealing with recent news, press or investor relations.

- What are the main issues that the organisation appears to be facing?
- Compare and contrast the issues you identify on the two sites.

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



PART 1 CASE

APPLE INC.

www.apple.com

The company

In the 2018 financial year Apple sold 218 million iPhones, the same as in 2017; it also sold 44 million iPads, again the same as the previous year. It received revenue of $167 billion and $19 billion respectively from these two products, together accounting for 70 per cent of total sales. While unit sales of iPhones were stable, the company's strategy of raising prices for its best products seemed to be working, such was the loyalty of many customers. In the intensely competitive market for computer electronics, Apple had had a good year – though in the management commentary with the financial results it cautioned investors about the difficulties it would face in maintaining this level of revenue.

The company began in 1976, designing and making personal computers. At the time these were a novelty: most computers then were 'mainframe' machines, operated by companies and public bodies. By 2013 the company's product range included the iPod digital music player (introduced in 2001), iPhone (the company's first move into mobile phones in 2007), MacBook (2008) and iPad tablet (2010). The iPhone success was especially significant as it showed the ability of a computer maker to succeed in the mobile phone sector. The attractive design enabled the company quickly to become the leading player in the industry, helped by thousands of iPhone apps available through the Apple Store – which competitors could not match.

When the late Steve Jobs and Steven Wozniak set up the business in 1976, each invested $1300. They secured funds from private investors and, in 1980, rapid growth again required more finance – which they raised by selling 4.6 million shares in the company to the public, for $22 each. In early 2019 these were trading on stock exchanges at $207 – making Apple the first company to reach a trillion-dollar market value. This achievement vindicated the leadership of Tim Cook, who had become chief executive after Jobs' death. A measure of the value it was adding to resources is the operating profit margin – broadly the difference between sales and the cost of sales. In 2019 this was over 38.3 per cent (38.5 per cent the previous year), helped by rising income from iPhone sales.

The table shows some measures of performance in the two most recent financial years.



© Sean Gallup/Getty Images

Measures of performance to 29 September in each year

	2018	2017
Total net sales ($m)	265,595	229,234
Cost of sales ($m)	163,756	141,048
Gross margin ($m)	101,839	88,186
Gross margin % of sales	38.3	38.5
Net income before tax ($m)	72,903	64,089
Net income after tax ($m)	59,531	48,531
Earnings per share ($)	12.01	9.27
Dividend per share	2.72	2.40

Source: Apple Inc. *Annual Reports* filed with the United States Securities and Exchange Commission.

Managing to add value

Management style

Steve Jobs typified the distinctive business environment of 'Silicon Valley' – the area in California where many of the world's leading electronic businesses have their headquarters. He created a corporate culture characterised by an intense work ethic and casual dress code. Michael Moritz, who observed Jobs for many years, noted in his biography, published before Jobs' death:

> **Steve is a founder of the company [and the best founders] are unstoppable, irrepressible forces of**

> **nature ... Steve has always possessed the soul of the questioning poet – someone a little removed from the rest of us who, from an early age, beat his own path. [He has a sharp] sense of the aesthetic – that influence is still apparent in all Apple products and advertising. Jobs' critics will say he can be wilfull, obdurate, irascible, temperamental and stubborn [which is true, but he is also a perfectionist]. There is also ... an insistent, persuasive and mesmerizing salesman. (Moritz, 2009, pp.13–14)**

In 1983, Jobs was chairman and Mike Markkula, who had joined the company at the start, was chief executive. Markkula had never intended to stay as CEO, and now wished to leave. The Board of Directors (including Jobs) decided to appoint John Sculley, an executive from Pepsi-Cola, to the post. The two men frequently disagreed and in 1985 Jobs (then aged 30) left the company. Apple did not perform well under Sculley, and in 1997 the Board persuaded Jobs to return to the company, and soon appointed him CEO.

He began to rebuild Apple by an insistent focus on a limited product range – cutting costs, staff and undistinguished products. The focus was the iMac – an immediate success since it delivered what consumers wanted – compelling designs and advanced technology. Apple again became known for sleek design and an elegant user interface. He also hired senior managers with whom he had worked, skilled in software, hardware, retail and manufacturing. They included Jonathan Ive, a respected designer and Tim Cooke who joined in 1999. He became chief executive when Jobs died in 2012.

Jobs had insisted that a named individual be responsible for every task, however large or small: 'at Apple you can figure out exactly who is responsible'. This principle is enshrined in the 'Directly Responsible Individual' – DRI: this is the person the company calls to account if anything goes wrong:

> **The DRI is a powerful management tool, enshrined as Apple corporate best practice, passed on by word of mouth to new generations of employees. Any effective meeting at Apple will have an action list – next to it will be the DRI (Lashinsky, 2012, p.67–8).**

Functional structure

Apple is organised by function, so people are hired and promoted for their ability in that function, not for their general management skills. Steve Jobs explained:

> **[As companies grow large, they] lose their vision. They insert lots of layers of middle management between the people running the company and the people doing the work. They no longer have an inherent feel or passion about the products. The creative people, who are the ones who care passionately, have to persuade five layers of management to do what they know is the right thing to do (quoted in Lashinsky, 2012, p.71).**

When Jobs returned to Apple he found it had become like the companies he disparaged – good technical people had moved into general management roles.

> **What was wrong with Apple wasn't individual contributors ... we had to get rid of about four thousand middle managers (Lashinsky, 2012, p.71).**

At the top of the company is the CEO (since 2012, Tim Cook), supported by the executive team, whose purpose is to coordinate the business and set the tone for the company. It comprises the head of each function directly involved in Apple products – marketing, hardware and software engineering, operations, retail stores, internet services, and design – together with heads of finance and legal. The team meets weekly to review the company's product plans – which it does in great detail. Teams throughout the company prepare material for their respective bosses to inform the presentation by their functional head:

> **Everybody is working towards these Monday presentations [says a former Apple designer]. There is executive review of every significant project (Lashinsky, 2012, p.71).**

Product innovation

Jobs continually stressed the significance of products rather than profit – believing that if management focused on providing high quality, innovative products, profit would follow (Isaacson, 2011). He believed that:

> **putting products ahead of profit was the quality ... responsible for the success that made it the world's most valuable technology company, with a stock market value (in late 2011) two–thirds higher than its nearest competitor, Microsoft (*Financial Times*, 25 October 2011, p.18).**

Apple engineers focus obsessively on the minutest details of how the customer will experience the product – including the box, the last thing the customer will see before the product:

> **Obsessing over details and bringing a Buddhist level of focus to a narrow assortment of offerings sets Apple apart from its competitors ... good design subliminally telegraphs to consumers that the manufacturer cares about them. This, in turn, creates a bond between brand and consumer. The**

> **genesis of most Apple products is simply Apple's desire to make them. Not focus groups. Not reader surveys. Not a competitive analysis ... The iPhone is a classic case in point. Prior to the device's introduction, Apple executives typically hated their smartphones. 'That's why we decided to do our own' said Jobs (Lashinsky 2012, pp.53–4).**

At Apple, the design philosophy is that products start with their industrial designers (led by Briton Jonathan Ive). Design is pre-eminent – everyone else must conform to the designer's vision.

Tight control

The company has traditionally used an 'integrated model', in the sense that it controllled the hardware and software in its devices, as well as the services on which they rely. Jobs believed that integration is the only way to make 'perfect' products. As they design hardware and software, staff aim to give users an exceptionally good experience of the compatibility between all Apple devices and the applications that run on them (see below – Collaboration).

Once design is under way, the rest of the company moves in, especially engineering and supply-chain teams, working to the Apple New Product Process. This details each stage in a product's creation, prescribes who touches it, assigns functional responsibilities, and shows when assignments will be completed (Lashinsky, 2012, p.56).

The emphasis on control was extended when the company launched the Apple stores. This was unusual as manufacturers rarely become successful retailers. The Apple network of dealers and Apple Stores ensures that the image of the brand is closely dovetailed with the products themselves. The App Store has exceeded expectations, with thousands of software developers offering their products on the site.

Secrecy

As well as investing heavily in R&D the company is intensely secretive and protective of its intellectual property (IP) – the ideas and designs behind the products. Most companies protect these from outsiders, but Apple also has high internal secrecy. Staff do not discuss projects outside their immediate team, and new recruits are briefed on the strict security regime, including the penalty for revealing Apple secrets, intentionally or unintentionally: swift termination (Lashinsky, 2012, p.36). When Apple launches a product, the secrecy creates curiosity and extensive media coverage – without heavy advertising.

It also helps to retain the 'start-up' mentality which the company values. As engineers work in isolated small teams they have little chance to contact those outside their team:

> **By selectively keeping employees from concerning themselves with colleagues elsewhere in a giant company, Apple creates the illusion that [they] work for a start-up (Lashinsky, 2012, p.73).**

Small teams have long been integral to the Apple way of working, and frequently major projects are assigned to *very* small teams – two engineers wrote the vast amount of code required for a feature of the iPad, which many companies would give to a team of ten. Small teams help foster the start-up mentality.

Collaboration

While internally Apple displays tight control and secrecy, it is the hub of a creative network. It excels at cooperating with partners and rivals when this will benefit customers – an early example being when Jobs saw the value of 'mouse' technology in another company's product, which his engineers then incorporated into the first Macs. The company recognised that in the rapidly developing mobile phone industry, Apple could never generate consistently strong products and services on its own, so encouraged selected independent developers to build applications for the iPhone. These sell through the App Store, earning revenue for both the developer and Apple, while the huge range of apps available reinforces the iPhone's appeal to customers. Developers can of course choose to work for other companies, if they appear to be moving ahead of Apple.

In 2017, it bought Shazan, owner of one of the world's most popular music recognition apps. Shazan seems to fit well with Apple Music, and could also provide a source of historical data about listening habits This may have helped Apple to draw closer to Spotify's leading position in music-streaming.

Apple also collaborates in manufacturing, which it outsources to overseas suppliers, especially Foxconn, an immense Chinese supplier. The company has committed to removing 'conflict minerals' (those from mines in conflict zones) from its products, and is seeking new agreements with suppliers like Foxconn to improve working conditions – even though this will increase costs. It claims to monitor supplier performance closely, and acts swiftly when it finds violation of its required labour standards.

Simplicity

Ken Segall (2012) observes that one of the many things that sets Apple apart from other technology companies is its deep belief in the power of simplicity:

> **Every one of Apple's revolutions was born of the company's devotion to Simplicity. Each new device either created a new category or turned an existing category on its head – all because, as an old iMac**

ad put it, the technology was 'simply amazing, and amazingly simple.'

Having played a lead role in the marketing of Intel, Dell and IBM, as well as Apple, I can assure you that Apple's focus on Simplicity is unique. It goes beyond enthusiasm, beyond passion, all the way to obsession.

While Apple's love of Simplicity started in the mind of Steve Jobs, it's now burned deep into the company's DNA, serving as a guide for legions of employees around the world ...

By no means am I saying that Simplicity is the sole factor behinds Apple's success. Leadership, vision, talent, imagination, and incredibly hard work may have just a bit to do with it. But there's a common thread that runs through it all. That's Simplicity. It's what drives Apple to create what it creates and behave as it behaves (p.3).

Segall illustrates how this obsession still shapes the company – in such practices as direct and honest communication; small teams working on major pieces of work; brief, task-focused meetings, a minimalist approach to product lines (ruthlessly discarding the second-rate), quick decisions. He also shows how achieving Simplicity depends on rooting out its enemy, Complexity, whenever it appears.

Aspects of Apple's context

Apple has succeeded by offering products that appeal to consumers in previously separate industries. Its continued success will depend on how well it can do this, especially as competitors develop rival products.

One solution has been to grow the service aspects of the business. After the iPhone, the company's second largest source of revenue is the service business. Digital items such as downloads from Apple Store, iCloud storage and Apple Music subscriptions brought in $37.1 billion in 2018, an increase of 24 per cent over 2017, and about 14 per cent of total sales. Service sales have grown at about 23 per cent a year since 2006. The number of subscriptions to Apple's own services, as well as to third-party apps that sell through the Apple Store are growing rapidly

In 2018, Europe was Apple's second largest market after the USA, with sales there valued at $62 billion (24 per cent of the total), 14 per cent more than 2017. China was its third largest market, where it faces tough competition from Asian suppliers such as Samsung and Huawei.

The many innovative companies in the industry vigorously defend their product patents. Apple is involved in many disputes in which it accuses others of stealing its intellectual property, especially Samsung which it regards as an especially serious competitor.

Current management dilemmas

In 2019, Apple was facing several issues to ensure that it retained its prominent position in the computing and telecommunications industry, especially ensuring that it continued the flow of innovations that its loyal customers and investors expected.

Strategic direction

A threat to the company's dominance could come from strong competitors such as Google and Microsoft, both of whom were targeting segments of Apple's market with new products. By 2018, over half of the company's revenue came from the iPhone. Apple appeared to some to be becoming a handset company, which is fickle and subject to sudden changes of fashion.

The services division is growing strongly, and this will be helped as more applications appear for use on its physical products.

Apple's shareholders have become used to high growth so they, and financial journalists, may have unrealistic expectations. They could begin to demand higher dividend payments, which would mean less money available to invest in the R&D essential for new products.

Innovation

In 2018, about $166 billion of Apple's revenue came from the iPhone, and another $19 billion from the iPad – neither of which existed 11 years ago. This remarkable achievement serves as a reminder of the need to keep investing heavily in new products – able to earn equally large revenues in just a few years.

Screen addiction

In 2018, Apple announced that the next version of its mobile operating system would help customers to manage the time they and their children spend using apps and playing games. Measures include the option to place time limits on usage of specific apps. The apps would be issued to hundreds of millions of iPhone owners. Tim Cook (Apple's chief executive) admitted in a TV interview that even he uses his iPhone too much:

> **I thought I was being fairly disciplined about this, and I was wrong. When I began to get the data, I found I was spending a lot more time than I should.**

Privacy and data security

In 2018, Mr Cook commented on the controversy about how technology companies collect and use personal data – stressing that in many ways Apple is different from other major players like Facebook and Google:

Apple has regarded privacy as a 'basic human right' for a long time, and 'built the company around' that belief. The sprawling, intimate personal data profiles that companies like Facebook and Google compile 'shouldn't exist', Cooke thinks. On cybersecurity, most modern Apple devices come with sophisticated defences built in ... Apple's App store is 'curated' to the extent that you (and your children) won't find hate speech or pornography on there (from an interview with Ben Hoyle, *The Times Magazine*, 28 April 2018, p.33).

Sources: Moritz (2009); *The Economist*, 1 October 2009; Lashinsky (2012); Isaacson (2011); *Financial Times*, 3 December 2017, p.17, 29 May 2018, p.15, 6 June 2018, p.14, 10 July 2018, p.13, 3 August 2018, p.1; *The Guardian*, 3 August 2018, pp.10-11.

Part case questions

(a) Relating to Chapters 1 and 2

- Refer to Table 1.1, and the 'unique challenges' listed in the right-hand column. Identify examples of these challenges that Apple faced, as it evolved from 'business start-up' to 'international business'.
- Refer to Table 1.2, and the 'Activity' suggested alongside each role. Identify as many examples as you can of managers in Apple having to perform these roles.
- What examples can you find in the case of Apple's management influencing people by shaping the contexts in which they work? (Section 1.7)
- Give an example of a task and a process in Apple, and of the company interacting with its context (Section 2.2)
- What examples can you find in the case of Apple's management practices corresponding to one or more of the models in the 'competing values' framework. Which of these appears to dominate? (Sections 2.3–2.7)

(b) Relating to the company

- Visit the company website (and especially its latest Annual Report, under 'Investors'). What changes have there been in the proportion of total sales by major product groups, and by region?
- Which competitors have gained and lost market share? Access this information from the websites of *The Economist*, *Financial Times* or *BBC News* (Business and Technology pages).
- What new issues appear to be facing the company that were not mentioned in the case?
- Can you trace how one or more aspects of the history of the company as outlined in the case has helped or hindered it in dealing with a current issue?
- For any one of those issues it faces, how do you think it should deal with it? Build your answer by referring to one or more features of the company's history outlined in the case.



PART 2

THE ENVIRONMENT OF MANAGEMENT

Introduction

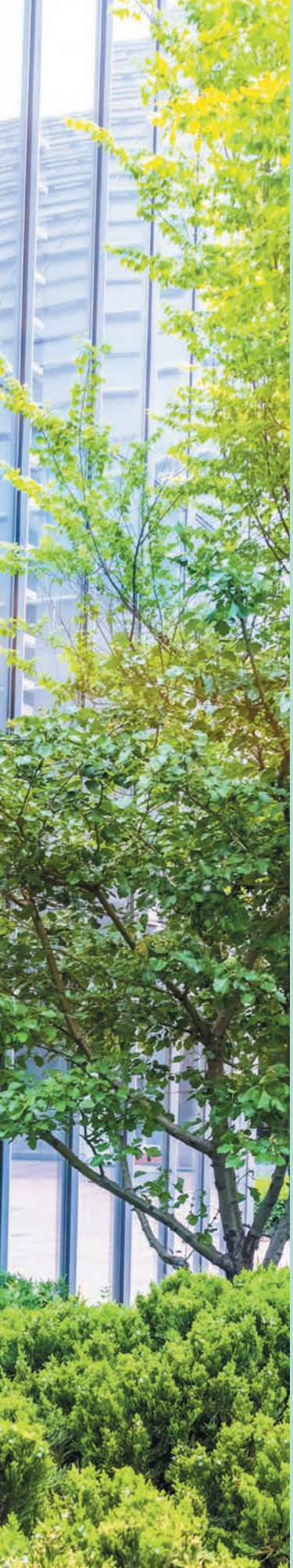
Managers work within a context, and try to influence it by lobbying powerful players, doing deals with competitors and shaping public opinion. Since the organisation depends on the external world for its resources, it needs to deliver goods and services well enough to persuade people in that environment to continue their support. This is equally relevant in the public service: if a department set up to deliver care or run public transport is managed badly it will not deliver those services to an acceptable standard. Taxpayers or clients will press their elected representatives to improve performance, and they in turn will demand improved performance from management and staff. If they do not, the enterprise will fail the public.

Chapter 3 examines the most immediate aspect of the manager's context – the culture of their organisation – and then offers tools for systematically analysing the competitive and general environments, and stakeholder expectations.

Chapter 4 reflects the international nature of management, by examining international features of the general environment. It shows the alternative ways in which organisations can do business internationally, and the contexts in which they do so. It pays particular attention to evidence about differences in national cultures and what these may imply for those managing across them.

Pressure from interest groups and some consumers has encouraged many practitioners to work in a more responsible and sustainable way. They have to navigate conflicting interests to do so, and Chapter 5 presents some concepts and tools to help you consider these in a coherent and well-informed way.

The Part Case is BP – a leading player in the world's energy business. The company is inherently international, being affected by political and economic developments around the world. The case also raises issues of responsibility in safety and sustainability.



CHAPTER 3

ORGANISATION CULTURES AND CONTEXTS

Aim

To identify the cultures and contexts within which practitioners work, and to outline some analytical tools.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Use Schein's theory of the elements of culture to analyse an enterprise
2. Compare the cultures of two organisational units, using Quinn's or Handy's typologies
3. Use Porter's five forces model to analyse a competitive environment
4. Collect evidence to make a comparative PESTEL analysis for two organisations
5. Give examples of stakeholder expectations
6. Explain the meaning and purposes of corporate governance
7. Use clear thinking to evaluate these practices and theories, and as you begin to develop further your skill of presenting a reasoned case

Key terms

This chapter introduces these terms:

internal environment (or context)
competitive environment (or context)
general environment (or context)
external environment (or context)
organisation culture
power culture
role culture
task culture
person culture
five forces analysis
PESTEL analysis
corporate governance
agency theory

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

The competitive environment – Porter's five forces
Environmental dynamism and complexity
Corporate governance

Case study

British Broadcasting Corporation (BBC) www.bbc.co.uk

In 2019, the British Broadcasting Corporation (BBC) was one of the world's leading media organisations, with nine national TV channels, ten national and forty local radio stations, an online presence and the World Service. The constitutional basis for the BBC is the Royal Charter – the current one started in April 2017. It sets out the mission and public purposes of the BBC, guarantees its operational independence, and specifies its governance structure.

Since the first Charter in 1926, the BBC has sought to combine editorial independence with a public service mission – initially expressed as 'to inform, educate and entertain'. These have been elaborated to five public purposes which (slightly shortened) are intended to provide a clear focus for the Corporation's work:

- To provide impartial news and information.
- To support learning for people of all ages.
- To show the most creative, high quality and distinctive output.
- To reflect, represent and serve the diverse communities of all of the UK.
- To reflect the United Kingdom and its values to the world.

The Annual Plan sets out how the corporation intends to work towards these in the year ahead, and the Annual Report sets out how well it has achieved each element.

The BBC's main source of revenue is the licence fee: every household is expected to pay an annual fee, set by negotiation with the Government, and currently (early 2019) £147. In the financial year to March 2018 this brought in £3.8 billion, and £1.2 billion came from the BBC's commercial activities – mainly selling programmes to other broadcasters.

The Corporation had a monopoly of TV broadcasting in the UK until 1955, when the Government granted a licence to a competitor – ITV, and then to Channel 4 in 1982. In 1972, licences were issued to competing radio stations. The commercial companies' main income comes from advertising and/or subscriptions. They challenge the BBC's dominant position, and see the licence fee as an unfair subsidy.

It closely monitors audiences, reporting (*Annual Report for 2017–18*) that 92 per cent (target 92–95 per cent) of UK adults in an online household used BBC TV, radio or online services at least once each week and that, on average, they spent 19 hours (target 18.15–19.45) each week using BBC services. 70 per cent of UK adults regard it as effective in delivering its mission – though people in social groups C2DE, black and ethnic minorities, those aged 18–34, and people in Scotland and Wales, were less satisfied.



© Pecold/Shutterstock

The Deputy Director-General, Anne Bulford, observed:

> **The media habits of our audiences are vastly different compared with five years ago. Younger audiences in particular, consume less output from the BBC owing to increased competition for their time from other media providers, especially online, and other forms of entertainment. We will continue to innovate online ... as more audiences choose to access services and content digitally. This will require more investment in the supporting infrastructure.**
>
> **New entrants such as Amazon and Netflix have meant that the global media market is increasingly dominated by a small number of US-based media giants with extraordinary creative and financial power ... The cost of sports broadcasting rights has skyrocketed whilst, overall, the cost of ideas and talent has risen fast (*Annual Report for 2017–18,* p.68).**

Case questions 3.1

- Visit the BBC website, and read the statements by the Governor and the Director General in the most recent Annual Report. What have been the main developments in the last year?
- What assumptions are reflected in financing the BBC largely through the licence fee?
- Which of the several changes in their context mentioned in the case do you personally recognise?
- Which, if any, of the BBC's services do you use? Would you be willing to pay the licence fee when you are required to do so? (When you become a householder.)

Source: *BBC Annual Report 2017–18* and Accounts 2017/18.

3.1 Introduction

The BBC is a national institution with which almost everyone in the UK connects at least once a week. The power of broadcasting means the Corporation is often the subject of controversy, especially over its relationship with government: this determines much of its income and, through the Royal Charter, the terms on which it exists. It competes with many alternative sources of news, information and entertainment, reflecting social, technological and legal change. These have severe implications for the Corporation, which it is management's role to resolve in ways that retain wide public support.

All managers work within a context which both constrains and supports them. How well they understand, interpret and interact with that context affects their performance. Finkelstein (2003) (especially pp.63–8) shows how Motorola, an early market leader in mobile communications, failed, in the late 1990s, to see that consumers preferred digital to analogue devices. This oversight allowed Nokia to take a commanding lead in mobile devices. Years later, it was Nokia's turn to suffer when it failed to sense how quickly people would take to smartphones.

The **internal environment (or context)** consists of those elements of the organisation or unit within which a manager works, such as its people, culture, structure and technology.

Figure 3.1 shows four environmental forces. The inner circle represents the organisation's **internal environment (or context)** – which is the manager's most immediate context. That includes its culture, which many believe has a significant influence on management.

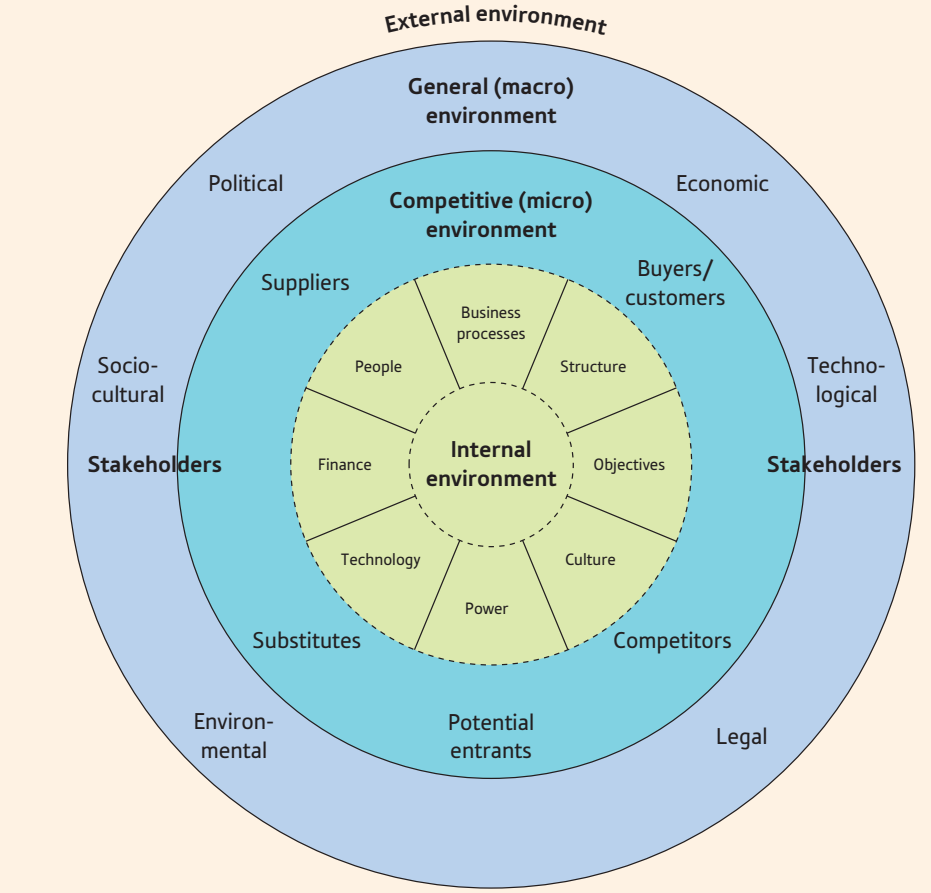


Figure 3.1 Environmental influences on the organisation

Beyond that is the **competitive environment (or context)**, sometimes known as the micro-environment. This is the industry-specific environment of customers, suppliers, competitors, potential entrants and substitute products. The outer circle shows the **general environment (or context)**, sometimes known as the macro-environment – political, economic, social, technological, (natural) environmental and legal factors that affect all organisations.

A **competitive environment (or context)** is the industry-specific environment comprising the organisation's customers, suppliers and competitors.

The **general environment (or context)** (sometimes known as the macro-environment) includes political, economic, social technological, (natural) environmental and legal factors that affect all organisations.

Together these make up an organisation's **external environment (context)** – a constantly changing source of threats and opportunities: how well people cope with these affects performance. Roeder (2011) gives many insights into the scale and likely effects of these external changes.

Forces in the external environment do not affect practice of their own accord. They become part of the agenda only when internal or external stakeholders say or do something that alerts others to a possibly significant trend or event. In terms of Figure 3.1, they are a fourth force. Managers (themselves stakeholders) balance conflicting interpretations of their context. They work within an internal context, and look outside for actual and potential changes that may affect them. Figure 3.1 implies a constant interaction between an organisation and its external environment.

Managers do not passively accept their environment, but actively shape it by persuading governments and other agencies (part of the 'political' factor in the general environment) to act in their favour (known as 'lobbying'). Car makers and airlines routinely ask governments for subsidies, cheap loans or regulations to help their businesses, while industry bodies (such as the National Farmers Union – www.nfuonline.org) do the same with national and international bodies such as the European Commission.

The next section presents ideas on organisational culture. Beyond that managers need to interact intelligently with their competitive and general environments. They can only do so if they can present a reasoned case to others about, for example, the potential threats or opportunities of some external change. The chapter also outlines stakeholder expectations and introduces ideas on governance and control.

The **external environment (or context)** consists of elements beyond the organisation – it combines the competitive and general environments.

Activity 3.1 Which elements of the business environment matter?

Record some notes summarising aspects of the business environment of which you are aware. This could be an organisation with which you or someone you know is involved.

- Identify at least one instance when they (or you) were discussing problems or opportunities facing the organisation – which aspects of the external context did they mention?
- How did this seem to affect the job of managing?
- How did they think the issue would affect performance?

3.2 Cultures and their components

Developing cultures

Interest in **organisation culture** has grown as academics and managers have come to believe that it influences behaviour. Several claim that a strong and distinct culture helps to integrate individuals into the team or organisation, and so helps performance. Deal and Kennedy (1982) refer to culture as 'the way we do things around here' and Hofstede (1991) sees it as the 'collective programming of the mind', distinguishing one group from another.

Organisation culture is the set of values, beliefs, norms and assumptions that are shared by a group and that guide their interpretations of, and responses to, their environments (Ogbonna and Harris 2014, p.668).

Someone entering a department or organisation for the first time can usually sense and observe the surface elements of the culture. Some buzz with life and activity, others seem asleep; some welcome and look after visitors, others seem inward looking; some work by the rules, while others are entrepreneurial and risk taking; some have regular social occasions while in others staff rarely meet except at work.

Management in practice — An enduring culture in a Premier League club

Ogbonna and Harris (2014) show how the long-established culture of a Premier League football club impeded attempts to introduce new management practices, which were intended to improve efficiency and financial performance.

The club had been run by a 'benevolent authoritarian' for 30 years, and this had coincided with the most successful on-field performance in its history – regularly winning major trophies. Respondents used words like 'honesty', 'hard work', 'winning', 'trust', 'family' and 'togetherness' to describe the culture:

> **the bond, the sense of community and belonging that people have here, have remained the same (p.676).**

The management team launched a cultural change plan at high-profile presentations, extolling the new values of efficiency, self-financing, and being successful commercially as well as on the field. The CEO created new roles – such as a brand and marketing director, and tried to ensure that new employees were sympathetic to these values.

No one openly opposed the plan, but four years after the launch, it was generally accepted that it had not worked. Ogbonna and Harris's study of the episode concluded that this was due to the continued loyalty to symbols of the old values, and to the proud history of the club, which all employees, including new ones, valued, and wanted to be part of.

These included, for example, the regular presence of former players in the club museum to greet visitors and help them celebrate that history, and bring it to life for new staff. It also included a tradition that the team (and those associated with it) is revered and respected: this continued, but with the unintended effect that it was then hard to persuade team-members to take part in promotional events, which were part of the plan for change. Their study shows how, in this case, the executives, though wanting to change parts of the culture, themselves valued and accepted symbols which encouraged continuity and thwarted the change effort:

> **organizations with a strong history of success and ... cultural factors that promote and perpetuate existing values are more likely to develop enduring cultures that will be less susceptible to management control (p.683).**

Source: Ogbonna and Harris (2014).

Figure 3.2 illustrates how a distinctive culture (such as that at the Premier League club) develops: as people develop common values they use these to establish shared beliefs about how to behave towards each other and to outsiders. Positive outcomes reinforce their belief in the underlying values, which then become a stronger influence on how people should work and relate to each other: should people have job titles? How should they dress at work? Should meetings be confrontational or supportive? A shared culture guides people on how they should contribute: following these reinforces the shared beliefs, which become resistant to change.

Brannan (2017) studied sales staff working in a new financial call centre (so with no established culture), and shows how daily rituals helped to create one. These included team leaders stressing that every call from a customer is a sales opportunity; enthusiastic and collective celebration of a sale; and recording the value of each sale on a prominent whiteboard. These encouraged staff to pay less attention to the scripts which financial regulators required (to discourage staff from selling financial products that were unsuitable for the customer), and which management expected them to follow, to comply with financial regulations. Staff knew that enforcement was rare, and acted accordingly – creating a culture that valued making a sale above complying with regulations.

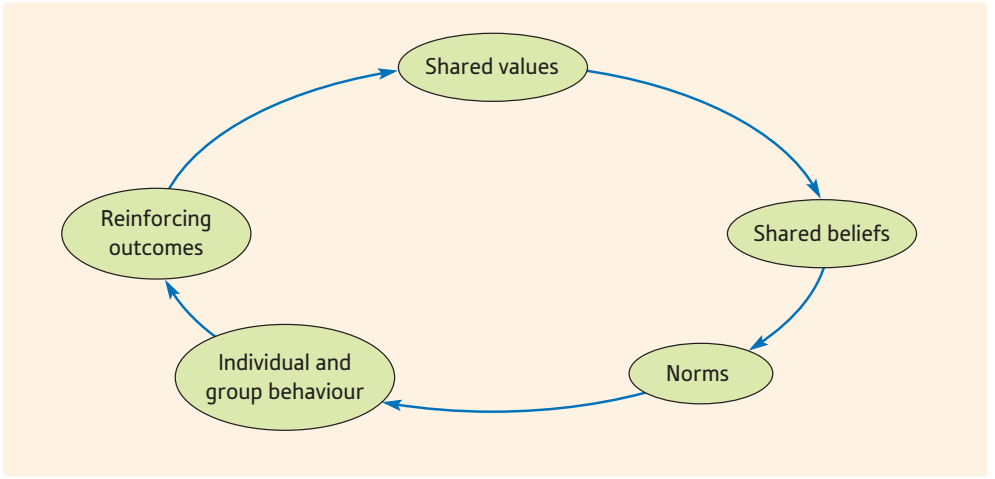


Figure 3.2 The stages of cultural formation

Components of cultures

Schein (2016) identifies three levels of a culture, 'level' referring to the degree to which the observer can see its components.

- **Artifacts** represent the visible level – elements such as the language or etiquette which someone coming into contact with a culture can observe:
  - architecture (open plan offices without doors or private space)
  - technology and equipment (use of presentational technology)
  - style (clothing, manner of address, emotional displays)
  - rituals and ceremonies (leaving events, awards ceremonies, away-days)
  - courses (to induct employees in the culture as well as the content).

While it is easy to observe artifacts, outsiders will have trouble understanding what they mean to the group, or the beliefs and values they represent.

- **Beliefs and values** are the accumulated ideas that members hold about their work. As a group develops, members refine their ideas about 'what works here': how people make decisions, how teams work, how they solve problems. Practices that work become acceptable behaviours:
  - 'Quality pays'.
  - 'We should stick to our core business'.
  - 'Take personal responsibility'.
  - 'Work as a team'.
  - 'Challenge a proposal – whoever made it'.

Some companies (IKEA is an example) codify and publish their beliefs and values, to help induct new members and to remind current staff. The extent to which employees internalise these beliefs probably depends on whether they see senior managers behaving in accordance with them.

Key ideas **Values matter in management**

The beliefs and values that shape an organisation's culture affect the practice and ultimately the reputation of their managers. The financial crisis that began in 2008 was in large part due to cultures in banks and other financial institutions which encouraged greed and self-interest above those of honesty and customer service. Companies who treat employees as self-interested opportunists who must be forced to do their job, tend

to create employees who do just that. Conversely, managers who assume a reasonable degree of trust and cooperation create a system in which honest, cooperative people flourish. Prophecies are often self-fulfilling – so the prevailing values have a significant influence on how an organisation treats employees and customers, and for the reputation of those who work in it. As one observer noted to the author:

> **What matters most in management is not what you make, but what you believe.**

- **Basic underlying assumptions** are deeply held by members of the group as being the way to work together. As they act in accordance with their values and beliefs, those that work become embedded as basic underlying assumptions. When the group holds these strongly, members will act in accordance with them, and reject actions based on others:
  - 'We need to satisfy customers to survive as a business'.
  - 'Our business is to help people with X problem live better despite that'.
  - 'People can make mistakes, as long as they learn from them'.
  - 'We employ highly motivated and competent adults'.
  - 'Financial markets worry about the short term: we are here for the long term'.

Difficulties arise when people with assumptions developed in one group need to work with people from another. King et al. (2012) show how this prevented two groups of healthcare professions from using a shared information system. This would save time and improve patient care, but cultural beliefs meant that neither group would accept information prepared by the other.

Management in practice

Cultural change at VW? www.vw.com

In September 2015, regulators in the USA revealed that Volkswagen had been installing software in diesel cars that turned off emission controls, except during tests. The chief executive resigned and the US authorities prosecuted VW for breaking their emissions regulations.

One theory of why such a major company allowed this to happen is that senior management had, over many years, fostered a culture which encouraged workers to follow orders, not to question them. Professor Dudenhoffer at the University of Duisberg-Essen:

> **Winterkorn [the previous CEO] decided everything, in every brand, as regards products and technology. The brands [now] have power to decide for themselves.**

This hint of democracy [in VW] is referred to approvingly by many in and around the company.

The old, unquestioning culture was diagnosed a key factor in the emissions scandal. And [the new CEO] claims his greatest achievement to date has been to reform it – by decentralising decision-making.

FT Source: From an article by Patrick McGee, *Financial Times*, 19 January 2018, p.9.

Activity 3.2 Culture spotting

- Identify three examples of cultural components (artifacts, beliefs, values or underlying assumptions) in an organisation or unit that you know.
- Gather evidence (preferably by asking people) about whether they think these affect performance (try to establish which dependent variables they are referring to).

3.3 Types of culture

This section outlines three ways of describing and comparing cultures.

Competing values framework

Chapter 2 outlined the competing values framework developed by Quinn et al. (2015). This reflects inherent tensions between flexibility or control, and between internal or external focus. Figure 3.3 (based on Figure 2.2) shows four cultural types.

Rational goal

Members value rationality and efficiency. They define effectiveness in terms of economic goals that satisfy external requirements. Motivating factors include competition and achieving goals. Large, established businesses are often like this.

Internal process

Members focus on internal matters with the goal of making the unit efficient, stable and controlled. Tasks are repetitive, methods stress specialisation and rules. Motivating factors include security, stability and order. Public authorities and utility companies are often like this.

Human relations

People emphasise the value of informal interpersonal relations. They try to nurture and support members, aiming for their well-being and commitment. Motivating factors include cohesiveness and membership. Examples include voluntary groups and small professional or creative firms.

Open systems

People see the external world as a vital source of ideas, energy and resources. They also see it as turbulent, requiring entrepreneurial leadership and flexible, responsive behaviour. Motivators are creativity and variety. Examples are start-up firms and new business units.

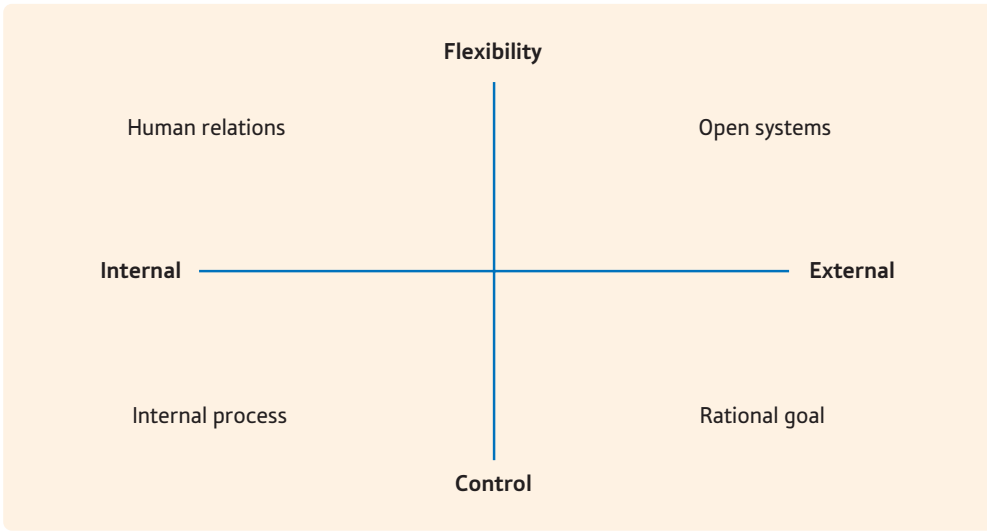


Figure 3.3 Types of organisational culture

Source: Based on Quinn et al. (2015).

A **power culture** is one in which people's activities are strongly influenced by a dominant central figure.

A **role culture** is one in which people's activities are strongly influenced by clear and detailed job descriptions and other formal signals as to what is expected of them.

A **task culture** is one in which the focus of activity is towards completing a task or project using whatever means are appropriate.

A **person culture** is one in which activity is strongly influenced by the wishes of the individuals who are part of the organisation.

Charles Handy's cultural types

Charles Handy (1993) distinguished four cultures – **power**, **role**, **task** and **person**.

Power

A dominant central figure holds power: others follow, and interpret new situations in the way the leader would. Many entrepreneurial firms are like this, with few rules but with well-understood codes on how to behave and work. It relies on the individual, not consensus.

Role

Typical of this culture are the job description or the procedure. Managers define what they expect, and select people for a job if they meet the requirements. Procedures guide how people and departments interact, and rules enable coordination. Position in the hierarchy determines power.

Task

People focus on completing the task regardless of formal role. They value each other for what they contribute and expect everyone to join in. The focus is on securing resources and people – and combining their diverse skills to a common purpose.

Person

The individual is at the centre and any structure or system is there to serve them. The form is unusual – small professional, communal and artistic organisations are probably closest. They exist to meet the needs of the professionals or members, rather than some larger organisational goal.

Activity 3.3 Cultural examples

For each of Handy's four cultural types, identify an example from within this text that seems to correspond with that form.

- What clues led you to that choice?
- Why do you think that culture is suitable for that organisation?
- Compare the 'competing values' and Handy models: where are they similar, and where different?

Key ideas Expressing and using cultures

A theme in studies of organisational culture is a move away from seeing it as an element that affects behaviour, to seeing it as something that people use as part of other organisational processes. An example is a study by Kaplan (2011) of the way in which staff in a telecommunications equipment manufacturer used PowerPoint presentations as they engaged in a process to develop strategy. For Schein (2016), PowerPoint is an example of a static cultural artefact representing a deeper cultural value – to use modern professional tools. From her empirical work in the company, Kaplan found that using (or not) PowerPoint affected the strategy process. Staff who tried to express ideas without using PowerPoint received little attention, and Kaplan noted that some gave more attention to the quality of their PowerPoint show than to the quality of the ideas it contained.

Source: Kaplan (2011).

Multiple cultures

Martin (2002) proposed that large organisations (BBC is an example) have multiple cultures, towards which observers take one of three perspectives:

- **Integration:** a focus on identifying consistencies, and acts that support a common goal.
- **Differentiation:** a focus on conflict, identifying different and possibly conflicting views.
- **Fragmentation:** a focus on the fluidity of organisations, and of changing views about events.

Ogbonna and Harris (1998, 2002) provided empirical support for this view, based on interviews with staff in a retail company. They found that a person's position in the hierarchy determined their perspective on the culture (see Table 3.1). As consensus on the culture was unlikely, the authors advised managers to recognise the sub-cultures, and only seek to reconcile those differences that were essential to policy. They observed that culture remains highly subjective, largely in the eye of the beholder:

> and is radically different according to an individual's position in the hierarchy (p.45).

Culture and performance

Peters and Waterman (1982) believed that culture affected performance, and implied that managers could try to change their culture towards a more productive one. Klein (2011) takes a similar approach by tracing the relationship between culture and performance in three successful companies. Brettel et al. (2015) show empirically how three dimensions of culture (as expressed in the competing values framework) foster an entrepreneurial orientation.

Others are more sceptical, questioning whether, even if a suitable culture has a positive effect, managers can consciously change it. Kotter and Heskett (1992) studied 207 companies to assess the link between culture and economic performance. Although they were positively correlated, the relationship was weaker than advocates of culture as a factor in performance had predicted.

Thompson and McHugh (2002), while critical of much writing on the topic, observe the potential benefits:

> Creating a culture resonant with the overall goals is relevant to any organisation, whether it be a trade union, voluntary group or producer cooperative. Indeed, it is more important

Table 3.1 Hierarchical position and cultural perspectives

Position in hierarchy	Cultural perspective	Description	Example
Head office managers	Integration	Cultural values should be shared across the organisation. Unified culture both desirable and attainable	'If we can get every ... part of the company doing what they should be doing, we'll beat everybody.'
Store managers	Differentiation	Reconciling conflicting views of head office and shop floor. See cultural pluralism as inevitable	'People up at head office are all pushing us in different directions. Jill in Marketing wants customer focus, June in Finance wants lower costs.'
Store employees	Fragmented	Confused by contradictory nature of the espoused values. See organisation as complex and unpredictable	'One minute it's this, the next it's that. You can't keep up with the flavour of the month.'

Source: Based on Ogbonna and Harris (1998).

in such consensual groupings. Cooperatives, for example, can degenerate organisationally because they fail to develop adequate mechanisms for transmitting the original ideals from founders to new members and sustaining them through shared experiences. (pp.208–9)

As managers work within a culture, they also work within an external context – whose members have expectations of them. They need tools with which to analyse that context.

Case study

British Broadcasting Corporation (BBC) - the case continues www.bbc.co.uk

There are many local and professional BBC cultures, but two culturally-distinct groups are evident – the programme-makers and the managers. In the earliest days, when the BBC was a monopoly with a growing audience and income, the emphasis was on production quality. This meant recruiting capable people and giving them a high degree of professional autonomy. The programme-makers are a relatively small group of people, to whom most other staff provide support. Hendy points out:

> **detailed oversight of day-to-day activity is impossible. In the last resort it is the programme producer who determines the quality and tone of what goes on air ... they are trusted to 'get on with it' and exercise their own judgement (Hendy, 2013, p.71).**

This is especially true of the outstanding individuals who create award-winning documentaries, comment on major sporting events, or host popular entertainment. They are well-known public figures and often have more frequent access to senior politicians and business leaders than senior BBC managers. Their focus is on the quality of the programme, with little interest in budgets, schedules or other routine considerations.

The managers – senior managers and their subordinates, staff working close to the top of staff functions, and administrative staff – have other values. They give more attention to external stakeholders and their interests and intentions towards the BBC. They value rules about budget compliance, consistency with salary policy, productivity, coordination and stability. These values, as well as the public's concern that they get a good return for their licence fee, will inevitably constrain some areas of programme-makers' autonomy. Commercial considerations run alongside those about aesthetic quality or intellectual worth:

> **We encourage them (producers) to come up with things that are formatted and long-running, rather than the bright ideas that are going to be a one-off. Particularly where anything that might have international potential or would work for the US (Turner et al. 2016, p.708).**

Marketing and scheduling became more vital to ensure the best chance of attracting mass audiences, greatly increasing the role of channel controllers, who decide what programmes to make, together with the content and timing of schedules. They also commission work from independent producers, who provide about a quarter of BBC output.

Sources: Nissen (2014); Hendy (2013); Turner et al. (2016).

Case questions 3.2

- Which of the cultures expressed in the competing values framework would you expect in these two groups, and why?
- What may this imply for their management and the relationship between them?

3.4 The competitive and general environment

Competitive environment – Porter's five forces

Figure 3.1 showed that the external context consists of the immediate competitive environment and the wider general environment. The 'Key ideas' feature summarises Porter's five forces theory, and there is a fuller explanation on the companion website.

Key ideas Porter's five forces

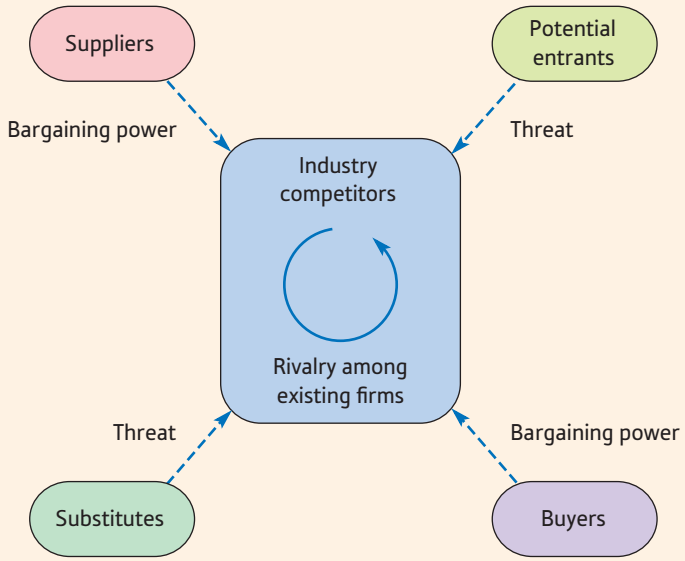


Figure 3.4 The five forces of industry competition

Source: Based on Porter, M.E. (1980), Competitive Strategy, Free Press, New York.

Professor Michael Porter developed a theory of the five forces that determine the profitability of an industry (e.g. restaurant) or a particular segment (fast-food outlets). Figure 3.4 shows these.

Each of the forces affects individual companies by applying pressure on profitability, through their effects on prices, costs and investment requirements. The relative power of buyers and suppliers influences the prices they can charge, as does the threat of substitutes.

Although published in 1980, the ideas still offer insights for managers considering whether to invest funds to enter an industry, or indeed whether it is worth staying in one.

The companion website describes and illustrates the **five forces**.

Five forces analysis is a technique for identifying and listing those aspects of the five forces most relevant to the profitability of an organisation at that time.

CWS More on the competitive environment – Porter's five forces

The general environment – PESTEL

Forces in the wider world also shape management policies, and a **PESTEL analysis** (short for political, economic, socio-cultural, technological, environmental and legal) helps to identify these. It is easy to list many such forces in the context, but the management skill is to recognise which of these are likely to have a significant effect on performance. Some will be obvious and pressing, while others are less so. Figure 3.5 is an example of such a list: it is not a scientifically verified tool, but a compilation of the forces that affect organisations in varying degrees, as circumstances change. Managers rarely deal with them in isolation – they

PESTEL analysis is a technique for identifying and listing the political, economic, social, technological, environmental and legal factors in the general environment most relevant to an organisation.

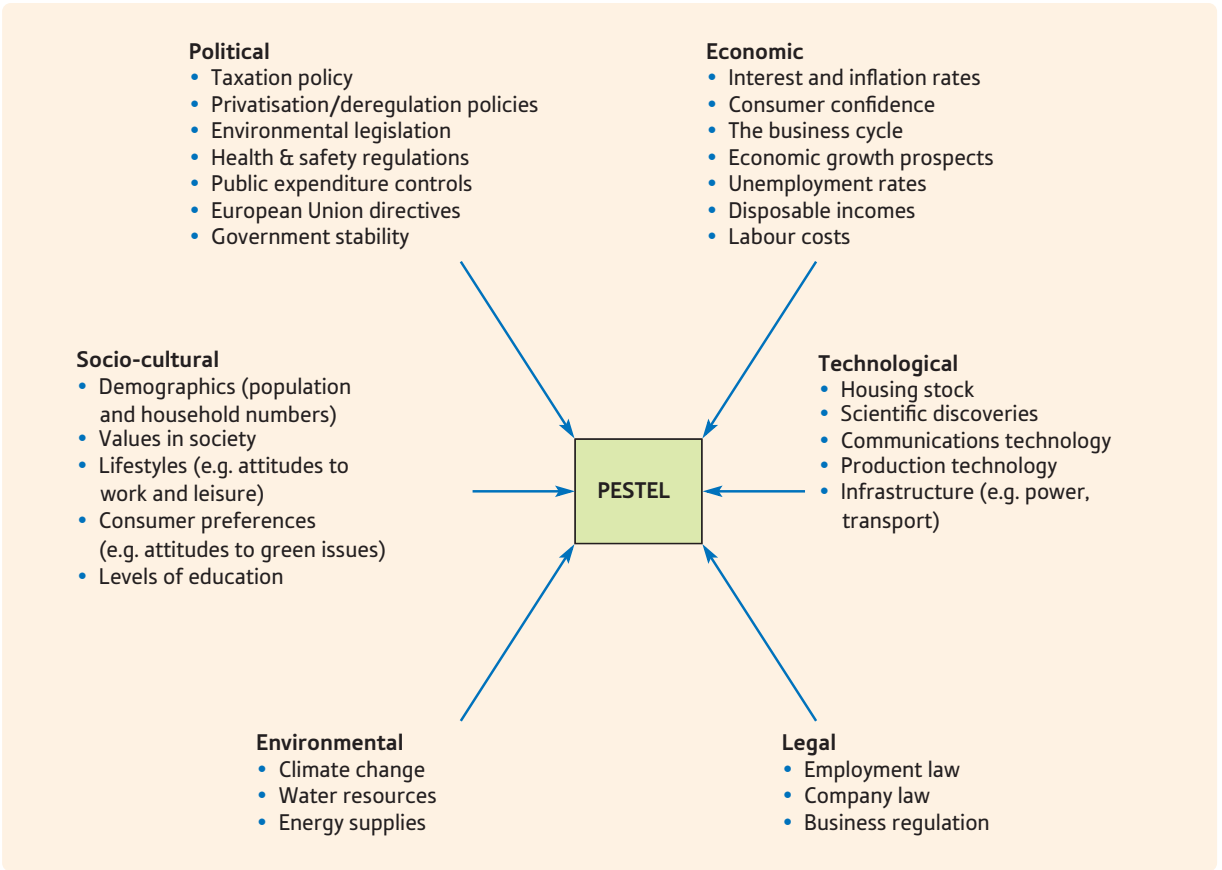


Figure 3.5 Identifying environmental influences – PESTEL analysis

take account of the relevant forces in combination: pharmaceutical companies deal with regulators who require costly trials, competitors offering cheap alternatives to patented drugs, and governments trying to reduce the costs of healthcare. Figure 4.2 presents a similar compilation for businesses operating internationally.

Political factors

Political systems shape what managers can and cannot do. Most governments regulate industries such as power supply, telecommunications and transport by specifying, amongst other things, who can offer services, on what conditions, and what they can charge.

When the UK and most European governments altered the law on financial services, non-financial companies like Virgin and Sainsbury's began to offer banking services. Deregulating air transport stimulated the growth of low-cost airlines, especially in the USA (e.g. Southwest Airlines), Europe (easyJet), Australia (Virgin Blue) and parts of Asia (Air Asia).

Managers aim to influence these political decisions by employing professional lobbyists, especially at international institutions. The European Commission relies on ideas from interested parties to inform its decisions, and lobbying firms provide this to people who can influence decisions, such as Members of the European Parliament.

Economic factors

Economic factors – wage, inflation, interest rates, growth rates – affect an organisation's income and costs. Low interest rates encourage manufacturers to invest in new equipment – but this is offset if low consumer confidence discourages spending. While some companies do badly in a recession: those employing low skilled staff in service occupations, where wage costs will be static.

The state of the economy influences capital investment decisions. If forecasters predict slower growth, managers will delay some capital investments. As a country becomes wealthier, foreign consumer-goods firms begin to export products aimed at a growing middle-class market, often in partnership with local companies.

Socio-cultural factors

Demographic change, such as an aging population, affects management in many ways – as older employees with special requirements, or as customers for pharmaceuticals and private nursing homes. 'Millennials' are a driving force in economic activity: many have distinctive tastes, to which consumer goods companies are keen to respond – see 'Management in practice' feature. In 2018, *The Guardian* reported that Boohoo (www.boohoo.com), owner of PrettyLittleThing and Nasty Gal, was winning sales from traditional retailers by targeting a generation that shops via mobile phone and takes its style cues from Instagram (13 June, 2018, p.33).

Technology is enabling people to rent consumer goods rather than buy. Online music streaming services has enabled us to listen without buying. We no longer need to own films when we can borrow them with a subscription to Netflix or Amazon. Some businesses (car dealers, house-builders) are re-thinking their business models – away from selling towards renting.

Management in practice

Millennials – powerful consumers

Millennials (now aged from 22–37) are reaching the most important age range for economic activity, when many of them form households, have children and buy or rent homes. They are bringing big changes to consumer industries. For decades, bigger meant better, consumers trusted brands they knew and convenience food was a novelty. No longer. One observer noted:

> **Millennials have a completely different set of values. They want committed brands with authentic products. Natural, simpler, more local and if possible small, as small as you can.**
>
> **They are in general more health-conscious than their parents were at the same age, and more environmentally aware – 61 per cent feel they can make a difference to the world through their choices.**

Many small producers are meeting those needs – craft breweries (Itchen Valley Brewery), organic, preferably local, food (Jude's Ice Cream www.judes.co.uk), artisanal gins (Sipsmith) and mixers (Fevertree), non-alcoholic drinks (Seedlip) and many more. Demand is strong, and some large consumer businesses have invested in these companies. Nestlé, the world's biggest food group, spent $2.3 billion to buy Atrium Innovations, a Canadian maker of plant-based nutritional products, to widen its consumer healthcare range.

FT Sources: *Financial Times*, 6 December 2017, p.14; 20 June 2018, p.15.

Another social change is the greater public recognition of the mis-treatment of women at work, especially (but not only) in high-tech and media companies. Since 2017, several women have told of sexual harassment by senior managers or star performers. Their companies often ignored them, despite policies prohibiting such behaviour until their perseverance attracted media attention, and the growth of #MeToo.

Technological factors

Companies pay close attention to the physical infrastructure – such as the adequacy of power and water supplies and transport systems. Advances in information technology are dramatically changing the business environment. Computers traditionally handled data, while other systems handled voice (radio, telephone) and images (film, video). The convergence of these systems into a single digital format – combining data, voice and images into a single format – has had, and will continue to have, profound implications: see 'Key ideas' feature.

Key ideas Machine learning

Erik Brynjolfsson, author of *The Second Machine Age* and a leading observer of technology and management, has written about the potential effects of machine learning, a form of artificial intelligence. His recent research shows that machine learning has the potential to raise productivity and economic growth around the world. He acknowledges there has been much exaggeration about this, but claims that those working on the technologies are finally beginning to deliver what they have long promised.

Machine learning systems have recently demonstrated superhuman performance in domains such as recognising objects in images, detecting fraud, diagnosing disease, and making recommendations to customers.

Consider the annual global competition for machine labelling of images. In just eight years, the error rates have fallen from 28 per cent to 2.5 per cent, and the winner can now beat the 5 per cent error rate achieved by humans. Last year, ML systems matched professionally-certified dermatologists in recognising skin cancer from images, and they can now diagnose many other diseases from images.

In a [recent paper we] discuss how machine learning is an example of a 'general purpose technology' (GPT). These are innovations so profound that they trigger cascades of complementary innovations, accelerating ... economic growth – for example the steam engine and electricity. When a GPT comes along, past performance is no longer a good guide to the future.

[However] harnessing ML will require changing longstanding [management] practices and assumptions. Should hiring and promotion decisions be made by algorithms instead of people? Should doctors and financial advisers be relegated to double-checking ML-generated diagnoses? Entrepreneurs need to develop new business models, workers [at all levels] need to develop new skills, policymakers need to update rules and regulations. What is more, they can do it in ways that create shared prosperity.

Source: From an article in the *Financial Times*, 27 July 2018, p.11.

Examples of the technological advances to which Brynjolfsson is referring include:

- social networking (Facebook)
- user-generated content sites (YouTube)
- technology-based voice shopping (Asos on Facebook and Google Assistant)
- Amazon – spreading far beyond the original bookseller into many other areas
- Netflix and Amazon Prime – threatening TV and media companies like Disney
- online retailers (www.asos.com) threatening established retailers
- Uber threatening established taxi drivers.

Case study British Broadcasting Corporation (BBC) - the case continues www.bbc.co.uk

The Corporation has responded in many ways to these contextual changes, aware that it depends heavily on licence fee income, which some parts of the audience are unwilling to pay. The plans include providing programmes designed to appeal to audiences who do not feel well-served by the present offer (to maintain support for the licence fee), earning more from commercial activities, and cutting costs across the Corporation.

Management set ambitious targets to employ more people from Black, Asian and Minority Ethnic (BAME) communities at all levels, and people from those communities now create more programmes. Young audiences want to be involved in creating programmes, and in customising what is broadcast. The BBC has responded by offering more interactive programmes. These require significant changes in the way production staff work (Jackson, 2014).

They have made a structural change by merging the production teams previously making content for UK audiences and for BBC Worldwide respectively to create BBC Studios. The combined unit is a wholly-owned commercial subsidiary of the BBC. It no longer has the sole right to make all the programmes the BBC requires, but in return is free to make programmes for other broadcasters. The Corporation set ambitious earnings targets for the Studios, since as well as earning money now, the 'backlist' of programmes will earn money for years to come.

Conscious that the licence fee is controversial, the BBC stresses that it spends the money wisely. It reduced the number of senior managers from 614 in March 2010 to 267 by March 2018. Other staff numbers have been stable, but many staff have moved to new roles which are directly related to serving the audience or building the BBC's technological capacity. Better use of property has saved £90 million since 2012.

Source: *BBC Annual Report (2017–18)*.

Case questions 3.3

- Which of the five forces can you identify in the BBC's environment (in the whole case so far)?
- What management challenges does this account of external change imply for managers and staff?

Environmental factors

The natural resources available in an economy – minerals, land, climate – affect the form of economic activity. Climate change increases the risk of droughts, floods, storms and heat waves: for some this is a threat – insurance companies, house builders and water companies are visible examples. Others see opportunities in sustainability – green energy suppliers, emission control and waste management companies are experiencing rising demand. Scottish Power, one of Britain's biggest energy companies, is moving away from generating power from fossil fuels, and will now use a mix of wind and solar energy: it sold its last gas-fired power stations in 2018 (*The Guardian*, 20 October 2018, p.34).

Extracting minerals is an important source of income for workers and of government revenue. Some of these activities also disrupt local communities and/or contribute directly or indirectly to climate change. Activists lobby companies to modify or abandon policies which they believe contribute to the problem – a group disrupted Barclays annual shareholder meeting to protest against the bank funding an oil pipeline in Canada (*The Guardian*, 2 May 2018, p.30).

Legal factors

Competent governments assert their authority over the territory, creating a stable legal framework embodying the rule of law, commercial contracts and property rights (including intellectual property covering patents and inventions). Without these tools, organisations find it difficult and expensive to operate, which led the UK Parliament to pass the Joint Stock Companies Act in 1862. Previously investors were personally liable for the whole of a company's debts if it failed. The Act limited their liability to the value of the shares they held in the company – they could lose their investment, but not the rest of their wealth. This stimulated company formation and other countries soon passed similar legislation, paving the way for the countless 'limited liability' companies that exist today (Micklethwait and Wooldridge, 2003). Laws on employment and trade unions affect the way managers engage with employees.

CWS More on environmental dynamism and complexity

Activity 3.4 Reflect on a PESTEL analysis

Conduct a PESTEL analysis for an organisation with which you, or someone you know, is familiar:

- Which of the external forces you have identified has most implications for the business?
- To what extent has the organisation taken account of these forces?
- The PESTEL model is intended to help identify external factors affecting an organisation. What assumptions does it imply about how people will use this idea?
- What are the limitations of PESTEL?

Key ideas Presenting a reasoned case

To use the PESTEL model in practice depends not only on gathering ideas and data, but also on presenting a reasoned case or proposal to colleagues.

This is a fundamental part of a manager's job since, to get things done, they need to present evidence for (or against) a proposal in a clear and reasoned way. Issues are usually more complex than they appear, the 'facts' are not always available, and people make decisions on limited information. Effective managers are good at presenting a reasoned case.

Quinn et al. (2015) write that most proposals have three elements:

1. **The claim** or conclusion. The claim answers the question – 'what is this about?'
2. **The grounds** or the facts and evidence to support the claim. The 'grounds' answers the question 'what leads you to say that?'
3. **The warrant**, or bridge between the claim and the grounds. The 'warrant' answers the question 'How does your claim connect to the grounds you've offered?'

This 'warrant' is the hardest of the three to deal with, as what seems like a strong link to you may not look that way to someone else, and *vice versa*. But developing an understanding of this link is a powerful tool for both creating and evaluating arguments. The 'Develop a skill' feature at the end of the chapter will help you to do this.

Source: Based on Quinn et al. (2015), p.110.

3.5 Stakeholders and corporate governance

Stakeholders

Stakeholders are those (individuals, groups or other organisations) with a legitimate claim on an enterprise. This legitimacy can arise from ownership, through holding a title to an asset (such as a share in a company): from legal rights to, say, privacy or security of tenure; from moral rights to, say, fair treatment; or from having an interest because they will be affected by a decision. They have usually contributed to the organisation, and seek something in return: Table 3.2 sets out one view of these mutual obligations.

Each stakeholder is part of a nexus of implicit and explicit contracts (of contributions and rewards) which make up the organisation.

However, as a group, managers are unique in this respect because of their position at the centre of the nexus of contracts. Managers are the only group of stakeholders who enter into

Table 3.2 Contributions and expectations of stakeholders

Stakeholders	Contributions	Expectations
Shareholders	Capital	Adequate dividend payments and/or rising share value
Creditors	Loans	Timely repayment
Managers	Time and skill	Fair income and adequate working conditions
Employees	Time and skill	Fair income and adequate working conditions
Customers	Revenues from sale of goods	Value for money
Suppliers	Inputs of materials and other resources	Fair prices and quick payment
Local communities	Sites, local infrastructure, perhaps tax incentives	No damage to quality of life
General public	National infrastructure	No damage to quality of life and obey law

Source: Based on Hill and Jones (1992, p.133).

a contractual relationship with all other stakeholders. Managers are also the only group of stakeholders with *direct* control over the decision-making apparatus of the firm (Hill and Jones, 1992, p.134).

Since stakeholders provide the (diverse) resources, managers allocate the resources available in the hope of meeting expectations – which inevitably means some compromise when they conflict. Nutt (2002) shows the dangers: he studied 400 strategic decisions, and found that half of them 'failed' – in the sense that they were not implemented or produced poor results – largely because managers failed to attend to stakeholders.

Allocating resources to meet the interests of one stakeholder may mean a loss to another. A topical example is the conflict between managers and shareholders over executive rewards, especially when business performance has been poor. One way to resolve such conflicts is through corporate governance.

Corporate governance

Scandals and failures in prominent organisations lead people to question the adequacy of their systems of **corporate governance**. Berle and Means (1932) first raised the issue when they described the dilemma facing owners who become separated from the managers they appoint to run the business. The shareholders (principals) have financed, and own, the business, but delegate the work of running it to managers (agents). The principals then face the risk that managers may not act in their (the principals) best interests: agents may take excessive risks, or give misleading information about the state of the business and use this to their personal advantage. Such observations led to what is now termed **agency theory**, which seeks to explain what happens when one party (the principal) delegates work to another party (the agent). Failures at major financial institutions, caused in part by lending money to risky borrowers in the hope of high returns, show that the separation of ownership from management, of principal from agent, is as relevant as ever.

Corporate governance refers to the rules and processes intended to control those responsible for managing an organisation.

Agency theory seeks to explain what happens when one party (the principal) delegates work to another party (the agent).

CWS More on corporate governance

3.6 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 3.3 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). *These are examples only – not a comprehensive analysis*. You can disagree with these and / or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *Explain the meaning and possible significance of the phrase 'cultural differences within an organisation'. Why do they arise, and what, if any, are the possible implications for performance?*

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 3.3 'Clear thinking' questions about practice and theory

Clear thinking practices	From the Chapter Case study – tension between managers and programme makers	Theory – a question about cultural differences within an organisation (Section 3.2 and 3.3)
Check assumptions (task and process)	That top creative talent will abandon BBC unless managers pay 'market rates' *or* That 'working for BBC' will continue to persuade enough top talent to work there, despite allegedly lower pay	Set out the issue: • Evidence (as in chapter) that organisations may have several cultures, not one • Illustrate with any one of the cultural models in the chapter – e.g. Martin's fragmented cultures Assumes: • culture affects performance (positively or negatively) • multiple cultures also do (positively or negatively) and are hard to manage • they reflect perceptions of different circumstances or external conditions • they develop internally (Figure 3.2), and independently of management • they are hard to change (especially occupational ones) These assumptions may or may not be correct in a given situation Are fragmented cultures more common than closely integrated ones? Would learning to live with cultural differences be more productive than trying to eliminate them?

Clear thinking practices	From the Chapter Case study – tension between managers and programme makers	Theory – a question about cultural differences within an organisation (Section 3.2 and 3.3)
Recognise contexts	Public unease at salaries of some top creatives, and pressure on BBC to limit them Wider changes in media world discourage some segments of public from using BBC – and so are less willing to pay licence fee. This threatens income Large potential market for quality BBC programmes across the world opens up a new income stream	Stress that contexts are believed to be a major force shaping cultures Do wider social developments encourage more attention to cultures, and also to their differences? Does that affect the extent to which cultures and multiple cultures affect performance, either way? Is it harder to manage major projects with staff from distinct occupational or national cultures?
Imagine alternatives	Aim for more income from Studio programme sales, and less from licence fee? More programmes available on subscription? Find ways to attract and retain younger audiences, without driving away older ones?	Ignore cultural differences, in the hope that commitment to the task, the team and/or the institution will outweigh them Acknowledge internal cultural differences as facts of life, to be accepted and celebrated Encourage cultural integration, or a unified culture
Acknowledge limitations	Some parts of public deeply in favour of universal licence fee over more commercial alternatives Rapid advance in quantity and quality of the content offered by Netflix and others is placing remorseless pressure on all public broadcasting models	Culture is only one element in a society's fabric – wealth, class, skill, profession, political or social influences also play a part in relationships and performance

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of presenting a reasoned case.

Develop a skill: present a reasoned case

Part of many managers' role is to influence others to support proposals, so they need to develop the skill of presenting a reasoned case. This exercise is intended to help you do that.

- **Awareness.** Review how you usually present a proposal to someone whom you want to convince. How would you rate your ability to present a reasoned case? Review a presentation you have made (at work or during your course): how well do you think you did?
- **Learning.** Read again the 'Key ideas' feature on page 80 (end of Section 3.4) including the elements of claim, grounds and warrants. Summarise the main ideas about presenting a reasoned case. How will being good at that help someone's career?
- **Analysis.** Identify someone (whom you know, or can read about) who is good at presenting a reasoned case. Consider what they do, what are the effects, and what you can learn from them.

- **Practice.** Recall the work you did on Case question 3.3. For *one* of the PESTEL factors you chose, summarise how you would claim that this factor matters for the BBC, by recording your notes under these headings:

PESTEL factor that you think matters for BBC	Your **claim** for why it is significant	Your explicit **grounds** for proposing that	Your **warrant** – does your claim connect to your grounds?

  - Use your notes to prepare to present your claim to a listener.
  - Create an opportunity to do this, record the results, and reflect on what you can learn from the experience.
- **Application.** Decide on another opportunity to practise this skill within the next week.

Summary

1 **Use Schein's theory of the elements of culture to analyse an enterprise**
- Visible artifacts, beliefs and values, and basic underlying assumptions.
- Hard for an outsider to observe, but being in an enterprise of any kind, and discussing topic with others will usually reveal clues.

2 **Compare the cultures of two organisational units, using Quinn's or Handy's typologies**
- Quinn et al. (2015) – open systems, rational goal, internal process and human relations.
- Handy (1993) – power, role, task and person.

3 **Collect evidence to make a comparative PESTEL analysis for two organisations**
- The PESTEL model of the wider external environment identifies political, economic, social, technological, environmental and legal forces.

4 **Give examples of stakeholder expectations**
- These are shown in Table 3.2.

5 **Explain the meaning and purpose of corporate governance**
- Corporate governance is intended to monitor and control the performance of managers, to ensure they act in the interests of stakeholders, not just of themselves.

6 **Use clear thinking to evaluate these practices and theories, and as you begin to develop further your skill of presenting a reasoned case**
- Using the PESTEL model to guide a management decision depends on being able to present a convincing case to other people, and the chapter included guidance on how to do that.
- Developing the skill of presenting a reasoned case is likely to be more effective if a manager questions the assumption about, for example, their target audience, and whether factors in the immediate context encourages a reasoned approach. Presentations will also benefit if practitioners try alternative ways of presenting their information, and are conscious of the limitations of rational argument.

Test your understanding

1 Give an example from each of Schein's cultural elements.
2 Describe an educational or commercial organisation that you know in terms of the competing values framework of cultures.
3 What is the significance of the idea of 'fragmented cultures' for attempting cultural change?
4 How should managers decide which of the many factors easily identified in a PESTEL analysis they should attend to?
5 Since people interpret environmental forces from unique perspectives, what meaning can people attach to statements about external pressures?
6 Illustrate the stakeholder idea with an example of your own showing their expectations of an organisation.
7 Identify an example from this text, or current media reports, that illustrates 'agency theory'.

Read more

McAfee, A. and Brynjolfsson, B. (2017) *Machine, Platform, Crowd: Harnessing Our Digital Future*, Norton, New York.

A reliable guide by two leading scholars to the technologies that are likely to affect us all.

Roeder, M. (2011) *The Big Mo: Why Momentum Now Rules Our World*, Virgin Books, London.

An account of how forces such as those discussed in the chapter sometimes gain progressively greater momentum, often with devastating results for businesses affected by them.

Ogbonna, E. and Harris, L.C. (2014) 'Organizational cultural perpetuation: A case study of an English Premier League football club', *British Journal of Management*, vol. 25, no. 4, pp.667–86.

A scientific study of organisational culture in a familiar industry.

Brannan, M.J. (2017) 'Power, corruption and lies: Mis-selling and the production of culture in financial services', *Human Relations*, vol. 70, no. 6, pp.641–76.

Empirical study of how a potentially damaging culture formed.

Go online

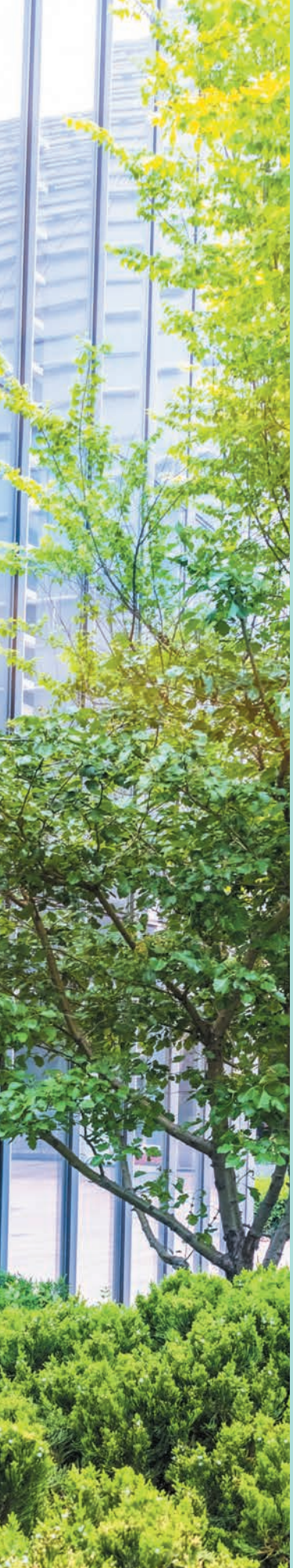
These websites have appeared in the chapter:

www.bbc.co.uk
www.vw.com
www.boohoo.com
www.nfuonline.org
www.judes.co.uk
www.asos.com

Visit some of these, or any other companies that interest you, and navigate to the pages dealing with recent news, press or investor relations.

- What can you find about their culture?
- What are the main external forces that the organisation appears to be facing?
- What challenges may they imply for those working in, and managing, these organisations?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



CHAPTER 4

MANAGING INTERNATIONALLY

Aim

To introduce the factors shaping the work of those managing internationally.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Compare the ways in which organisations conduct business internationally
2. Evaluate the implications for practice of these features of the context of international trade
   a. PESTEL factors affecting decisions of those managing internationally
   b. EU policies and other trade agreements (CW)
   c. Differences in national cultures, including Hofstede's research
3. Compare and contrast the features of national management systems (CW)
4. Summarise Yip's theory of the factors believed to stimulate globalisation (CW)
5. Use clear thinking to evaluate these practices and theories, and as you begin to develop further your skill of mindfulness

Key terms

This chapter introduces these terms:

international management
offshoring
foreign direct investment
licensing
franchising
joint venture
multinational company
transnational company
global company
theory of absolute advantage
political risk
ideology
corruption
pervasiveness (of corruption)
arbitrariness (of corruption)
high-context culture
low-context culture
cultural intelligence
mindfulness
power distance
uncertainty avoidance
individualism
collectivism
masculinity
femininity
globalisation

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

Legal context, trade agreements and trading blocs
Contrasting management systems
Forces driving globalisation

Case study Carlsberg www.carlsberggroup.com

Carlsberg, based in Copenhagen, Denmark, is the world's third largest brewer after ABinBev and Heineken. The main brands are the flagship Carlsberg, premium Kronenbourg 1664, Somersby cider and Tuborg. It manufactures, markets and sells 500 mainly local brands of beer from 85 breweries in more than 40 countries. In the financial year to the end of December 2018, its net revenue was 62.5 billion DKK, from which it generated an operating profit of 9.3 billion DKK, and an operating margin of 14.9 per cent (up from 14.6 per cent the previous year). It employs 45,000 staff.

Carlsberg's first significant investment outside Denmark was in 1968 when it opened a brewery in Malawi. In 2001, it began a more determined overseas expansion by acquiring Norwegian brewer Orkla, so becoming the dominant Nordic brewer. In 2008, it acquired Kronenbourg (France) and Scottish & Newcastle in the UK, which also owned Baltic Beverages, market leader in Russia and the Baltics. These acquisitions gave it access to local brands, distribution networks, and local knowledge of the beer market. It later acquired Chongqing Brewery in mainland China. These turned the company into a multinational business, which led to organisational change.

It has adopted a regional structure, in which local companies provide manufacturing, marketing and distribution expertise, reporting to regional management, while the centre manages support services such as IT and finance. The company also hired managers from fast moving consumer goods (FMCG) companies who were enthusiastic about moving the company rapidly towards centralised systems and brands, while simultaneously respecting the belief that 'brewing will always be local'.

In 2018, the geographical distribution of sales by volume was Western Europe 58 per cent; Eastern Europe 17 per cent; and Asia 25 per cent. The Western Europe business is 'mature', with limited scope for growth, so it aims to improve profits by innovation and efficiency – and is very profitable. The company uses these profits in part to support the Eastern Europe business where the aim is to achieve rapid growth and higher earnings, and the Asian one where the aim is to achieve long-term growth through building a strong market position. Carlsberg owns and manages breweries in each of these areas, and services the rest of the world through exporting and licensing arrangements. Beer consumption is declining in Western Europe as people seek healthier lifestyles or prefer wine and spirits. The same is happening in China and



© Barry Mason/Alamy Stock Photo

Russia where, in 2017, the government reduced the size of bottles that could be sold, causing a further fall in sales. In contrast, there has been a strong growth in demand for craft and speciality beers.

The Board also recognised a need for cultural as well as structural change. A former CEO commented:

> **The most important thing was to create a completely new winner culture, and to develop our staff so that they constantly take the lead in the market (quoted in Søderberg, 2015, p.239).**

Sources: Søderberg (2015); *Carlsberg Annual Report and Accounts 2018; Financial Times*, 4/5 August 2018, p.10.

Case questions 4.1

- What contextual factors may have encouraged Carlsberg's management to expand overseas, and to which areas of the world?
- How will a growing overseas operation have affected the tasks and processes of managing? Try to identify two of each.
- What are the main risks of expanding rapidly in overseas markets?

4.1 Introduction

Carlsberg's managers decided to expand the business overseas, and in doing so face common problems in managing around the world. These include where to focus investment, how to organise the overseas activities, how, if at all, to adapt to local tastes, and how to ensure it adds value.

Retailers like Tesco and IKEA face similar challenges of balancing the consistency of a global brand with what local customers expect. Manufacturers like Ford and Coca-Cola are investing heavily in China, Brazil, India and parts of Africa where demand is growing rapidly. Chinese companies are equally investing abroad, especially in ports, railways and power supply. All have to manage relationships with local companies as partners or competitors, and work within their political and legal systems. They decide whether to work in a joint venture with a local company – in some countries the law requires this. Many overseas ventures fail, and so destroy value.

Managers consider not only economic aspects of growing overseas, but also whether the country's legal system will protect their investment, and its political stability. They face local sensitivities: when India's Tata Motors bought Jaguar and Land Rover they pledged to retain their UK identities, and to invest in modern equipment.

There has been international trade since the earliest times, dominated in recent centuries by Western economies. Now:

> China, India and the rest of the East, alongside [other] emerging economies, are beginning to challenge the West for positions of global industry leadership … By 2030, Asia's economy is estimated to be larger than that of the United States and the European Union combined … Asia is the world's most populous continent, [with 60 per cent of the world's population and is the fastest growing economic region] (Barkema et al. 2015, p.461).

In 2018, Siemens of Germany and Alstom of France proposed to merge their rail operations, ostensibly to be in a stronger position to meet competition from the Chinese company CRRC, which is the largest rail supplier in the world (*Financial Times*, 15 June 2018, p.9).

Most trade moves by sea, which has been good for the shipping business – see 'Management in practice'.

Management in practice — Maersk and global trade www.maersk.com

Maersk is the world's largest container shipping line, whose growth has reflected that of world trade. Doug Bannister, Managing Director of Maersk Line (UK and Ireland) explained:

> **We're in transportation, about 90 per cent of world trade is done by sea-borne transportation, it is an incredible industry to be associated with: our primary mission is to create opportunities in global commerce.**
>
> **The scale of containerised shipping is enormous. Container shipping has been around for 40 years, and it's had incredible growth, 8 to 10 per cent a year. The types of stuff we bring in are anything from lamps to furniture to bananas, about 90 per cent of anything that you'd see in any room was transported in by one of our ships.**
>
> **Several external factors have really played into Maersk Line's growth, globalisation probably being the primary one, and the explosion of world trade has been incredible. This is down to efficient transport solutions, and to companies moving production to low cost countries.**

Source: Interview with Doug Bannister.

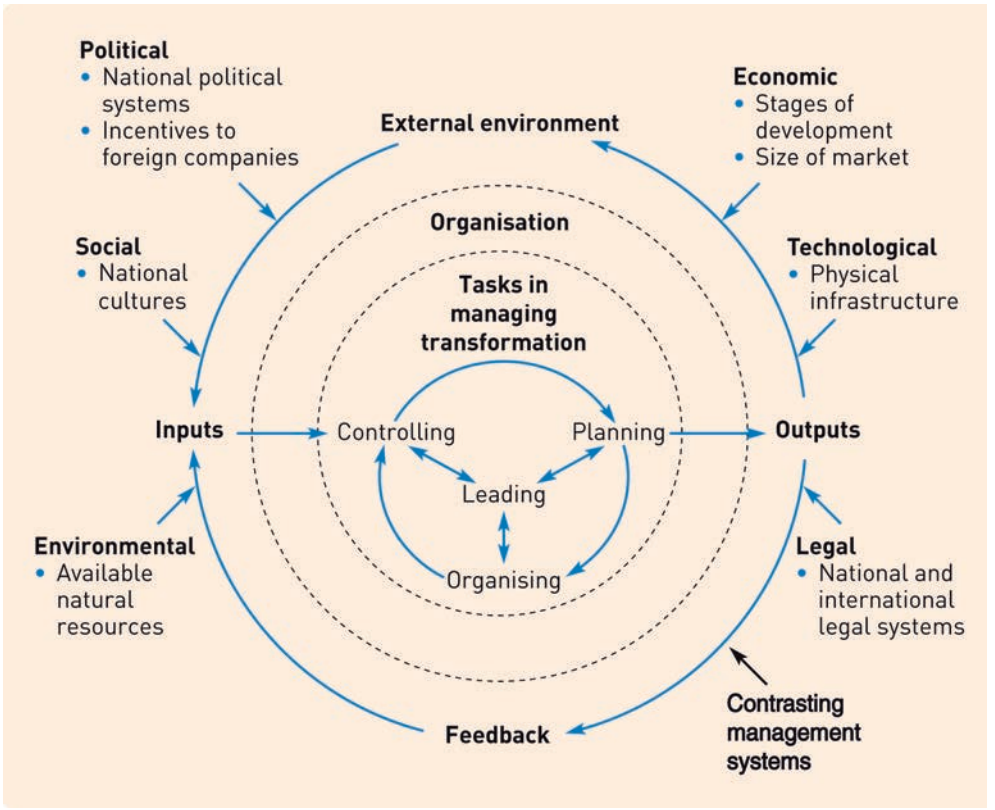


Figure 4.1 Themes in managing internationally

From a career point of view, **international management** (managing business operations in more than one country) can mean:

International management is the practice of managing business operations in more than one country.

- working as an expatriate manager in another country
- joining or managing an international team with members from several countries
- managing in a global organisation whose employees, systems and structures are truly international in that they no longer reflect its original, national base.

This chapter begins by showing how companies conduct business internationally, and then turns to the context of international business (PESTEL) which includes differences in national cultures. Being 'mindful' when dealing with people from other cultures is a valuable skill, and there is an opportunity to begin to develop that. It concludes by presenting a theory about the forces stimulating globalisation. Figure 4.1 illustrates the themes.

4.2 Ways to conduct business internationally

Companies that conduct international business are likely to do most of it by one or more of the methods outlined below. Whichever they use, their success will depend on how well they take account of the local context (see 'Key ideas').

Exporting and importing

The longest established way of dealing with overseas customers and suppliers is by transporting physical products (raw materials or finished goods) or delivering services (a retail shop, consultancy or legal advice) across national boundaries. If a dealer or agent in the

receiving country does the final distribution of exports, there are few implications for the exporter's staff.

Offshoring

Offshoring is the practice of contracting out activities to companies in other countries who can do the work more cost-effectively.

Offshoring happens when managers decide to transfer activities to countries that will add more value. This began when companies in developed Western economies transferred routine manufacturing activities to low-wage developing countries. The internet enables companies to transfer administrative activities (such as payroll or accounting) overseas.

Foreign direct investment

Foreign direct investment (FDI) is the practice of investing shareholder funds directly in another country, by building or buying physical facilities, or by buying a company.

Foreign direct investment (FDI) is when a firm builds or acquires facilities in a foreign country, and manages them directly. Motor companies do this – Nissan and Tata manufacture in the UK, General Motors in India. If the venture is a wholly-owned subsidiary, profits stay in the company, which retains control over expertise, technology and marketing. Nissan and GM built and managed their facilities. Others, like Kraft when it purchased Cadbury's, buy the assets of an existing business.

Key ideas — Contextual intelligence

'Context matters. Most managers and entrepreneurs agree, for example, that creating value and motivating talent are at the heart of what they do. But once you drill below the homilies, differences quickly emerge over what constitutes value and how to motivate people. That's because conditions differ enormously from place to place, in ways that aren't easy to codify – conditions not just of economic development, but of institutional character, physical geography, educational norms, culture and language. Students of management once thought that best manufacturing practices (to take one example) were sufficiently established that processes merely needed tweaking to fit local conditions. More often, it turns out, they need radical rewriting – not because the technology is wrong, but because everything surrounding the technology changes how it will work … '

Khanna (2014) illustrates the theme with an example from the cement industry:

> **The technology for manufacturing cement is the same everywhere, but individual cement plants are located in specific contexts that vary widely. Corrupt material suppliers may adulterate the mixtures that go into cement. Unions may impede or support plant operations. Finished cement may be sold to construction firms in bulk or to individuals in bags. Such variables often outweigh the unifying effects of a common technology (p.81).**

Source: Khanna (2014).

Licensing

Licensing is when one firm gives another firm the right to use assets such as patents or technology in exchange for a fee.

Franchising is the practice of extending a business by giving other organisations, in return for a fee, the right to use your brand name, technology or product specifications.

Licensing occurs when a business licenses (grants the right to) a firm (the licensee) in another country to produce and sell its products – such as the deal between Imperial Tobacco and a Chinese group to produce and distribute Imperial brands in the world's largest cigarette market. The licensing firm receives a payment for each unit sold (usually called a royalty payment), while the licensee takes the risk of investing in manufacturing and distribution. **Franchising** is similar, used by service businesses to expand rapidly. The expanding firm sells the right (the franchise) to a company which allows it (the franchisee) to use the brand name and product design to build a business in the target market. The seller usually imposes tight conditions on quality, working procedures and customer service: franchisees run many retail outlets.

Joint ventures

Joint ventures enable firms in two or more countries to share the risks and resources required to do business internationally. Most joint ventures link a foreign firm with one in the host country to take advantage of the latter's facilities and/or knowledge of local customs, politics and ways of working. They agree their respective investment and how to share the profits. In 2018, Nestlé and Starbucks agreed a joint venture which will enable Nestlé to sell Starbucks products in parts of the world where Starbucks is weak: Starbucks sells packaged goods in 28 countries, while Nestlé operates in almost 290 (*Financial Times*, 8 May 2018, p.14). Joint ventures bring advantages – and also the hazards of misunderstandings due to cultural differences.

A **joint venture** is an alliance in which the partners agree to form a separate, independent organisation for a specific business purpose.

Wholly-owned subsidiary

Managers who want to retain close control over international activities create a foreign subsidiary. This is costly: the benefit is that the company retains the profits as well as control over its expertise, technology and marketing. The company establishes the subsidiary as a new entity or by acquiring an existing business, and usually employs local staff.

Johnson and Tellis (2008) found that success depended on how much control the lead company retained. Exporting (cheap) gives little control, as managers cannot decide how their products are finally distributed and sold. A wholly-owned subsidiary (expensive) gives high control, as the company can deploy finance or marketing knowledge if required. Firms with a high degree of control were consistently more successful than those without.

Companies also develop forms of organisation through which to conduct their international business – multinational, transnational and global.

Multinational companies are managed from one country, but have significant production and marketing operations in many others.

Key ideas — Rationality in multinational companies' investment methods

In a review of Herbert's (1999) classic article on multinationals' investment methods, Richard Whittington (2017) recalled that Herbert noted that, at that time, multinational investment decisions reflected specific cultural assumptions, such as that decisions are fundamentally rational, relying on accurate data, systematic analysis and frank discussion.

Many multinationals also appeared to share common assumptions:

- about the importance of timely information
- about the priority of organisational interests and
- that individuals value their careers before family or social interests.

Herbert's research had shown that, in many cultures, the reality is otherwise:

- information is only given when demanded face-to-face and
- local managers' political histories loom large over organisational decisions.

Context matters (p.34).

Source: Whittington (2017).

Multinational companies are based in one country, and have significant production and marketing operations in many others – perhaps over a third of sales. Managers in the home country make the big decisions.

Transnational companies also operate in many countries, but decentralise many decisions to local managers. The company uses their local knowledge to build the business, while still projecting a consistent company image.

Transnational companies operate in many countries and delegate many decisions to local managers.

Global companies work in many countries, securing resources and markets in the most suitable. Production or service processes are performed, and integrated, across many global locations – as are ownership, control and top management. Staff at Trend Micro (www.trendmicro.com), a global leader in IT security, must respond rapidly to threats anywhere. Trend's financial headquarters is in Tokyo; product development is in Taiwan (a good source of staff with a PhD); and the sales department is in California – inside the huge US market. Nestlé (www.nestle.com) is another example: although headquarters are in Switzerland, 98 per cent of sales and 96 per cent of employees are not. Such businesses are often organised by product, with those in charge of each unit securing resources from whichever country gives best value.

Global companies work in many countries, securing resources and finding markets in whichever country is most suitable.

Activity 4.1 Choosing between approaches

Consider the different ways of expanding a business internationally.

- For any two of the methods outlined above, note the possible limitations.
- Identify a company with international operations, and find out which method(s) it has used.
- What assumptions may have influenced the choice?
- Compare your results with colleagues on your course, and prepare a short presentation summarising your conclusions.

Case questions 4.2

- Which of the modes of entry outlined above has Carlsberg used?
- Using the definitions here, is Carlsberg a multinational, transnational or global firm?

4.3 The contexts of international business – PESTEL

Those managing internationally pay close attention to the international aspects of the general business environment (Chapter 3), shown in Figure 4.2. This is similar to Figure 3.5, in the sense that it is a compilation of groups of factors to which practitioners pay attention when managing internationally. The factors are always present in their context, but are only likely to come to their attention, become part of their agenda, when they start doing business internationally. Section 4.3 outlines four of these (beginning, for clarity, with the economic context), and Sections 4.4 and 4.5 present the socio-cultural contexts. Material on the legal context, including the European Union and the General Agreement on Tariffs and Trade, is on the companion website.

Economic

One area of economic theory aims to understand why nations trade with each other, rather than being self-sufficient. The **theory of absolute advantage** states that by specialising in the production of goods which they can produce more cheaply than other countries, and then trading them, nations will increase their economic well-being. If countries use the resources in which they have an advantage (land, raw materials or efficient methods) to produce goods and services, and exchange them with countries for things in which *they* are most efficient, this will add more value than if everyone was self-sufficient. Self-sufficiency sounds attractive, but costs more than buying things from someone else. The theory is

The **theory of absolute advantage** is a trade theory which proposes that by specialising in producing goods and services which they can produce more efficiently than others, and then trading them, nations will increase their economic wealth.

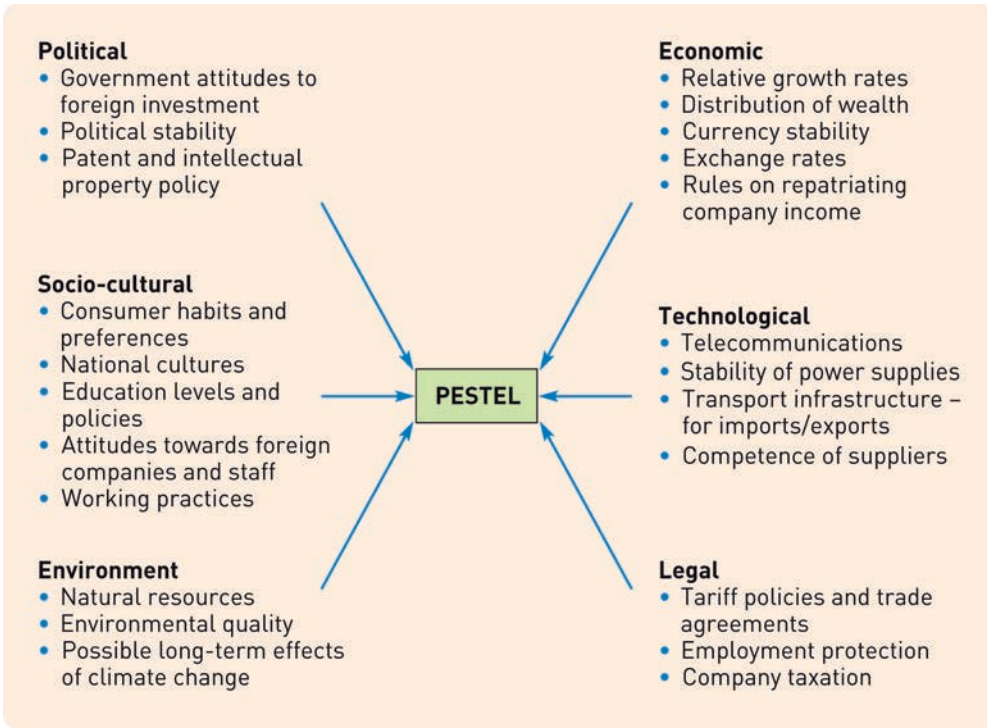


Figure 4.2 An international PESTEL analysis

more complex (see Chapter 6 in Collinson et al. (2017) for a fuller treatment) – but even this simple account begins to explain why nations trade, even though each could make the goods themselves.

The theory partly explains the rapid internationalisation of production since the 1960s. Firms in the developed world realised that labour-intensive manufacturing – especially in electrical goods, clothing, footwear and toys – cost more to make than to import. They quickly found suppliers in a small group of Asian countries – Taiwan, Hong Kong, South Korea and especially Singapore. These became major 'offshoring' centres, supplying goods and components to companies around the world. Mexico's cheap labour and low tariffs on imported has attracted many companies wanting to produce cars for the US market. Table 4.1 gives other examples.

Companies sometimes find that remote operations require more management time than they are worth (they add little value), so they 'repatriate' the outsourced activities.

Table 4.1 Examples of the internationalisation of production

Company	Work transferred	Reasons given
BT www.bt.com	Opened call centres in India, replacing the jobs of 2000 staff in the UK	'To meet cost-saving targets and remain competitive'
Gillette www.gillette.com	Closed three factories (two UK and one German) and transferred work to new factory in Eastern Europe	'To significantly reduce costs and improve operating efficiency'
Dyson www.dyson.co.uk	Moved production of domestic appliances from UK to Malaysia	'To reduce manufacturing costs to protect UK jobs in design and development'

The internationalisation of markets happens when companies in developed countries see market opportunities in less developed ones. Brewers like Heineken are investing heavily in Africa, where rising incomes and population stimulate demand. The Scotch whisky industry is expanding rapidly, with exports in 2017 rising by 9 per cent. Fifteen distilleries have opened in Scotland in the last five years – seven in the past twelve months – with a further twenty planned or under construction. Much of the output will go to emerging economies in Africa and Asia, where the growing professional classes have developed a taste for imported spirits (*Financial Times*, 28 May 2018, p.16). Hong Kong Disneyland reflects the company's belief that Asia's media and entertainment market will grow rapidly: the Chinese Government agreed, taking a 57 per cent stake. Disney hopes this will help it win good terms for other ventures – TV, films and consumer goods.

The economic context of a country includes its stage of development, the growth or otherwise of a middle class, inflation, exchange rates, debt, and so on. The usual measure of economic development is average income per person, though the World Economic Forum, which meets annually to debate the world economy, includes the level of inequality within a country as part of its assessment.

Key ideas **How China's institutions support a market economy**

Hitt and Xu (2016) give an insight into the transition of China from a state-run towards a market-based system. They show that a major focus of the Chinese Government has been to gradually create the institutions necessary to maintain their economic development.

> **The reforms began in about 1980 [since when] the change to a more capitalistic, open market has required changes in many formal and informal institutions. In the late 2000s the Chinese government began encouraging firms to make investments in foreign firms … Few had developed [the skills for this] but, with the support of the government, they started to seek and learn from alliance partners and use this knowledge to develop their own managerial capabilities.**
>
> **[At about the same time] new property rights laws were enacted. The new laws were necessary to comply with the requirements of membership of the World Trade Organization. [Equally significant] are new laws … for intellectual property protection. They provide the potential for greater access to new technologies developed primarily in Western countries …**
>
> **Another important economic reform is the official recognition and sanctioning of entrepreneurial activities … Successful managers and entrepreneurs also established strong relationships with government leaders at local and national levels. The government remained a major source of resources, and the relationships established were necessary to ensure access to these resources. (pp.590–1)**

Source: Hitt and Xu (2016).

Political

Political risk is the risk of losing assets, earning power or managerial control due to political events or the actions of host governments.

An **ideology** is a set of integrated beliefs, theories and doctrines that helps to direct the actions of a society.

Whatever economic theory predicts about the patterns of trade, political factors – such as governmental arrangements, political involvement with business, and corruption – also affect a country's attractiveness to investment. They shape the **political risk** facing an investor – the risk of losing assets, earning power or managerial control due to political events or the actions of host governments. Those considering overseas investment try to take account of the stability of the regime, the rule of law (or not), and the risks of terrorism.

The political system in a country influences business, and managers adapt to the prevailing **ideology**. Political ideologies are closely linked to economic philosophies and attitudes towards business. In the United States, the political ideology is grounded in a constitution guaranteeing property rights and freedom of choice. These are the foundations of a capitalist economy favourable to business. Australia or the UK are equally capitalist in outlook, while others such as Brazil or France have ideologies favouring social considerations.

There are close links between political and economic systems – especially in how they allocate resources and deal with property ownership. Governments set rules that establish what commercial activity can occur, and how people conduct it – in a capitalist way, a centrally-controlled way, or a mix. Political systems affect business life through:

- the balance between state-owned and privately-owned enterprises
- the amount of state intervention through subsidies, taxes and regulation
- policies towards foreign companies trading in the country, with or without local partners (the Indian Government wants foreign retailers to invest in the country by opening modern stores, but faces opposition from Indian retailers: it has developed strict and complex rules to discourage foreign retailers)
- policies on foreign companies acquiring local firms
- policies on employment practices, working conditions and job protection. Since 2015, *The New York Times* has increased its presence in London at the expense of its old European HQ in Paris.

> The company … acknowledged that French Government laws had played a part in the decision. 'There is more labour flexibility in London compared with Paris' it said. (*Financial Times*, 8 June 2015, p.19)

Management in practice **Guarded globalisation**

Bremner (2014) notes the emergence of what he terms 'guarded globalization', in the sense that:

> **Governments of developing nations have become wary of opening more industries to multinationals and are zealously protecting local interests. They choose the countries or regions with which they want to do business, pick the sectors in which they will allow capital investment, and select the local, often state-owned, companies they wish to promote. That's a very different flavour of globalization: slow-moving, selective, and with a heavy dash of nationalism and regionalism (p.104).**

Source: Bremner (2014).

Corruption

All states experience some degree of **corruption** – which Transparency International (www.transparency.org) defines as the use of entrusted power for private gain. Gideon Rachman wrote in an article for the *Financial Times* with the title 'Graft thrives in a globalized world':

Corruption is the use of entrusted power for private gain.

> Both Brazil and South Africa have seen presidents forced out of office by corruption scandals – with Jacob Zuma compelled to resign in South Africa this year, and Dilma Rouseff being impeached in Brazil in 2016. In Russia the ruling United Russia party is widely known as the 'party of crooks and thieves'. The rise to power [in India] of Narendra Modi was fuelled by his pledge to crack down on corruption amongst the elites. In China, President Xi Jinping's anti-corruption drive has seen more than 100,000 officials arrested. Meanwhile, Chinese exiles have spread online allegations that corruption extends into President Xi's inner circle (*Financial Times*, 19 June 2018, p.11).

Coping with corruption is part of the job of international managers, but Rodriguez et al. (2005) point out:

> while corruption is everywhere … it is not the same everywhere (p.383).

They introduce a framework to analyse the implications of corruption for business – based on its **pervasiveness** and **arbitrariness**. Pervasiveness is the extent to which a firm is likely to encounter corruption during transactions with officials. Arbitrariness is the degree

Pervasiveness (of corruption) represents the extent to which a firm is likely to encounter corruption in the course of normal transactions with state officials.

Arbitrariness (of corruption) is the degree of ambiguity associated with corrupt transactions.

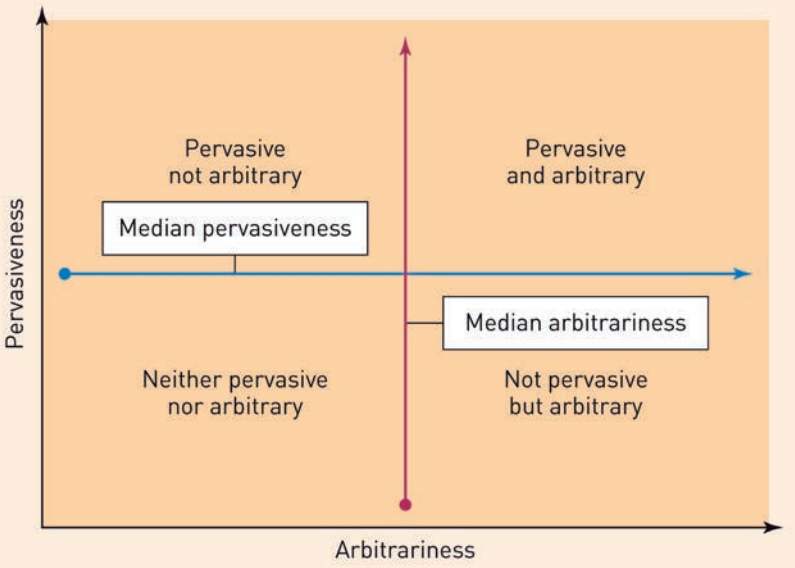


Figure 4.3 Two dimensions of corruption: pervasiveness and arbitrariness

Source: Based on Rodriguez et al. (2005).

of ambiguity associated with corrupt transactions. When corruption is arbitrary, officials apply rules haphazardly – perhaps enforcing them strictly this month but ignoring them next. Figure 4.3 illustrates this.

Technological

Infrastructure includes all of the physical facilities that support economic activities – ports, airports, surface transport, electricity and telecommunications. Companies operating abroad, especially in less developed countries, are closely interested in the quality of this aspect of a country as it has a huge effect on the cost and convenience of conducting business in the area.

Management in practice — Power shortages benefit Aggreko www.aggreko.com

Many developing economies regularly experience severe shortages of power as demand for electricity exceeds their generating capacity. This provides opportunities for Aggreko, the world's largest temporary power company. The Glasgow-based group also provides generators and cooling equipment to remote areas and industrial sites. One division in the company is International Power Projects, which provides long-term power generation capacity to countries without sufficient installed capacity. For example, the company provides almost half of Uganda's electricity, and also supplies Bangladesh and Kenya.

Source: Company website.

A poor infrastructure is an opportunity for those supplying such facilities. European and Chinese companies are bidding for huge railway projects in developing countries. Information technologies stimulate international trade in two ways. The electronics industry requires billions of high-value, low weight components, produced in globally-dispersed factories and assembly plants – from which finished products are transported around the world. These movements are a major source of growth in world trade. At the same time, the internet makes it easier for managers to control international operations, and so encourages trade.

Environmental

One aspect of the environment is an economy's natural resources – oil, coal and other minerals, land, climate. Some resources are renewable but many are not. Water is scarce in many countries, and a major concern to local residents and international food companies.

Management in practice

A water crisis in the Nile Delta

A rice farmer in Egypt's northern Nile Delta was looking at his rice in the paddy field, when the plants should be filled with rice grains – yet all he sees are dry husks. Land in the village was traditionally fed by fresh water from the Nile river, which helped to make his province one of the most fertile in the Delta. But Nile water stopped reaching his village five years ago, and is becoming ever harder to replace.

For centuries the banks of the Nile have had farms producing rice, cotton and wheat. Water shortages, soil degradation and erosion have created a crisis that has undermined agriculture in the Delta, which is struggling to support millions of impoverished farmers. Compounding their problems, the river has become a focus of regional tensions since Ethiopia began to construct a $4.8 billion hydropower project on the Blue Nile, the source of most of the water reaching Egypt.

FT Source: *Financial Times*, 4 September 2018, p.6.

These considerations affect the kind of businesses that people create in a country, and the pattern of world trade. Technological developments reveal previously unknown resources (new oil reserves in Central Asia) and allow the use of some that were uneconomic (shale oil in North America). This benefits the local government which can tax output, the companies and their employees who extract and sell the resources, though not the natural environment.

The process is also controversial, when foreign mining or oil companies come into conflict with local populations whose land they occupy, or over the commercial terms of the concessions. Some object to the environmental degradation associated with timber or mineral exploitation, whose effects spread widely (such as when rivers are polluted in one country before flowing to another). Economic development itself causes pollution – a problem for people in the area, and an opportunity for companies that clean up the mess.

Activity 4.2 Reflecting on contexts

Go to the website of a large company, such as BP (Part 2 Case) or IKEA (Chapter 6 Case study) and see what examples you can find of managers responding to *one* of the factors in this section.

Alternatively, if you have worked in a company operating internationally, which of the contextual factors in this section had most effect on the management of the business?

What are the limitations of the PESTEL model as a practical tool for companies operating internationally?

CWS More on the legal context – trade agreements and trading blocs

4.4 Socio-cultural

Culture is distinct from human nature (features that human beings have in common) and from an individual's personality (their unique way of thinking, feeling and acting). It is a collective phenomenon, which people learned and shared in a common social environment. Hofstede and Hofstede (2005) describe it as:

> the collective programming of the mind which distinguishes one group or category of people from others (in which 'group' means a number of people in contact with each other, and a 'category' means people who have something in common, such as people born before 1940) (p.4 and p.377).

While humans share common biological features, those in a particular society, nation or region develop a distinct culture. As a business becomes more international, managers balance the possible benefits of unified way of working across the world with the unique local cultures in which they operate. Some train staff in how to work with people from many cultures.

Cultural diversity and evolution

Hofstede and Hofstede (2005) note the diversity of cultures between human societies, even though people have evolved from common ancestors. There are recognisable differences between people in geographically separate areas in how they communicate, how they respond to authority, when they go to work – and in countless other aspects of social life. Societies develop these practices as they adapt to their environment, experience military or religious conquest, or exploit scientific discoveries. These are overlaid by the more recent creation of nations:

> strictly speaking, the concept of a common culture applies to societies, not to nations … yet rightly or wrongly, properties are ascribed to the citizens of certain countries: people refer to 'typically American,' 'typically German,' 'typically Japanese' behaviour. Using nationality is a matter of expediency (pp.18–19).

Nations develop distinct institutions – governments, laws, business systems and so on. Some believe these in themselves account for national differences in behaviour, implying that institutions (such as a legal system) that work in one country will do so elsewhere. A counter view is that institutions reflect their culture – something that works in one country, may fail in another:

> Institutions cannot be understood without considering culture, and understanding culture presumes insight into institutions (p.20).

Culture and managing internationally

Managers working internationally are aware of the benefits of understanding and managing cultural differences. This is most evident when one company acquires, or enters into a joint venture with, a company in a country with a different culture. These often take much longer to add value than expected – such as the merger between two telecoms equipment makers – French company Alcatel and US company Lucent. Insiders claimed the two were never properly integrated, with damaging culture clashes wasting energy – it lost about four-fifths of its market value in the following eight years. One observer:

> A lot of companies are struggling to find the middle way. As a global company they would like to impose their view of the world. But being aware of cultural differences, you can't manage Chinese or Japanese employees the same way you manage Americans.

Another noted how one company trying to build an overseas business had made considerable efforts to understand the local culture in new markets:

> It's a very thoughtful company, the way it sees culture is continually evolving. It has had executives stay in people's homes in new markets, to stay with families to see their relationship with food.
>
> It had also tried to import foreign knowledge, bringing overseas managers to the UK to observe and document the company's culture here, and helping to build a more blended management team (*Financial Times*, 25 August 2011, p.10).

Cultural intelligence is when a person is skilled and flexible about understanding a culture, and learns as they interact with it.

Mindfulness is the ability to pay attention in a reflective and creative way to cues in cross-cultural situations.

Such practices are examples of being 'mindful' – paying attention to context. It means using our senses as we listen to others, viewing situations with an open mind, and being aware of our assumptions as we communicate across cultures. Activity 4.3 helps you with this.

Key ideas — Cultural intelligence

Thomas and Inkson (2009) advocate that those working across cultures should develop **cultural intelligence** – being skilled and flexible about understanding a culture, and learning about it as they interact with it.

> **We must learn to be flexible enough to adapt to each new cultural situation … with knowledge and sensitivity. Cultural intelligence consists of three parts.**
>
> **First, the culturally intelligent person requires *knowledge* of culture and of the fundamental principles of cross-cultural interaction. This means knowing what culture is, how cultures vary, and how culture affects behaviour.**
>
> **Second, the culturally intelligent person needs to practice mindfulness, the ability to pay attention in a reflective and creative way to cues in the cross-cultural situations encountered and to one's own knowledge and feelings.**
>
> **Third, based on knowledge and mindfulness, the culturally intelligent person develops cross-cultural *skills* and becomes competent across a wide range of situations. These skills involve choosing the appropriate behaviour from a well-developed repertoire of behaviours that are correct for different intercultural situations (p.16).**
>
> **Acquiring the skill of cultural intelligence is not about becoming more skilled in a particular … set of behaviours, but about building general skills that extend the range, or repertoire, of skilled behaviours and knowing when to use each one … The general skills that … relate to cross-cultural interactions are relational skills, tolerance for uncertainty, empathy, perceptual acuity and adaptability. The specific behavioural skills required to manage across cultures [are the familiar range of interpersonal skills – including empathy, listening, expressing ideas, or working together] (pp.57–60).**

Source: Thomas and Inkson (2009).

Activity 4.3 — Becoming mindful while comparing cultures

Form a group amongst your student colleagues made up of people from different countries.

- Identify the main characteristics of the respective cultures in your group.
- Do group members think the differences in cultures will affect the work of managing?
- Compare your evidence on cultural differences with that from Hofstede's research (Section 4.5).

- As you work on this, be mindful of how the group works: pay attention to the way you interact with each other, and try to note contrasts. Continue practising mindfulness whenever you are with people from different cultures.

High-context and low-context cultures

High-context cultures are those in which information is implicit and can only be fully understood by those with shared experiences in the culture.

Low-context cultures are those where people are more psychologically distant so that information needs to be explicit if members are to understand it.

Hall (1976) distinguished between high- and low-context cultures. In a **high-context culture** information is implicit, and can only be fully understood by those with the benefit of shared experience, assumptions and verbal codes. This happens when people live closely together, developing deep mutual understandings that provide a rich context for communication. In a **low-context culture** information is explicit and clear. These cultures occur where people are psychologically distant, and so depend more on explicit information to communicate:

> Japanese, Arabs and Mediterranean people, who have extensive information networks amongst family, friends, colleagues and clients and who are involved in close personal relationships, are examples of high context cultures. Low context peoples include Americans, Germans, Swiss, Scandinavians and other northern Europeans; they compartmentalise their personal relationships, their work and many aspects of day-to-day life. (Tayeb, 1996, pp.55–6)

Attitude to conflict and harmony

Disagreements and conflict arise in all societies. The management interest is in how societies vary in how people deal with it. Individualistic cultures such as the United States or the Netherlands see conflict as healthy, as everyone has a right to express their views. People bring disagreements into the open and discuss them. Other cultures place greater value on social harmony and on not disturbing the peace:

> The notion of harmony is central in almost all East Asian cultures, such as Korea, Taiwan, Singapore and Hong Kong, through their common Confucian heritage. In … Korea the traditional implicit rules of proper behaviour provide appropriate role behaviour for individuals in junior and subordinate roles (Tayeb, 1996, p.60).

Several scholars have developed survey instruments to classify and compare national cultures, notably Trompenaars (1993), House et al. (2004) and Hofstede and Hofstede (2005). Hofstede's work has been widely used (Kirkman et al. 2006), and the next section outlines it.

Case study — The case continues www.carlsberg.com

Top management believed Carlsberg should nurture 'a winning culture' with the attributes of being innovative, ambitious, responsible and honest. They created a series of training events to spread these values across the company which all managers had to attend. These events ran into difficulties after the takeover of S&N in 2008. Not all of the acquired companies found them useful, amongst them the French Kronenbourg and the Russian Baltica, whose general managers did not want Carlsberg to impose their Danish values.

Senior management therefore decided to start again and develop a common strategic concept with the active participation of the new acquisitions, as well as the existing foreign subsidiaries. This activity resulted in the 2009 'Winning behaviours' concept – five beliefs 'guiding the way we work within the Carlsberg Group' (p.240):

Together we are stronger
We want to win
Our customers and consumers are at the heart of every decision we make
We are each empowered to make a difference
We are engaged with society.

Top management believed that Winning Behaviours incorporated the company's global strategy (a focus on optimising, centralising and standardising procedures across the group), while respecting the strengths of local brands, initiatives and interests.

When the company took control of the Russian brewer Baltica in 2008, it hoped that Russian people would increase their beer consumption close to the average levels in the rest of Europe. That has not happened. Several tax increases and tougher regulations over where and how beer can be sold has hurt the business – including a recent ban on the sale of beer in certain sizes of plastic bottles. At one time, Russia represented almost half of Carlsberg's operating profits, but in 2017 that was only 16 per cent.

Source: Søderberg (2015).

Case questions 4.3

- What assumptions appear to have guided senior management in designing the workshops described in the first paragraph?
- What were the limitations of that approach?
- This case study illustrates another risk of doing business internationally – what is it?

4.5 Hofstede's comparison of national cultures

Geert Hofstede conducted widely quoted studies of national cultural differences. The second edition of his research (Hofstede and Hofstede, 2005) extends and refines the conclusions of his original work, which was based on a survey of the attitudes of 116,000 IBM employees, one of the earliest multinational companies. The research inspired many empirical studies with non-IBM employees in both the original countries in which IBM operated and in places where they did not. Kirkman et al. (2006) reviewed these and concluded that 'most of the country differences predicted by Hofstede were supported' (p.308). Hofstede and Hofstede (2005, pp.25–8) make a similar point and also provide an accessible account of the research method.

Hofstede saw culture as a collective programming of people's minds, which influences how they react to events. He identified five dimensions of culture and used a questionnaire to measure how people vary between countries in their attitudes to them.

Power distance

Power distance (PD) is 'the extent to which the less powerful members of … organisations within a country expect and accept that power is distributed unevenly' (Hofstede and Hofstede, 2005, p.46). Countries differ in how they distribute power and authority, and in how people view the resultant inequality. Some see inequality in boss/subordinate relationships as undesirable, while others see it as part of the natural order. The questionnaire allowed the researchers to calculate scores for PD – high PD showing people tended to accept inequality. Those with high scores included Malaysia, Mexico, Venezuela, Arab countries, China, France and Brazil. Those with low PD scores included Denmark, Germany, Great Britain, Sweden and Norway.

Power distance is the extent to which the less powerful members of organisations within a country expect and accept that power is distributed unevenly.

Uncertainty avoidance

Uncertainty avoidance is 'the extent to which the members of a culture feel threatened by ambiguous or unknown situations' (Hofstede and Hofstede, 2005, p.167). People in some cultures are reluctant to move without clear rules or instructions – they avoid uncertainty.

Uncertainty avoidance is the extent to which members of a culture feel threatened by uncertain or unknown situations.

Others readily tolerate uncertainty and ambiguity – if things are not clear they use their initiative and improvise. Uncertainty avoidance scores were high in Russia, France, Latin American and Mediterranean countries, and for Japan and Korea. Low UA (happy with ambiguity) scores were recorded in China and most Asian countries, and in most of the Anglo and Nordic countries – United States, Great Britain, Sweden and Denmark.

Activity 4.4 Implications of cultural differences

- Consider the implications of differences on Hofstede's Power Distance and Uncertainty Avoidance dimensions for management in the countries concerned. For example, what would Hofstede's conclusions lead you to predict about the method that a French or Venezuelan manager would use if they wanted a subordinate to perform a task, and what method would the subordinate expect their manager to use? (Note: France is part of the Latin European cluster in Figure 4.4)
- How would your answers differ if the manager and subordinates were Swedish?

Individualism/collectivism

Individualism pertains to societies in which the ties between individuals are loose.

Collectivism 'describes societies in which people, from birth onwards, are integrated into strong, cohesive in-groups which … protect them in exchange for unquestioning loyalty.' (Hofstede, 1991, p.51)

Hofstede and Hofstede (2005) distinguish between **individualism** and **collectivism**:

> Individualism pertains to societies in which the ties between individuals are loose: everyone is expected to look after himself or herself and his or her immediate family. Collectivism as its opposite pertains to societies in which people, from birth onwards, are integrated into strong, cohesive in-groups which throughout people's lifetime continue to protect them in exchange for unquestioning loyalty (2005, p.76).

Some of us live in societies which emphasise the individual, and his or her responsibility for their position in life. Others value the group, placing more emphasis on collective action, mutual responsibility, and on helping each other through difficulties. High individualism scores occurred in the United States, Australia, Great Britain, France and Canada. Low scores occurred in less developed South American and Asian countries, including China.

Masculinity/femininity

Masculinity pertains to societies in which social gender roles are clearly distinct.

Femininity pertains to societies in which social gender roles overlap.

A society is called **masculine** when emotional gender roles are clearly distinct: men are supposed to be assertive, tough and focused on material success, whereas women are supposed to be more modest, tender and concerned with the quality of life. A society is called **feminine** when emotional gender roles overlap (i.e. both men and women are supposed to be modest, tender and concerned with the quality of life) (Hofstede and Hofstede, 2005, p.120).

The research showed that societies differ in the desirability of assertive behaviour (masculinity) and of modest behaviour (femininity). Some expect men to seek achievements outside the home while women care for things within the home. Masculinity scores were not related to economic wealth: 'we find both rich and poor masculine countries, and rich and poor feminine countries' (p.120). The most feminine countries were Sweden, Norway, the Netherlands and Denmark. Masculine countries included Japan, China, Austria, Germany, Great Britain and the United States.

Integrating the dimensions

These dimensions describe the culture of a society, and each is unique. They also have similarities – UK, Canada and the USA all have high individualism, moderate masculinity, low power distance, and low uncertainty avoidance. In these nations managers expect

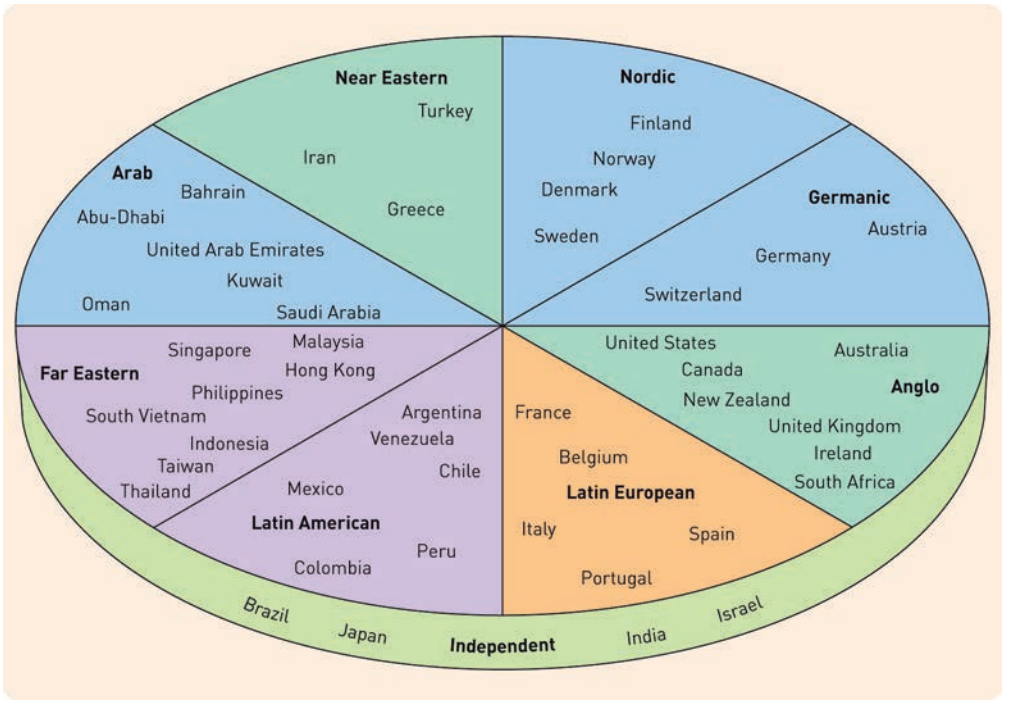


Figure 4.4 A synthesis of country clusters

Source: Ronen and Shenkar (1985).

workers to take the initiative and assume responsibility (high individualism), use individual rewards to motivate staff (moderate masculinity), treat their employees as valued people whom they do not treat officiously (low power distance) and keep bureaucracy to a minimum (low uncertainty avoidance). An analysis of the data revealed that most countries (exceptions being Brazil, Japan, India and Israel) fall into a particular cultural cluster. Figure 4.4 illustrates this.

Long-term and short-term orientation

In their 2005 work, Hofstede and Hofstede added a fifth dimension:

> Long-term orientation (LTO) stands for the fostering of virtues oriented towards future rewards – in particular perseverance and thrift. Its opposite pole, short-term orientation, stands for the fostering of virtues related to the past and present – in particular respect for tradition, preservation of 'face', and fulfilling social obligations (Hofstede and Hofstede, 2005, p.210).

Countries with high LTO scores include China, Hong Kong, Taiwan and Japan. Great Britain, Australia, New Zealand, the United States and Canada have a short-term orientation, in which many people see spending, not thrift, as a virtue

Current status

Hofstede's work provides a widely recognised starting point for those working internationally. They can use it to think about the culture in which they operate, reflect on their cultural biases, and begin to develop the skill of cross-cultural working. The 'Key ideas' feature on cultural intelligence, and the 'Develop a skill' feature at the end of the chapter, will help this.

Case study — The case continues — www.carlsberggroup.com

Søderberg's (2015) account of how Carlsberg implemented the new values continues:

> **The presentation of the concept on the Group website includes this statement from the CEO: 'What sets us apart from our competitors is that we strive to find the right balance – working closely together at a global level whilst allowing local brands and initiatives to flourish (pp.240–1).**

The company worked with local subsidiaries to help them articulate the meaning of the phrases (such as 'we are empowered to make a difference') in words that aligned with their cultural values. Thus, when it was introduced to the Malaysian subsidiary, the local HR staff organised events for local managers who would then pass the ideas on to their staff.

Two of the five winning behaviours had special attention at this workshop, and the themes were presented to managers, and discussed with them, in these terms:

- We are empowered to make a difference.
  - Take ownership of challenges when opportunity arises.
  - Do not let fear of failure overcome the desire to succeed.
  - We learn from failure when we made wrong steps.
- Together we are stronger.
  - Good leadership skills are vital for success.
  - Leaders with correct and clear instructions can win faster.
  - Team spirit is important to work in harmony.

What is notable to Western observers is how much emphasis senior management put on the widespread fear of failure amongst local employees, and thereby their sense of shame and fear of losing face. [They tried to overcome this by adding the idea] that 'we must learn from mistakes when we make wrong steps' and thereby learn to think and act in a more Western way.

In Malaysia, avoiding loss of face is a major concern, so the managerial emphasis on 'clear instructions' is notable. However, while 'clear instructions' may collide with great concern about not losing face (if they go wrong), it also resonates with a desire at the shop-floor level for a direct and nurturing leadership, and for clear and unambiguous instructions that are moderately prescriptive (p.244).

Søderberg (2015).

Case questions 4.4

- What does the case suggest about the challenges managers face in ensuring that staff from different cultures 'buy in' to organisational policies?
- What may be the effects of not acknowledging, and respecting, local differences as thoroughly as Carlsberg appears to have done?

Key ideas — Overemphasising diversity?

This section has illustrated the diversity of national cultures. There is another view that the underlying fundamentals of management outweigh cultural variations in detailed processes. One powerful constraint on diversity is the economic context of an essentially capitalist economic system. This places similar requirements on managers wherever they are. They have to provide acceptable returns, create a coherent organisational structure, maintain relations with stakeholders and try to keep control.

Further, if managers work in a multinational organisation that has developed a distinctive corporate culture (Chapter 3), will that influence their behaviour more than the local national culture?

Information systems integrating international companies (and their suppliers) place common reporting requirements on managers, regardless of location. This ties units more closely together, and may bring more convergence in management work.

These are unresolved questions: look for evidence as you work on this chapter that supports or contradicts either point of view: Activity 4.5 is also relevant.

Activity 4.5 Reflecting on cultural differences

- What limitations can you see in the theories and evidence presented about cultural differences?
- To what extent does the greater globalisation of work, and of consumers' tastes, undermine Hofstede's theory?
- Put another way, is corporate and consumer culture stronger than national culture?

CWS More on contrasting management systems

4.6 Factors stimulating globalisation

The globalisation of markets?

If you travel to another country, you immediately see many familiar consumer products or services – examples of the idea that global brands are displacing local products. In several industries, identical products (Canon cameras, Sony Walkman, Famous Grouse whisky) are sold across the globe. Theodore Levitt observed this trend towards **globalisation** – see 'Key ideas'.

Globalisation refers to the increasing integration of internationally dispersed economic activities.

Key ideas The globalisation of markets

Theodore Levitt, a Professor at Harvard Business School, believed that advances in communications technology were inspiring consumers around the world to want the same things.

> **The world's needs and desires have been irrevocably homogenized. This makes the multinational corporation obsolete and the global corporation absolute (p.93).**

He advised international companies to cease acting as 'multinationals' that customised their products to fit local markets and tastes. Instead they should become 'global' by standardising production, distribution and marketing across all countries. Sameness meant efficiency and would be more profitable than difference. Economies of scale would bring competitive advantage.

Source: Based on Levitt (1983).

Practice in many global businesses soon appeared to support Levitt's theory. In the mid-1980s, British Airways developed an advertisement ('The world's favourite airline') and (after dubbing it into 20 languages) showed it in identical form in 35 countries with a developed TV network. Consumer companies like Coca-Cola and McDonald's began promoting themselves as identical global brands, with standard practices and a centralised management structure.

More recently, opposition to the apparent inevitably of globalisation has grown, as local companies have developed new products offering better value, and governments have also intervened to protect some local interests. There is more about this on the companion website.

CWS More on factors stimulating globalisation

4.7 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 4.2 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). *These are examples only – not a comprehensive analysis*. You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

How useful is Hofstede's theory of national cultures to someone entering a career in business?

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 4.2 'Clear thinking' questions about practice and theory

Clear thinking practices	From the Chapter Case study – introducing Carlsberg values across the business	Theory – a question about Hofstede's theory of national cultures (Section 4.6)
Checking assumptions (task and process)	What evidence would you ask management to provide for their initial assumption that a common set of cultural values would enhance performance? And for their belief that the centre could impose these, and overseas units would accept? After an initial setback, they revised the assumption, to one that believed success depended on actively involving subsidiaries and local staff in designing training programmes. Does the evidence from the case study support that new assumption?	Set out the theory in outline, citing as many as you can of the five dimensions Mention briefly the method and one or two other studies (Kirkman, for example) that have used, tested or reviewed the theory Some assumptions to consider: • is his survey sample an accurate representation of a country's tendencies? • is it plausible to reduce any country's uniqueness to five dimensions? • that national cultures prevail over international consumer trends and/or corporate cultures of international companies? • that, accepting these possible flaws, the work is a useful starting point for working effectively internationally? Or not?
Recognising contexts	Staff in acquired companies value their national cultures Although subsidiaries, they could still delay central plans if they wished Talented local managers – could they act as intermediaries to create a balance between central and local?	The rise of international companies which some say also have a unified global culture – how will staff combine, or balance, national and company cultures? The internet and social media – these global communication platforms did not exist when Hofstede was working: do they weaken national cultural tendencies? Or not? Global companies (see Zara, Chapter 19 Case study) promote a unified consumer culture through brands and websites: they too are new since Hofstede Nations' legal and political systems also influence behaviour, and probably reflect aspects of culture: may these offset the previous (possibly weakening) factors?

Clear thinking practices	From the Chapter Case study – introducing Carlsberg values across the business	Theory – a question about Hofstede's theory of national cultures (Section 4.6)
Imagining alternatives	Some international businesses concentrate on standardising a limited range of elements (finance, IT) and allow local managers to decide how to deal with other matters	Some groups of people in distinct occupations and business activities seem to develop strong cultures which over-ride national ones. Do they exist alongside each other, rather than competing? Societies combining multiple distinct and sometimes overlapping cultures? There are alternative methods of measuring culture, but Hofstede's appears to be the most widely used
Seeing limitations	Is it easier to achieve common ways of working in some activities rather than others? If so, trying to centralise the latter may be more trouble than the benefits are worth	Will globalisation, communication technologies and common consumer preferences diminish the influence of inherited national cultures? Is there any evidence of it already doing that? Many factors influence behaviour alongside national cultural differences, including management practices

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of mindfulness.

Develop a skill: mindfulness

The skill of mindfulness enables people to work better across cultures.

- **Assessment.** Make an assessment of how mindful you are (such as paying attention to cues in cross-cultural situations, and to your own knowledge and feelings). Explore the assumptions you make about people from other cultures, and consider them critically. Use the ideas in this chapter to view situations through the eyes of others.
- **Learning.** Read the 'Key ideas' feature on cultural intelligence (in Section 4.4), and recall your work on Activity 4.3 and Case questions 4.3. Summarise the main ideas. How can being mindful help a manager?
- **Analysis.** Consider the possible implications for you of the theories in Sections 4.5 and 4.6. Identify someone (whom you know, or can read about) who seems to be 'mindful' (or generally good at interacting with people from other cultures). Consider what they do, what the effects are, and what you can learn from them.
- **Practice.** Identify one thing (perhaps from Activity 4.3) they do that you can try, and identify an opportunity to practise that mindfulness skill. Practise one of them, and record the results so that you can learn from the experience.
- **Application.** Decide on another opportunity to practise this skill within the next week.

Summary

1 Compare the ways in which organisations conduct business internationally

- Offshoring, exporting, licensing, joint ventures, wholly owned subsidiaries.
- Multinational (independent operations in many countries, run from centre); transnational (independent operations in many countries, decentralised); global (linked and interdependent operations in many countries, closely coordinated).

2 **Evaluate the implications for practice of these features of the context of international trade**

a. PESTEL factors affecting decisions of those managing internationally
- This would involve gathering data and information about how one or more of the political, economic, socio-cultural, technological, environmental and legal factors had affected a company's policies and practices.

b. Differences in national cultures, including Hofstede's research
- Early work distinguished between low-context and high-context cultures. In the former, information is explicit and clear while in the latter it is more implicit, and can only be understood through shared experience, values and assumptions.
- Hofstede distinguished between cultures in terms of power distance (acceptance of variations in power); uncertainty avoidance (willingness to tolerate ambiguity); individualism/collectivism (emphasis on individual or collective action); and masculinity/femininity (preferences for assertive or modest behaviour); and long/short-term orientation. Case question 4.3 encouraged you to identify how cultural differences could affect attitudes and behaviours towards some management practices.

3 **Use skills of clear thinking to evaluate these theories, and as you begin to develop the skill of mindfulness**

- The chapter explained how the ability to pick up clues about cultural differences is a valuable part of cultural intelligence, and the 'Develop a skill' feature provided an opportunity to practise this.
- Developing the skill of mindfulness may be more effective if a practitioner questions their assumption about, for example, the universal value of being mindful, and whether it is appropriate to stress that behaviour in their immediate context or situation. Practitioners may also benefit if they are alert to alternative ways of displaying their skills in this area, and are conscious of the limitations of the skill in some situations.

Test your understanding

1 Name two ways of doing business internationally, and comment on their advantages and disadvantages.

2 Compare internationalisation and globalisation. Give a specific example of a company of each type about which you have obtained some information.

3 Identify three PESTEL factors that have affected Carlsberg.

4 What lessons can you take from Carlsberg's experiences of trying to develop a unified approach to managing the business?

5 Outline the difference between a high- and a low-context culture and give an example of each.

6 Explain accurately to another person Hofstede's five dimensions of national culture. Evaluate his conclusions on the basis of discussions with your colleagues in Activity 4.4.

7 From your personal observations of national cultures, to what extent did they correspond to Hofstede's conclusions?

Read more

Clissold, T. (2014) *Chinese Rules: Mao's Dog, Deng's Cat and Five Timeless Lessons from the Front Lines in China*, Harper Collins, London.

Valuable insights, based on the author and entrepreneur's many years' experience of doing business in China.

Mahajan, V. (2012) *The Arab World Unbound: Tapping into the Power of 350 Million Consumers*, Jossey-Bass, San Francisco, Ca.

An overview of the deep diversity within the region's many countries, which discards many stereotypes – valuable for anyone wishing to know about its markets and peoples.

Taras, V., Steel, P. and Kirkman, B.L. (2011) 'Three decades of research on national culture in the workplace: Do the differences still make a difference?', *Organizational Dynamics*, vol. 40, no. 3, pp.189–98.

A clear overview of Hofstede's work, and of later studies developing the idea. It also traces implications for practice.

Sun, I.Y. (2017) 'The next factory of the world: how China is shaping Africa', *Harvard Business Review*, vol. 95, no. 3, pp.122–9.

Focuses on the many Chinese entrepreneurs who are setting up ventures in Ethiopia, Kenya and Nigeria – notable for their willingness to take risks that western companies avoid.

Go online

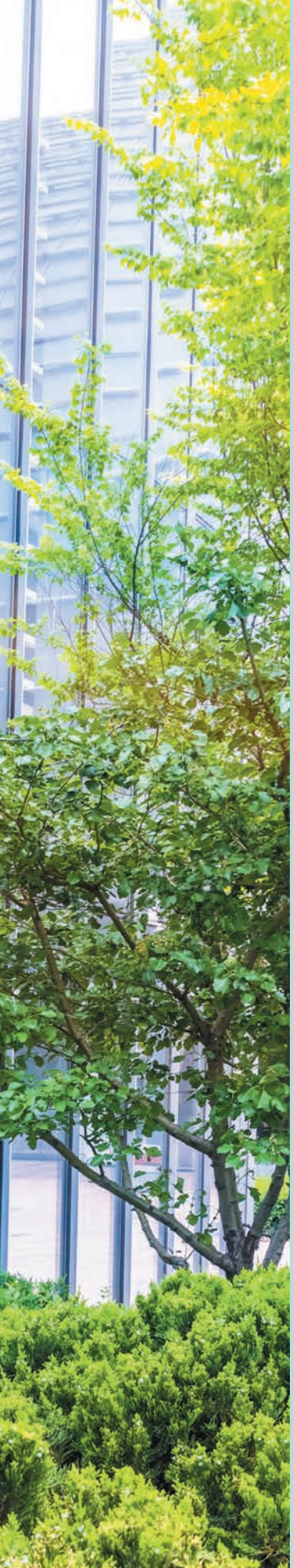
These websites have appeared in the chapter:

www.carlsberggroup.com
www.maersk.com
www.aggreko.com
www.bt.com
www.dyson.com
www.trendmicro.com
www.nestle.com
www.transparency.org

Visit two of the sites on the list, or others that interest you, and navigate to the pages dealing with recent news, press or investor relations.

- What signs are there of the international nature of the business, and what are the main issues in this area that the business appears to be facing?
- Compare and contrast the issues you identify on the two sites.
- What challenges may they imply for those working in, and managing, these organisations?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



CHAPTER 5

CORPORATE RESPONSIBILITY

Aims

To introduce the dilemmas of ethical and responsible behaviour, and offer some analytical tools.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1 Outline aspects of the context of corporate responsibility (CR)
   - examples of corporate malpractice and of philanthropy
   - values people use to evaluate individual (CW) and corporate actions
2 Explain three processes relevant to CR
   - an ethical decision-making model
   - the interaction of stakeholders and CR
   - the interaction of CR and strategy
3 Outline examples of the tasks of managing CR activities (CW)
4 Use clear thinking to evaluate these practices and theories, and as you begin to develop the skill of clarifying your values

Key terms

This chapter introduces these terms:

philanthropy
enlightened self-interest
corporate responsibility
social contract
ethical decision-making models
ethical relativism
ethical investors
ethical consumer

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

Perspectives on individual responsibility

Ways to manage corporate responsibility

Case study

The Co-operative Group www.co-operative.coop

The Co-operative Group (the Co-op) is the UK's largest mutual business, owned by the 4.6 million active members. It is a major food retailer (as measured by its 8 per cent of the market) and has the largest number of convenience stores (about 2600): annual sales are over £10 billion. The Co-op sets financial and social goals. Unless it makes a profit, it cannot meet the social goals – and would soon cease to exist. Results for the 2018 financial year (ending 5 January 2019) showed a profit before tax of £73 million, compared with £72 million the previous year. It attributed the better financial performance to higher sales, lower costs, and cutting all links with the loss-making Co-op Bank. The Chairman Alan Leighton claimed that the £79 million paid to members and charities showed the business was about more than 'just good financial returns'.

The Co-operative began in 1844, when groups of workers in Yorkshire's new industrial towns decided to set up shops, rather than depend on those owned by others (often linked to the mine or factory where they worked). The idea spread and by 1900 there were over 1400 co-operative societies, many of which gradually merged into regional groups.

This consolidation was largely completed in 2000 when the Co-operative Wholesale Society and Co-operative Retail Services merged to become The Co-operative Group. This controls 80 per cent of all co-operative retail outlets in the UK, with independent societies controlling the rest.

It has expanded the retail business by buying stores from other companies (in 2018 it paid £143 million to buy the NISA chain). It faces tough competition from 'the big four' (Tesco, Sainsbury's, Morrisons and Asda), and from aggressive discounters Aldi and Lidl. It has more small stores than its competitors – but they are now opening these, some very close to a Co-op.

The Co-op has had several turbulent years, during which it experienced financial losses, a major scandal, lost control of the Co-operative Bank, changed senior management and implemented new governance structures. Until 2010, the group was expanding both in retailing and banking (see later).

The collapse of the Co-op Bank left the group with a debt of £1.5 billion. It has begun to repay this by selling assets – some farms and a pharmacy chain. It now focuses on convenience food retail (three-quarters of turnover), alongside funeral (1000 homes), insurance and legal businesses. The plan is to open 100 convenience shops annually, and sell larger outlets.



© Chris Bull/Alamy Stock Photo

As well as sharing profits with members by issuing shopping vouchers, it aims to meet the needs of communities. An example of this was when members proposed that the group should stock more Fairtrade goods as part of their social aims. These are products where growers (usually in low-income countries) who meet specified environmental and labour standards receive a certificate. In return they receive higher prices than they would in the open market, and other benefits.

Sources: Company website; *Co-op Annual Report 2018*.

Case questions 5.1

Go to the Co-op website and find out about recent developments in the business.

- Which changes in its context may be helping, and which hindering, the Co-op?
- As a store manager responsible for meeting tough sales targets, what questions would you raise about the proposal to stock Fairtrade products, in terms of the tasks and processes of your role?

5.1 Introduction

Managers at the Co-op balance two objectives – to make a profit, and to meet social goals. These express the founders' vision of a fairer and more democratic society. Making the profit necessary to meet the social objectives is challenging in the intensely competitive retail sector. Following Co-op principles will not in itself ensure the business survives. While some customers are consistently loyal to the Co-op and its principles, others are not: they compare the Co-op offer with others and can easily switch. Stocking Fairtrade (www.fairtrade.org.uk) products supports the social aims, but not necessarily the business ones.

Many managers acknowledge that the financial wealth their activities generate comes at a price. Meeting rising public demand for goods and services requires energy, and the rapid growth in demand for this brings climate change and other environmental damage. That in turn threatens living standards. Practitioners respond by making processes more sustainable – retailers cut packaging; airlines buy fuel-efficient aircraft; public bodies use less space and energy; energy companies invest in renewable sources.

There are many examples of corporate malpractice, and also of generosity. Between such extremes are countless examples of organisations attempting to look beyond financial targets towards a wider range of outcomes. Even if well-intentioned, these may be ambiguous:

> there is no consensus on what constitutes virtuous corporate behaviour. Is sourcing overseas to take advantage of lower labor costs responsible? Are companies morally obligated to insist that their contractors pay a 'living wage' rather than market wages? Are investments in natural resources in poor countries with corrupt governments always, sometimes or never irresponsible? (Vogel, 2005, pp.4–5).

The chapter begins with examples of corporate malpractice, philanthropy and responsibility. It then offers three 'contextual' perspectives on corporate responsibility behaviour – ethical decision making, stakeholders, and strategy. It shows how some organisations try to manage their policies in these areas, and concludes with an opportunity to develop the skill of clarifying your values.

5.2 Corporate malpractice, philanthropy and responsibility

Malpractice

Controversial issues of malpractice arise when, for example:

- companies reward senior executives who have damaged the business
- banks sell customers unnecessary insurance
- retailers source goods from factories which disregard workers' well-being.

These practices erode trust and damage reputation – which can lead investors, potential employees and customers to withdraw their support. 'Management in practice' features an example and Table 5.1 lists others.

Management in practice

Bernard Madoff – the biggest fraud ever?

In 2009 Bernard Madoff (71) was sentenced to 150 years in prison for running a fraudulent investment scheme in the United States that took £40 billion from thousands of investors around the world. He attracted them by offering unusually high returns and by cultivating an image of competence and trustworthiness – clients were eager for him to accept their money. Instead of investing it, he used it to pay dividends to earlier investors – so the scheme depended on continually attracting new ones. During the financial crisis in 2008 some investors asked for their money back: it was no longer there.

A remarkable feature of the story was that regulatory bodies set up to prevent fraud failed to do so. The agency responsible for regulating that part of the financial services industry was understaffed, and never inspected his accounts.

FT Sources: *Financial Times* 24 June 2009, 17 December 2010; Henriques (2011).

Philanthropy

There is a long tradition of individual **philanthropy**, when people who have made money in business give part of their wealth to charities, including universities. They do not expect this to increase sales or profits: it is a goodwill gesture to activities they support. Notable examples are:

Philanthropy is the practice of contributing personal or corporate wealth to charitable or similar causes.

- Bill Gates (founder of Microsoft) and his wife Melinda have given very large sums to health and education.
- Jeff Skoll (ex-president of eBay) gave £5 million to the Said Business School at Oxford University.
- Lord Sainsbury (former head of Sainsbury's) has given £400 million to his Gatsby Charitable Foundation and plans to give another £600 million before he dies.

Table 5.1 Recent examples of corporate malpractice

Company	Incident	Outcome
Carillion (2018), UK services contractor	Collapsed, with £79bn liabilities while paying £78m dividends. Auditors did not challenge directors	Suppliers and customers lost money. Auditors closing the company received further high fees
Barclays (2015), UK bank	For five years, traders added secret mark-ups to the prices they charged for foreign exchange trades	Traders dismissed. Bank pleaded guilty, and US and UK regulators fined Barclays $2.32bn
Volkswagen (2015), German car maker	Fitted illegal software into diesel-powered cars which turned off emissions controls, except during official tests	Chief executive resigns, and other executives suspended. Company faced prosecutions and large fines
The Royal Bank of Scotland (2008), UK bank	Used short-term borrowing to fund high-risk investments. These failed, and the company almost collapsed	UK Government bought majority stake. Fred Goodwin, chief executive, retired with £800,000 annual pension

They recognise their business success was in part due to the society in which they work, and choose to return some of their wealth. They experience the intrinsic pleasure of giving, and enhance their status and reputation.

Some corporations give substantial sums to charities, make gifts in kind (donating free drugs to health programmes, or free software to universities and schools), encourage employee volunteering, and generally try to be a good neighbour. They hope this will improve their reputation, brand image or access to government. It may also reduce the risks of bad publicity if they are in mining and construction businesses – a form of insurance. Acts like this are not philanthropy but are probably better described as **enlightened self-interest**.

Enlightened self-interest is the practice of acting in a way that is costly or inconvenient at present, but that is believed to be in one's best interest in the long term.

Responsibility

Between these extremes lies the broad area of **corporate responsibility (CR)**, which refers to the awareness, acceptance and management of the wider implications of corporate decisions. It implies taking account of criteria other than financial ones when making decisions. This covers a range of practical changes that organisations of all kinds – charities and public bodies as well as companies – can make to counter climate change and other damaging aspects of economic activity – see Table 5.2.

Corporate responsibility (CR) refers to the awareness, acceptance and management of the wider implications of corporate decisions.

Activity 5.1 Looking for responsible business activity

Collect *one* example of an organisation taking responsible business seriously by introducing a specific policy about something in Table 5.2. Ask people you know, or check company or BITC websites for examples and links.

- What aspects of the business (e.g. inputs, transformation, outputs or communities) does the policy cover?
- What processes did management use to develop it – who did they involve?
- What systems are in place to monitor the policy – do people conform? Does it work?
- Compare what you find with colleagues on your course and present a short summary of what you have found, and of any questions this has raised.

Table 5.2 Common ways to improve operations

Content (or substance) of corporate responsibility	
Topics	**Examples**
Inputs and resource supplies	Dealing fairly with producers and suppliers, buying raw materials from suppliers who produce them sustainably, requiring suppliers in developing countries to meet minimum employment standards
Workforce activities	Promoting diversity, equality, health and safety, work–life balance, and other elements of the employment relationship; fair pay, bonus and pension schemes
Operations	Reducing materials and energy used in production and transport, using resources efficiently to reduce waste
Product and service impacts	Responsible customer relations, including advertising and promotion ('Drink responsibly'), protecting children, limiting harmful ingredients, clear and accurate labels, less packaging, easy recycling

CWS More on perspectives on individual responsibility

5.3 Perspectives on corporate responsibility

Figure 5.1 shows four responsibilities which may guide managers' actions.

Economic

Milton Friedman believed that managers should satisfy shareholders.

> [In a free economy] there is one and only one social responsibility of business – to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is to say, engages in open and free competition, without deception or fraud (Friedman, 1962, p.133).

As an economist, Friedman believed that operating business 'without deception or fraud' provided social benefit by creating wealth or employment. In terms of Figure 5.1, managers should meet their economic and legal responsibilities. Giving money to charity is self-imposed taxation. The directors should concentrate on generating wealth, and distributing it to shareholders – they can decide how to use it.

Many agree, claiming that environmental or other regulations increase costs, and make a business less competitive. When Burberry, the luxury goods retailer, decided to close a UK factory, the finance director said:

> Ultimately if a factory isn't commercially viable you have to take the decision to close ... that's what your obligations to your shareholders dictate. When you know you've made the right decision commercially, you have to stay true to that. These are the facts – commercial realities reign (*Financial Times*, 15 February 2007, p.3).

Legal

Society expects managers to obey the law – by not misleading investors, exploiting staff or selling faulty goods. Some companies take these responsibilities seriously – but go no further. They do what is legal: as long as a decision meets that test they will take it, even if others question the morality. When Starbucks, Google and other multinationals admitted paying very little UK tax, they claimed (correctly) that their tax payments were within the law at the time.

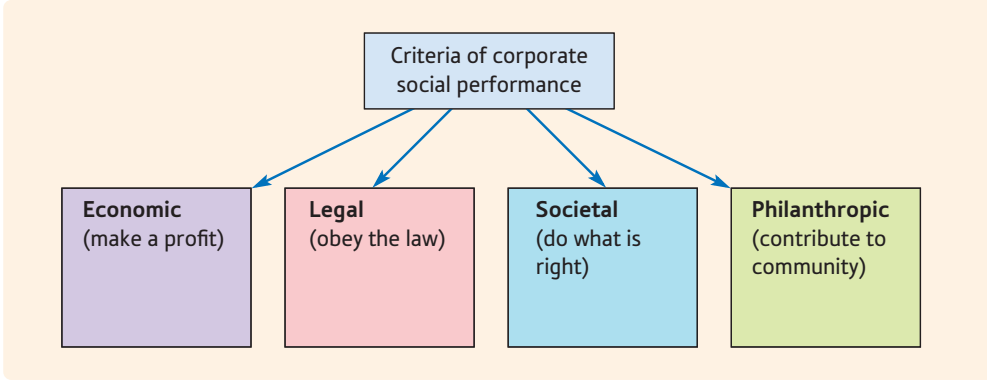


Figure 5.1 Four corporate responsibilities

Source: Based on Carroll (1999).

Societal

The **social contract** consists of the mutual obligations that society and business recognise they have to each other.

While society depends on business to provide products and services, business in turn depends on society, for educated employees, capital and a good physical infrastructure. It also depends on the socially created institutions that enable business to operate, such as legal, political and cultural systems. Part of the moral case for CR is that society and business have mutual obligations within a **social contract**.

Societal or ethical actions are not specified by law, and may not serve a company's narrow economic interests. Managers may do things that support a wider social interest, such as supporting a local sports club or protecting the natural environment. This may also help their economic position by enhancing their reputation – it is enlightened self-interest.

Philanthropic

This covers areas of behaviour that are entirely voluntary, independent of economic, legal or societal considerations. They include anonymous donations with no possibility of a pay-back, sponsorship of local events, or contributions to charity – the actions are entirely philanthropic.

In view of these four responsibilities, those advocating an inclusive view of corporate responsibility believe that recognising wider interests is enlightened self-interest, in the sense that it can satisfy both economic *and* societal expectations. Managers may serve their shareholders better if they meet societal (and possibly philanthropic) responsibilities, in ways that benefit the business.

Sections 5.6 and 5.7 contain examples of this, and also include research showing that it is possible for companies to meet both economic and societal responsibilities. There is evidence that support is growing amongst investors for managers who add value in sustainable ways:

> Nearly 80% of investors across 30 countries told an [investment bank study] that sustainability had become more important to them over the last five years.
>
> 'While profitability remains the central investment consideration, interest in sustainability is increasing,' said [the bank's] head of stewardship. 'Investors also see sustainability and profits intertwined,' (from an article by Juliette Jowit, *The Guardian*, 15 March 2018, p.44).

Activity 5.2 Gathering views on the role of business

Gather information from people you know who work in a business, about which of the four values expressed in Figure 5.1:

- they personally favour
- they believe has most influence on practice in their company and
- what assumptions seem to underlie their preferences?

If you work in an organisation:

- which of the views in Figure 5.1 guides policy?
- use Table 5.2 to gather examples of topics on which the organisation has deliberately acted as part of a corporate responsibility agenda.

Compare your examples with colleagues on your course.

Case study The Co-op – the case continues www.co-operative.coop

For many years, Fairtrade products were available mainly through charity shops, churches and other small outlets: major retailers showed little interest. In 2011, the Co-op Board decided to respond positively to members' suggestion as it would support their social goals. The challenge would be to do it in a way that supported commercial goals.

The managers responsible for implementing the plan faced difficult decisions since:

- most Co-op stores are small – stocking Fairtrade means not stocking something else
- stocking Fairtrade versions of existing products may mean a store sells less of the latter – which does not help meet sales targets
- Fairtrade products cost more than standard ones: will enough customers (even those who had supported the idea) pay the higher prices?
- half of Co-op customers are in socio-economic group C1/C2 (not well-off financially), and are less likely to buy Fairtrade than wealthier customers
- this implied they would need to retain cheaper products, or risk losing some customers.

Despite the difficulties, managers were able to resolve these issues in some areas of the business, and soon converted all of their own-brand hot beverages to Fairtrade. In 2018, the co-op Fairtrade sales increased by 6.3 per cent, while the UK market overall fell by 8.3 per cent.

Source: *Co-op Annual Report 2018, p.18.*

Case questions 5.2

- How is the Co-op balancing the four responsibilities set out in Figure 5.1?
- What assumptions may those who proposed selling Fairtrade products have made about customers' willingness to buy them?
- In what ways may the Fairtrade initiative help meet economic responsibilities?
- How may it make them harder to meet?

5.4 An ethical decision-making model

Trevino and Weaver (2003) note that comments on modern scandals often take a universal, normative, view – prescribing what people should and should not do in all circumstances:

> important as it is to engage in the normative study of what is, and is not, ethically proper in business, it is just as important to understand the organizational and institutional context within which ethical issues, awareness and behaviour are situated (p.xv).

Figure 5.2 shows a simple **ethical decision-making model**. The figure predicts that someone's response to an ethical dilemma depends on individual and contextual factors.

Ethical decision-making models examine the influence of individual characteristics and organisational policies on ethical decisions.

The individual factors are:

- **Stage of moral development**: the extent to which someone can distinguish between right and wrong; the higher this is, the more likely they will act ethically.
- **Ego strength**: the extent to which someone can resist impulses and follow their convictions; the greater this is, the more likely they person will do what they think is right.
- **Locus of control**: the extent to which someone believes they control their life; the more they see themselves as having control, the more likely they will act ethically.

The contextual factors:

- **Work-group norms**: beliefs within the group about right and wrong behaviour.
- **Incentives**: management policies on rewards and penalties.
- **Rules and regulations**: management policies about acceptable behaviour.

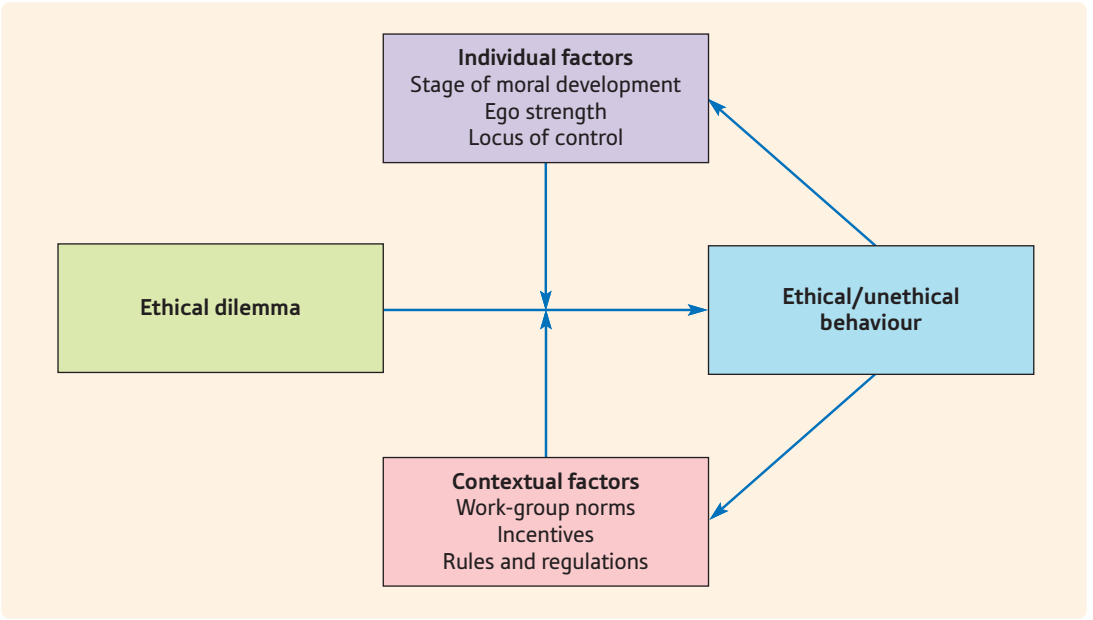


Figure 5.2 A simple model of ethical decision making

The figure also shows a feedback loop – behaviour has consequences for the individual and their context, which may shape future responses. Other factors could be added, but the purpose of the figure is to show that individual and contextual factors influence choice. Management values shape that context. In 2013, a US court fined GlaxoSmithKline for offences committed between 2005 and 2008, when it sold medicines to groups of people for which they had not been approved. The incentive system in the US division at that time created a context that encouraged mis-selling. Regulators have fined many banks for similar reasons.

Pierce and Snyder (2008) illustrate this by showing that the willingness of staff to commit fraud varied with their employer's policy. They analysed US state vehicle testing records over two years, during which time some testers moved between employers (typically small workshops). Testers' leniency varied with their employer – norms of behaviour and incentives at their current workshop encouraged them to behave ethically (making decisions in line with regulations) or unethically (passing vehicles that should fail).

Activity 5.3 Evaluating the ethical decision-making model

1. Gather evidence from news reports or other sources about an instance of ethical or unethical behaviour. What evidence is there of contextual factors influencing this?
   or
2. Consider the account of Pierce and Snyder's (2008) research. What assumptions are likely to have guided the managers of the 'ethical' and 'unethical' workshops respectively?
3. Compare and discuss your evidence, and use it to evaluate the model in Figure 5.2.

Figure 5.2 also illustrates the dilemma people face when working in countries with different views on bribery. On a universal perspective they would act ethically wherever

they are. **Ethical relativism** suggests they would acknowledge the context, and incorporate local norms and values in their decision: if local and home country norms conflict, they would follow local ones. For international companies ethical relativism is a convenient philosophy, but causes difficulties for individuals if their views are more universal than relative.

Ethical relativism is the principle that ethical judgements cannot be made independently of the culture in which the issue arises.

5.5 Stakeholders and corporate responsibility

Stakeholder priorities – balancing trade-offs

Chapter 3 (Table 3.2) introduced the idea that stakeholders contribute to, and have expectations of, organisations. Table 5.3 extends this by showing their likely expectations in relation to CR.

Some stakeholders share common interests, but the table implies potential conflicts. *The Guardian* reported (3 May 2018, p.36) that EDF Energy was considering erecting turbines 200 metres tall on two windfarms on the Isle of Lewis, west of Scotland. The area's wild and beautiful economy depends on visitors, and many local people feared construction on this scale would deter them. Local authorities wishing to build plants to turn waste into power (a 'green' power source) face objections from those living nearby.

Table 5.3 Stakeholders and their likely interests towards CR

Stakeholders	Likely interests towards corporate responsibility
Shareholders	Financially-centred investors: high return on investment **Ethical investors**: strong CR policies, reputation, long-term financial return
Creditors	Prompt payment
Managers	Fair income and career prospects, positive reputation for acting responsibly and sustainably
Employees	Employment, security, safe working conditions, rewarding work, fairness in promotion, security and pay
Customers	Majority – price, quality, durability and safety, less environmentally damaging plastic and packaging Minority (ethical consumers) – Fairtrade sources, fair treatment of staff, care for environment throughout production
Suppliers	Fair terms, prompt payment, long-term relationships
Local communities	Employment, income, limits on pollution and noise, protection of countryside
Government	Pay taxes, obey laws, provide economic development, policies that support international targets on renewable energy sources
Environmental campaigners	Minimise pollution, emissions, waste, and assist recycling. Use Fairtrade sources when possible

Ethical investors are people who only invest in businesses that meet specified criteria of ethical behaviour.

Implementing sustainable policies to satisfy some stakeholders is likely to upset others. Devinney (2009) addresses this, believing that some advocates of CR ignore the conflicts between the virtues and vices of any organisation – see 'Key ideas'.

Key ideas **Timothy Devinney - the myth of the socially responsible firm**

Timothy Devinney (2009) questions the feasibility of the completely 'socially responsible firm' since, in his view:

> **CSR is no free lunch [as] corporations, by their very nature, have conflicting virtues and vices that ensure that they will never be truly socially responsible by even the narrowest of definitions.**

He is not saying that people and organisations do not have values and incentives to encourage ethical action. His point is that:

> **any position taken by a firm and its management, social, ethical or otherwise, has trade-offs that cannot be avoided. Corporations can be made more 'virtuous' on some dimensions … but this will inevitably involve a price on other dimensions … [CR], like most aspects of life, has very few, if any, win/win outcomes.**

Source: Devinney (2009).

Any major decision involves trade-offs, and this requirement to reach an acceptable balance between interests applies as much to CR as to any area of business.

Stakeholders influence managers

If the most powerful stakeholders expect a company to follow a Friedmanite position, managers will deliver that, perhaps with a public commitment to socially acceptable practice. Other companies have powerful shareholders who, while expecting a financial return, also believe managers can best deliver long-term returns by accommodating stakeholders' expectations.

Firms with this perspective will invest in social initiatives because they believe that such investments will result in increased profitability (Peloza, 2006). Many companies differentiate themselves less by their products than by the ideas, emotions and images that their brand conveys – they value their reputation. Adopting responsible practices imbues the brand with a positive reputation which has value:

> precisely because (developing one) takes considerable time and depends on a firm making stable and consistent investments (Roberts and Dowling, 2002).

If activists (Greenpeace) target the company, this may damage the brand, so it may be wise to engage with them – see the 'Management in practice' feature about GAP in Section 5.6.

Managers influence stakeholders – the lobbying business

Companies invest substantial resources to lobby governments to alter laws in their favour – see 'Management in practice' feature below.

Management in practice

Facebook lobbies US and EU governments

Facebook increased its lobbying spending by almost 200 per cent in 2012 as it waged battles with Washington policy makers over consumer privacy, data collection, and immigration. The social networking company paid $3.99 million to influence US regulations according to forms filed with the government. Facebook said:

Our presence and growth in Washington reflect our commitment to explaining how our service works, the actions we take to protect the billion plus people who use our service, the importance of preserving an open internet, and the value of innovation to our economy.

Facebook was joined by Google and Microsoft in its lobbying efforts, with those technology giants increasing spending by 70 per cent and 10 per cent respectively. Alan Webber, an analyst with the Altimeter Group, said:

There's a lot more potential regulation and laws coming out about how these companies do business. They're all very concerned about that, and they're all thinking, 'We want to influence the law from our perspective'.

The lobbying increase in the US is mirrored by efforts in the European Union. Jeff Chester, executive director of the Center for Digital Democracy, was … in Brussels earlier this week, where he said lobbying by Silicon Valley companies … of EU officials around privacy laws was 'very intense'.

FT Source: *Financial Times*, 24 January 2013.

5.6 Corporate responsibility and strategy

A review of trends in CR research by the *Academy of Management Journal* (Wang et al. 2016) notes that assessments of the effects of CR contain a widening range of measures. At first people tried to show positive financial or other benefits of interest to shareholders. That still matters, but the authors note two changes in research methods:

- identifying the effects of discrete elements within the broad heading of CR such as job enrichment, volunteering or using green technologies
- assessing the effects of such changes on a wider range of outcomes – such as reputation in the community or customer satisfaction.

The challenge for managers is to be clear about how they align CR issues with specific elements of their wider strategy, so that it becomes part of their normal way of doing business, rather than as a separate activity. This would help them meet the point David Vogel raised (see 'Key ideas' below). Vogel (2005) believes that responsible action is only sustainable if it yields a financial return – otherwise less responsible players will gain a competitive advantage.

Key ideas David Vogel on responsibility and strategy

Vogel (2005) examines the claims for and against the idea that corporations should act responsibly, by analysing the forces driving CR. He concludes that while those managers who are prominent advocates of CR are motivated by a commitment to social goals, CR is only sustainable if 'virtue pays off'. Not every policy needs to increase shareholder value directly, and many benefits of CR are difficult to quantify. But, ultimately, responsible action is made possible, and constrained, by market forces.

Encouraging forces include demand for responsibly made products, enhanced reputation, ethical investors and the values of managers and employees. These lead many firms to acknowledge they are accountable to a broad community of stakeholders. Virtuous behaviour can make business sense for some firms in some areas in some circumstances, but is also constrained:

> **Many of the proponents of (CR) mistakenly assume that because some companies are behaving more responsibly in some areas, (more) firms can be expected to behave responsibly in more areas. This assumption is misinformed. There *is* a place in the market economy for responsible firms. But there is also a large place for their less responsible competitors (p.3).**
>
> Some companies will benefit from acting responsibly, but this will not prevent others from acting in less responsible ways, and profiting from doing so.
>
> Source: Vogel (2005).

Rangan (2015) believes there are three ways in which CR can support strategy: philanthropy; improving operations; and developing the business model towards creating shared value.

Philanthropy

Philanthropic activities are not intended to produce a profit or to benefit the business directly, other than by promoting a positive image. They are essentially returning some of the wealth created by the company to the society in which it operates, by supporting sporting, cultural or other work. innocent drinks (Chapter 2 Case study) gives 10 per cent of profits to a foundation that supports self-sufficiency projects in Africa. Jude's Ice Cream (www.judes.co.uk) gives the same to charities that help children and young people, as do many other companies.

Case study

The Co-op – the case continues www.co-operative.coop

In 2010, the Co-op tripled the size of its banking business through a merger with the Britannia Building Society, and in 2012 the Board decided to bid for 630 branches of the Lloyds Banking Group. This would triple the size of the bank again, to almost 1000 branches. Many commentators welcomed the deal as it would mean a stronger competitor for established banks. However the expansion would be challenging as the company was still integrating the Britannia, and combining bank computing systems is troublesome.

The Lloyds deal collapsed in 2013 when the Co-op found it had insufficient capital to buy it: Co-op Bank had £1.5 billion less capital than it had thought. A report into this calamity found that management at the Bank had been negligent – over-optimistic about bad loans (frequently giving borrowers 'the benefit of the doubt'); paying insufficient attention to capital requirements; mis-selling insurance; and failing to upgrade an old IT system. A review of the 2013 crisis was highly critical of the governance structure. Most of those elected to the national board lacked the experience required to guide the organisation, and some were openly hostile to professional managers. This discouraged the latter from working at the Co-op.

In 2014, after long debate, the members agreed to changes proposed by the reformers. These included a much smaller eleven-member Board, composed of two executives, six non-executive directors with wide business experience, and three elected by the members. This new Board structure is believed to have persuaded the then CEO, Richard Pennycook, to take the job. Members elect a new Council (100 members) to set strategy and monitor social performance.

Some members believe these changes go against the Co-op tradition, and will make it harder to distinguish it from retail competitors. One commented

that the ethical dimension had traditionally been driven by members, not management. A survey commissioned by the Co-op in 2014 gives an insight into customer's preferences: 53 per cent said lower prices would be the incentive most likely to make them shop more with the business.

FT Sources: Company website; *Financial Times*, 22 October 2013; 25 March 2014; 1 May 2014; 5 September 2014; 2 December 2014.

Case questions 5.3

This instalment gives some insights into the tensions between members and professional managers that arise in mutual or charitable organisations.

- What do you think may be the underlying assumptions guiding each of these (broad, and themselves diverse) groups?
- What does that imply for managing such organisations?

Making operations more sustainable

Table 5.2 implies that most activities can be re-designed to use fewer resources and make less waste. Industries that use a lot of electricity are investing in renewable energy supplies, especially wind and hydro-electric. These include aluminium producers (such as Norsk Hydro), cement makers, and tech companies (such as Google and Amazon) which need to power their huge data centres. Using energy efficiently, avoiding waste and treating staff with respect are established practice in many companies – and bring direct benefits to the companies. Van Dam et al. (2017) show that older workers valued jobs that were intrinsically interesting and within an age supportive workplace. Adapting jobs to make them attractive for older workers encourages them to remain in productive employment for longer.

Mars, the world's biggest confectioner, is working with the Rainforest Alliance to produce all its cocoa sustainably by 2020. The company has good business reasons for this – they will not be able to buy enough cocoa unless they invest now. Others cite, for example, that the Forest Stewardship Council (www.fsc-uk.org) certifies their wood or the Rainforest Alliance (www.rainforest-alliance.org) their fruit. Companies hope this reassures customers and brings repeat purchases.

Many companies are responding to the challenges posed by climate change, and are developing plans to work more sustainably. In 2007, Marks & Spencer (M&S) announced 'Plan A' – and, in 2010, extended this into a programme that led it to become the world's most sustainable retailer by 2015. It achieved 94 of the 100 commitments in Plan A, and launched Plan A 2020. This has 100 revised and extended commitments, in four areas:

a. **Inspiration** – 11 commitments that inspire customers to live a more sustainable lifestyle and encourage other businesses to take a lead on sustainability
b. **In touch** – 29 commitments that connect M&S employees and suppliers to local communities to improve employment opportunities and create shared value
c. **Integrity** – 24 commitments to lead the sector in sustainable consumption and production, covering product sourcing and operating to highest environmental and social standards
d. **Innovation** – 36 commitments that invest in the products, services and operations of the future.

The company produces regular reports and progress, with many examples showing that Plan A 2020 making a difference (www.marksandspencer.com).

Management in practice

Big groups join war on plastic www.coca-cola.co.uk

In early 2018, Coca-Cola announced ambitious targets for package recycling. The decision was not solely driven by concern for the environment.

It raised the stakes in the latest battle for consumers' wallets. A pledge by the US drinks company, which uses 120bn bottles a year, to collect and recycle the equivalent of all its packaging by 2030 comes as a number of large consumer groups announce commitments to reduce packaging and make more of it recyclable.

[They] are responding to growing public alarm about pollution … and the level of plastic in our oceans and its destructive impact on wildlife. The war on plastic is now 'part of the marketing plan' for consumer goods companies, says [one marketing analyst]. 'Millennials in particular are a target of these companies'.

FT Source: *Financial Times* 23 January 2018, p.17.

Ethical consumers are those who take ethical issues into account in deciding what to purchase.

Others focus on meeting the needs of **ethical consumers** – those who consider ethical issues and try to avoid buying products from companies with a poor environmental record. Such consumers usually support Fairtrade products. Sales of products with sustainability attributes still represent a small fraction (often estimated at around 5 per cent) of total demand. There is a gap between consumers' expressed attitudes and their behaviour. A UN Environment Programme study found that while 40 per cent of people say they are willing to buy 'green' products, only 5 per cent do so (quoted in Luchs et al. 2010, p.5). Ethical intentions may not match ethical buying at the checkout.

Creating shared value

Porter and Kramer (2011) believe that business is widely perceived as the cause of most social and environmental problems, and that this begins to threaten their legitimacy in the eyes of many citizens. Part of the problem, the authors suggest, is that many managers still see their role in economic and financial terms. This narrow focus means they may ignore important customer needs (including sustainability) and broader measures of long-term success.

They advocate business and society becoming closer by focusing on shared value – creating economic value in a way that also creates value for society by addressing its needs. Social and economic progress can connect if companies rethink their products and markets; redefine productivity in the value chain; and enable local clusters to form.

> Shared value is … about expanding the total pool of economic and social value. A good example of this difference is the Fairtrade movement [which] aims to increase the proportion of revenue that goes to poor farmers by paying them higher prices. Though this may be a noble sentiment, Fairtrade is mostly about redistribution, rather than expanding the total amount of value created. A shared value perspective, instead, focuses on improving growing techniques and on the local cluster of supporting suppliers and institutions ... to increase farmers' efficiency, yields, product quality and sustainability. That leads to [more revenue and profits for the farmers and the companies that buy from them]. Studies in the Cote d'Ivoire conclude that while Fairtrade can increase farmers' incomes by 10% to 20%, shared value investments can increase them by more than 300% (Porter and Kramer, 2011, p.65).

Porter and Kramer (2011) propose that companies are likely to perform well if they aim to create shared value, by balancing the interests of many stakeholders. He envisages business and society converging by finding ways to create economic value that also creates value for wider parts of society: Gap, in the Management in Practice feature, is an example.

Management in practice — Gap redesigns the supply chain www.gap.com

Gap built an extensive worldwide supply chain, transporting raw materials and finished goods from many of the world's poorest countries to sell in the wealthier countries. By the early 1990s, the company was receiving sustained attacks by human rights activists, who accused it of using sub-contractors with poor working conditions and child labour in their factories.

The company's first step was to create systems for monitoring the factories and ensuring compliance with labour standards. This helped, but the company realised that it could achieve more by engaging with the stakeholders to see if there were fundamentally better ways to do the work in the chain linking factories dealing with successive stages of making a particular garment.

The third stage was to consider the even more complex issues of how to make the whole supply chain more responsive to changes in fashion and demand.

The final stage was to consider how it can apply the lessons learned from this work on the supply chain, to redesign the way the company itself operates. Can those working on design, planning or packaging interact more with external stakeholders, to improve established company practices?

Source: Worley et al. (2010).

Rangan (2015) stresses that whichever of these approaches a company chooses, it is essential that they also construct appropriate monitoring systems to ensure that the venture delivers the benefits it is expected to: otherwise there is no way to know if it has been worthwhile.

CWS Ways to manage corporate responsibility

Activity 5.4 — Gather information about CR policies and practices

Visit a company website and go to the section about CR. Gather information on these questions:

- Does the site explain the aims of the CR policies? Do they relate to these headings?
- What issues (e.g. waste, community projects) feature most prominently?
- Does it make any claims about the effects of the policies?

5.7 Does responsible action affect performance?

Early research on the link between CR and performance showed the challenges of defining both dependent and independent variables, and of measuring the effect of other variables. Studies with carefully-defined variables which relate plausibly to aspects of firms' performance are producing more consistent, and possibly more practically-useful, results – such as that by Ambec and Lanoie (2008), and by Eccles et al. (2014). The latter analysed the long-term relation between sustainable polices, internal processes and performance – see 'Key ideas' that follows.

Key ideas — Does sustainability enhance performance?

Robert Eccles and his colleagues identified 90 US companies (which they termed high sustainability companies) with a substantial number of environmental and social policies (on environment, employees, community, products and customers) adopted since the early 1990s. They also identified 90 comparable companies that adopted none or few of these policies – the low sustainability companies. They found that the high sustainable companies were more likely to:

- assign responsibility for sustainability to a specific Board committee
- make executive pay depend on environmental, social and reputational measures
- establish a more comprehensive and engaged stakeholder management process
- measure and disclose information related to employees, customers and suppliers.

Routine auditing increased the credibility of the data, which also included much non-financial material. They comment:

> **our findings suggest that, to a large extent, the adoption of these sustainability policies reflects their underlying institutionalization within the companies, rather than 'greenwashing' and 'cheap talk'. Importantly … we find that high sustainability companies outperform low sustainability companies both in stock market as well as accounting performance … this outperformance is most pronounced in companies that sell products directly to individuals, compete on the basis of brand and reputation, and make substantial use of natural resources.**

Source: Eccles et al. (2014).

More recently, Stoian and Gilman (2017) defined five CR practices (community, workforce, marketplace, environment and human rights) and asked how, when combined with a firm's strategy, they affected firm growth. In a quantitative study of 211 UK-based SMEs, they showed that CR activities:

- related to the community (philanthropy, volunteering) enhanced firm growth, especially in firms with a cost leadership strategy (possibly because good local reputation would lower recruitment costs)
- related to the workforce (work–life balance, flexible working) encouraged growth especially in firms adopting a differentiation or quality-driven strategy
- related to environmental (reducing waste, recycling) or human rights (fair wages, non-discrimination) issues did *not* support growth (perhaps because these issues did not weigh heavily in customers' decisions – many of whom were other businesses).

Some people prefer to work for responsible organisations, and Jones et al. (2014) show that companies active in their community and with pro-environment policies were significantly more attractive to potential employees than companies without them. Three mechanisms supported this link:

- the job-seeker's anticipated pride in being associated with such a firm
- their perception of a close fit between their and the company's values
- their expectations that such companies would treat staff well.

Activity 5.5 — Think clearly about research on CR and performance

Consider carefully the summary of research in this section – if possible, source one of these (or any other empirical study) and evaluate it using the skills of clear thinking. For example:

- What assumptions did the researchers make in selecting the variables to measure?
- What contextual factors did they consider?
- What alternative variables might they have plausibly included?
- What are the limitations of their conclusions?

Management in practice

Blue Harbour reviews a company's ethics www.bhgrp.com

Many professional investors (who invest funds on behalf of private individuals) are becoming committed to evaluating a company's ethical position before they invest in it. The main reason seems to be that it reduces risk.

Cliff Robbins, founder of Blue Harbour, a fund that focuses on small to medium-sized companies:

It is hugely important for us, and we put it on the same scale as other things we look at – a company's cash flow, its market share, its management. Anything we can do to reduce risk is smart.

Active investors are not typically making a value-judgement [on a company's ethics]. Instead they are [seeking] to mitigate risk and improve company performance. They say that improvements in board diversity, employee retention, supply chain ethics and data privacy and security can drive earnings and limit the risks of costly litigation or run-ins with regulators.

FT Source: *Financial Times* 27 December 2017, p.15.

5.8 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 5.4 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). *These are examples only – not a comprehensive analysis*. You can disagree with these and /or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

In the context of sustainability and strategy, comment on Porter and Kramer's theory of 'shared value' (Sections 5.6 and 5.7).

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 5.4 'Clear thinking' questions about the Chapter Case study and a theory

Clear thinking practices	From the Chapter Case study – Co-op's dual purpose	Theory – a question on Porter and Kramer's theory of shared value (Sections 5.6 and 5.7)
Checking assumptions (Task and process)	What assumptions about the purpose of the Co-op may lie behind it continuing to have social as well as economic goals? What assumptions may there also be about: • the processes of managing the business? • the priorities of customers?	Set out the idea in context: • companies' potential role in sustainability if they focus and direct their resources (capital, expertise, scale) – mention examples from text (M&S, Chapter 6; Gap, Zara, Chapter 19) and others you know • Porter and Kramer's contribution as a focus – shared value refers to creating economic value in way that also creates social value Assumptions to consider: • embedding social value creation into the core transformation processes of the firm – not an 'add-on' • aims to create more wealth for both, not only redistributing existing wealth • re-thinking a process from a new perspective can uncover unexpected economic as well as social benefits • involving external parties and their ideas ('society') in design should add value and credibility • scope for transferring successes to encourage wider use • reputational benefits with customers and investors would follow • robust evidence will show benefits and lessons of the approach Long-term acceptance will depend on quality of evidence about results, and about the validity of these assumptions
Recognising contexts	In what ways is the competitive context more threatening than ever to the Co-op? Might any aspects of the social context help, or hinder, the Co-op? Such as? Will the governance structure help or hinder it in meeting these challenges? Does its history help or hinder?	Strong support from some people in some countries – how widely shared in non-capitalist countries, totalitarian regimes? Does the approach suit some contexts or types of business more than others? Such as? Only works if it creates economic value – see Vogel's theory in chapter

Clear thinking practices	From the Chapter Case study – Co-op's dual purpose	Theory – a question on Porter and Kramer's theory of shared value (Sections 5.6 and 5.7)
Imagining alternatives	The attempt to grow the banking business failed badly What effect may that have on its ability to identify and pursue new opportunities to fulfil its dual purposes?	Traditional cooperatives, employee-ownership, Fairtrade. As commercial companies try the idea in their context, the range of alternative ways of implementing and managing the idea would grow More alternative ways to do it may make it more acceptable
Acknowledge limitations	Limited capital available to support new ventures Will members' views limit change?	Limited evidence about the most promising sectors in which to encourage enterprises of this kind – that may slow adoption Requires committed and skilled management to go down this possibly risky road. Implementing the ideas will not always be easy, and some will fail

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of clarifying values.

Develop a skill: clarifying values

How managers approach issues of corporate responsibility reflects their values: proposals that reflect clearly thought-out values are likely to be confident and coherent. This exercise is intended to help you clarify your values, and using that to guide what you do.

- **Assessment.** Assess how conscious you are of the values that lie behind what you think or do. Are you conscious of knowing people who you feel are more or less self-aware than you?
- **Learning.** Recall Section 5.3, including Activity 5.2. Summarise the main ideas presented. How is knowing about these likely to help a manager?
- **Analysis.** Which of the four 'values' corresponds most closely to your personal preferences about the values that matter most in an organisation (economic, legal, societal, philanthropic)? Read again the description in the text of that principle in Section 5.3. Identify someone (whom you know, or can read about) who also has that preference. Consider what they do, or how they present their views about it. What seem to be the effects of how they use the principle, and what specific practices you may be able to learn from them?
- **Practice.** Identify ways in which you may be able to try one of these in the next few days. For example: identify a significant proposal to build something, offer a service, change an established custom, etc., in the place where you study or in the town where you live *and* that is inviting your comments.

  Write a letter expressing your support or opposition, using (mainly) your chosen value to support your argument.

  Record the results, and reflect on what you can learn from the experience.
- **Application.** Decide on another opportunity to practise this skill within the next week.

Summary

1 **Outline aspects of the context of CR**

a. Examples of corporate malpractice and of philanthropic business practices
- Negative examples include poor treatment of suppliers or staff, wasteful uses of energy and other resources, and unfair treatment of customers. Reputations are also damaged by cases of senior management fraud and high compensation to failed managers.
- In contrast, there are many examples of philanthropy and enlightened self-interest, in which people act with little or no expectation of a specific benefit in return.

b. Criteria that people use to evaluate corporate actions
- Legal – obey the law.
- Economic – the function of business is to act legally for shareholders.
- Societal – business has responsibility to the society on which it depends.
- Philanthropic – actions that are entirely philanthropic.

2 **Explain three of the processes relevant to CR**

a. Model of ethical decision making
- Figure 5.2 shows a simple model of individual and contextual factors that shape ethical or unethical behaviour.

b. Interaction of stakeholders and CR
- Stakeholders' expectations and relative power will influence how managers interpret responsible behaviour, bearing in mind Vogel's point that this is only sustainable if it supports strategy.

c. Interaction of CR and strategy
- The chapter showed that there needs to be a clear view of strategy and how CR can help this: perhaps as part of a philanthropic mission, but more likely when it helps to improve operations, or support the creation of a new business model, such as shared value.

3 **Use clear thinking to evaluate these practices and theories, and as you develop the skill of clarifying your values**
- Being clear about the values that guide your action is a valuable skill in being able to work consistently and with authority, and the chapter offered tools to help develop that.
- Developing this skill may be more effective if a practitioner questions their assumption, for example, that expressing clear values is always appropriate, and whether it is appropriate in their immediate context or situation. Practitioners may also benefit if they are alert to alternative ways of displaying these skills, and are conscious that there may be limitations to the skill in some situations.

Test your understanding

1 Identify two recent examples of corporate malpractice and two of philanthropic behaviour. What were their effects?

2 Summarise the four responsibilities that corporations may choose to meet (or not), illustrating each with an example.

3 Sketch the ethical decision-making model, including as many of the variables as you can.

4 How can managers take account of the diverse interest of stakeholders?

5 Why is it important, in Vogel's view, to link corporate responsibility to strategy?

6 Illustrate each of the ways in which a private or public enterprise has done this, with a current example.

7 Outline the main ideas of Porter and Kramer's 'shared value' approach.

Read more

Clarke, F.L. (2003) *Corporate Collapse: Accounting, Regulatory and Ethical Dailure*, Cambridge University Press, Cambridge.

Details the Enron collapse, which also destroyed accountants Arthur Andersen.

Germain, D. and Reed, R. (2009) *A Book About Innocent*, Penguin, London.

Shows how the enterprise combined responsible behaviour with profitable business.

Ambec, S. and Lanoie, P. (2008) 'Does it pay to be green? A systematic overview', *Academy of Management Perspectives*, vol. 22, no. 4, pp.45–62.

Clear analysis of how companies have acted to reduce their impact on the environment, and become more profitable. The paper contains many examples of successful practice.

Stoian, C. and Gilman, M. (2017) 'Corporate social responsibility that 'pays': A strategic approach to CSR for SMEs', *Journal of Small Business Management*, vol. 55, no. 1, pp.5–31.

Quantitative study of the relation between CR practices and firm performance, in the context of alternative competitive strategies.

Go online

These websites have appeared in the chapter:

www.cooperative.coop
www.bitc.org
www.bhgrp.com
www.coca-cola.co.uk
www.facebook.com
www.gap.com
www.marksandspencer.co.uk
www.fairtrade.org.uk
www.judes.co.uk
www.fsc-uk.org
www.rainforest-alliance.org

Visit two of the sites in the list (or others that interest you) and navigate to the pages dealing with corporate responsibility, sustainability or corporate governance.

- What are the main concerns upon which they report?
- What information can you find about their policies?
- Compare and contrast the concerns and policies expressed on the sites. What dilemmas does that imply that managers in these companies are dealing with?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



PART 2 CASE

BP

www.bp.com

The company

In 2019, BP was the world's fourth largest oil and natural gas producer (after ExxonMobil, Chevron and Royal Dutch Shell), with over 73,000 employees. The company is an 'integrated' oil company, in the sense that it has both 'upstream' (exploration and production) and 'downstream' (refining and marketing) operations. In this respect it is similar to other integrated oil companies like ExxonMobil and Total. This case is about the company's upstream activities.

The company is registered in Britain, but 40 per cent of its assets are in the United States, and it is that country's largest gas producer. It does 80 per cent of its business outside the UK, and is inherently engaged in international business, needing to succeed in many diverse political, economic and technological environments. In one recent year, its sources of oil and gas (measured in 'barrels of oil equivalent per day') were:

- Europe 201,000
- United States, 778,000
- Russia, 985,000
- Rest of world 1,478,000 (including Iraq)

While acknowledging that oil demand will eventually decline because of electric vehicles, Bob Dudley [CEO since 2010] insists the switch will take decades because of the difficulty of replacing oil in trucks, ships, aircraft and chemicals.

> **There will be a need for oil well into the second half of the century. There will be 2bn more people in the world by 2035 … Every kind of energy is going to be needed (from an article by Andrew Ward, *Financial Times*, 21 December 2017).**

Advances in surveying and drilling technology mean that oil reserves previously out of reach can be recovered – such as those in deep oceans or beneath the Arctic ice cap. The company aims to secure access to sufficient oil reserves to at least replenish what it extracts, and to meet growing demand. It is also investing heavily in reserves of shale oil – in 2018 it paid $410.5 billion to acquire another company's US shale oil business. It has also invested heavily in gas (which now accounts for almost 60 per cent of its production) and, to a lesser extent, in green technologies.



© Susana Gonzalez/Bloomberg/Getty Images

BP faces issues of corporate responsibility throughout the business, especially in exploration and production. Oil production inevitably brings environmental damage and an explosion in 2010 on a production rig working for BP in the Gulf of Mexico showed the hazards of deep water production. Environmental groups challenge oil exploration in sensitive areas, and a task for BP's corporate governance is to ensure that the company addresses these concerns alongside financial ones.

It has a large presence in the United States, where it both extracts and sells oil. Safety failures have damaged its relationships there, and it has had to pay significant compensation to individuals and businesses affected by these events, as well as fines to the US Government.

Those arising from the 2010 disaster have cost it £65 billion, and it expects them to cost at least £1bn a year for the next 15 years.

Table 1 Measures of financial performance in financial years ending 31 December

	2018	2017
Profit (loss) before interest and tax ($m)	19,378	9,474
Profit (loss) after taxation ($m)	9,383	3,389
Dividend per ordinary share (cents)	40.5	40.00

Source: *BP Annual Report 2018*.

The company's financial performance affects many stakeholders, as most pension funds hold shares in the company, using the dividend income they receive to pay their pensioners. Financial returns have been affected in recent years by the 2010 disaster and (until recently) by low all prices. By 2018, oil prices had risen and it had also been able to reduce production costs throughout the business. The directors decided to pay a dividend to shareholders of 40 cents a share for 2015. The table shows the main financial indicators of performance in two recent years.

Managing to add value

Securing oil and gas reserves

A central preoccupation for management has traditionally been to secure new oil supplies, though it is now giving equal attention to acquiring sources of gas. The company has invested heavily to acquire licences to search for oil and gas itself and by acquiring, or creating joint ventures with, companies that already own such licences. For example it owns a 10 per cent stake in the Zohr gasfield off the coast of Egypt, which began producing in late 2017. In the same year, it bought resources in Abu Dhabi, Senegal and Mauritius – part of a continuing effort to rebuild the business after more than $60 billion of assets were sold to settle its Gulf of Mexico legal obligations.

In 2011, the Indian Government approved a $7.2 billion oil and gas investment, which gave BP a 30 per cent stake in a large but technically difficult natural gas field off India's east coast. This positioned the company as the first oil major to gain a foothold in a country where demand for oil is growing rapidly. Its collaborator in the deal is Reliance Industries, a major Indian company with a good reputation for project delivery and strong political connections. A year later, there were signs of difficulty, with administrative delays to investment plans, and evidence that output from the field (which has been operating for several years) was declining more rapidly than expected.

The company has to face the political risks that these ventures entail, especially in politically unstable countries where power conflicts amongst ruling elites can, directly or indirectly, threaten commercial ventures.

Joint ventures and governments

The company's most significant joint ventures have been with Russian companies. It owns 19.75 per cent in Rosneft, a state-owned Russian oil group, that has become an important source of earnings. The holding stems from a 2012 deal in which Rosneft acquired BP's share in TNK-BP, an earlier venture. As part of the deal, BP received a 20 per cent stake in Rosneft, giving it preferential access to resources, and a close alignment of their interests with those of the Russian Government.

> **Critics of this venture present BP as a passive investor with little influence, which Bob Dudley (who is also on the Board of Rosneft) rejects. 'He says the pair are working very smoothly on joint exploration and development projects, giving BP access to some of the world's most plentiful and competitive resources. US and EU sanctions against Russia have complicated the relationship, but not derailed it. Mr Dudley knows all about the pitfalls of doing business in Russia … but insists the country is worth the risks. It is one of the lowest-cost resource nations of the world. It's a natural place for us to be (from an article by Andrew Ward, *Financial Times*, 21 December 2017, p.11).**

Culture and structure

During John Browne's tenure as chief executive (from 1992 to 2007), the company became decentralised, in the sense that managers responsible for a business unit faced tough financial targets but had considerable autonomy in how they met them. Senior managers believed this helped to reduce administrative costs and enabled unit managers to use their local knowledge and contacts to best advantage.

When Tony Hayward replaced Browne in 2007, he began to change the style, requiring managers to develop common working processes across the business, to reduce complexity and cut costs. This continues, and unit production costs have fallen 40 per cent since 2013, bringing the company's break-even point (the oil price needed to cover dividends and capital

investments) to below $50 a barrel. Savings came from selling older assets and working more efficiently. Design has been simplified, equipment in all new developments standardised, and digital technologies make operations faster and more reliable.

Safety

The company's reputation had suffered in March 2005 when an explosion at the Texas City refinery, its biggest in the USA, killed 15 people and injured about 500. An internal BP report found that, although the plant was very profitable, local senior managers had ignored advice to invest in improving safety. There was further damage in 2006 when a pipeline spilled 270,000 gallons of crude oil into Alaska's Prudhoe Bay. The Alaska Department of Environmental Conservation blamed corrosion, which BP denied on the grounds that expenditure on corrosion maintenance was higher than it had ever been.

On 20 April 2010, the Deepwater Horizon – a production rig – exploded in the Gulf of Mexico while taking oil from the Macondo well which BP owned. The safety arrangements intended to cap the well in such circumstances failed to work, and oil flowed into the sea for many months, polluting it and the nearby coastline. The explosion killed 11 workers and the ensuing pollution caused economic damage to fishing and tourism, and widespread public criticism of the company in the United States. The company neither owned nor operated the production rig – but agreed to pay compensation to businesses and communities affected by the accident.

To meet these costs and the fines for breaching US safety and environmental laws, BP suspended dividend payments to shareholders (which resumed in 2011) and sold several oil fields and refineries. By 2018, the disaster had cost BP $65 billion, though costs are now falling – $7.5 billion in 2016, $5 billion in 2017 and likely $3 billion in 2018.

The company also made many internal changes – including the resignation of the chief executive, Tony Hayward. He was replaced by Bob Dudley, a US citizen who had previously been chief executive of the Russian venture TNK-BP. His immediate task in handling the massive disturbance of the spill was to ensure the leak was plugged. The company's engineers did so in August 2010 – a remarkable feat of engineering, as the well was over 5000 feet below sea level. Then he had to (amongst other things):

- meet claims for damages without letting the costs run out of control
- stabilise BP's financial position by selling assets
- establish the cause of the incident in conjunction with US Government agencies
- reform relevant internal practices
- restore the company's reputation in the USA
- develop a new strategy for the business.

Inquiries identified technical and managerial failures which had caused the accident – including inadequate maintenance and inaccurate interpretation of data from the well. BP acknowledged its own failings, but also argued that other companies were partially responsible, including Transocean, which owned and operated the rig, and Haliburton, a contractor working on it: Haliburton had supplied the faulty cement intended to seal the leak. BP sought substantial damages from both companies – alleging that Transocean workers failed to spot evidence of oil and gas escaping, and did not respond effectively when the escape became evident.

Aspects of BP's context

Oil demand and supply

In early 2013, a barrel of Brent crude oil (the standard used to measure prices) cost almost $120: by 2016, this had fallen to about $40. All oil companies responded by cutting costs – delaying exploration and development, and improving the efficiency of existing operations – it changed from 'chasing barrels to chasing efficiency'. By 2018, the price had recovered to $80, which, with their now lower costs, led to higher profits for the oil companies.

Another technological change is the growing use of shale oil, especially in the United States, where one observer has predicted the USA may be self-sufficient in oil by 2025. BP has a large stake in US shale resources, having bought 470,000 acres of shale assets from another company.

Governments with oil reserves on their territory often depend on the technical resources of the world's major oil companies to recover these reserves profitably. While the oil majors are eager to work there, they acknowledge that this requires them to work with business partners with different political and legal systems, including how they deal with human rights, democracy and bribery.

Oil exploration and production evidently affects the environment – even in normal working it can disrupt wildlife, damage indigenous communities, and pollute air and water. The production process itself contributes to carbon dioxide emissions when gas is flared from oil fields. In 2018, it committed itself to maintaining its carbon footprint at current levels for seven years as it would cut emissions from its oil and gas rigs – saving

about 7 per cent of its current operational emissions. One observer said:

> **Improvements in BP's operational emissions, while welcome, are too small to move the needle to prevent runaway climate change (*The Guardian*, 17 April 2018, p.30).**

Current management dilemmas

Pressure from shareholders

Major shareholders have been pressing management to improve performance – since the low dividend payments in recent years, and the losses arising from Gulf of Mexico disaster damaged share price: in 2007, they were trading at 600 pence and, in early 2019, they were around 520 pence – with a dividend yield of 5.7 per cent. The company's owners expect managers to improve this performance. They want clarity about strategic direction on issues like new sources of supply, relations with partners and safety. In 2018, the company pledged to limit capital expenditure for the next three years, and raised the dividend paid on each share for the first time in four years.

New energy sources

One strategic issue is how BP strikes the balance between investing in oil and alternative non-oil sources of energy, such as bio-mass or wind. During the tenure of John Browne, these were a prominent feature of the company, but most of $8bn which BP invested in wind, solar and biofuels was written off (in effect it had no value) because:

> **it had been done in the mistaken belief that policymakers would begin to look at climate change and create the right incentives for green energy to develop – which they failed to do. In the belief that conditions have now changed, BP is investing $500m a year in cleaner technologies (from an article in the *Financial Times*, 18 April 2018, p.15).**

Sentiment has changed again, and the company is actively building an energy business that does not depend on oil. As an example, in 2017, it bought a 43 per cent stake in Lightsource, a London-based company which is Europe's largest solar power developer. In 2019, Helge Lund became chairman of the company, and will be expected to lead BP through the dilemma of how fast to move from away from fossil fuels to greener sources.

Electric vehicles and changing patterns of transport

Many analysts predict that the use of electric vehicles will eventually lead demand for oil to decline, so major companies are buying assets which will benefit if EVs gain a significant share of the passenger car market. In 2018, BP forecast that there are likely to be 300 million electric vehicles on the world's roads by 2040, up from 3 million today. In the same year, it bought a stake in StoreDot, which is developing advanced battery-charging technology. It is also showing interest in the technology behind changing patterns of transport such as Uber, and in the prospects of self-driving cars.

Relations with partners

The company relies heavily on joint ventures with other companies, but they are hard to manage. The stake in Rosneft earns about 16 per cent of BP's profits: some investors worry that this investment will be endangered if relations between Russia and the West deteriorate due to differences over conflicts in Ukraine and the Middle East. A feature of the Gulf of Mexico accident was that the field was being developed in partnership with other companies. As these will be prominent in the company's future, it relies heavily on the associated arrangements for oversight and governance. In each case, governments – Russia and the United States respectively – played a significant part in the outcomes. Coll (2012) shows how rival ExxonMobil exerts influence over the companies and governments with which it has to deal.

Producing oil safely

Soon after taking over as CEO, Dudley made structural changes to reduce the autonomy of the powerful exploration and production division. This had had a high degree of autonomy, partly because it accounted for most of BP's profit. Dudley split it into three units responsible for exploration, development and production respectively: the heads of these units report directly to the chief executive, giving him direct insight into their working. He also created a separate safety unit whose staff are embedded in the operating units, and whose head reports directly to the CEO.

Sources: Coll, 2012; *Financial Times*, 27 July 2010, 19 October 2012, 16 November 2012, 2 January 2013, 18 March 2013, 21 February 2018, p.16, 28/29 April, p.14, August 2018, p.15; *The Guardian*, 2 May 2018, p.30; BP website; and other sources.

Part case questions

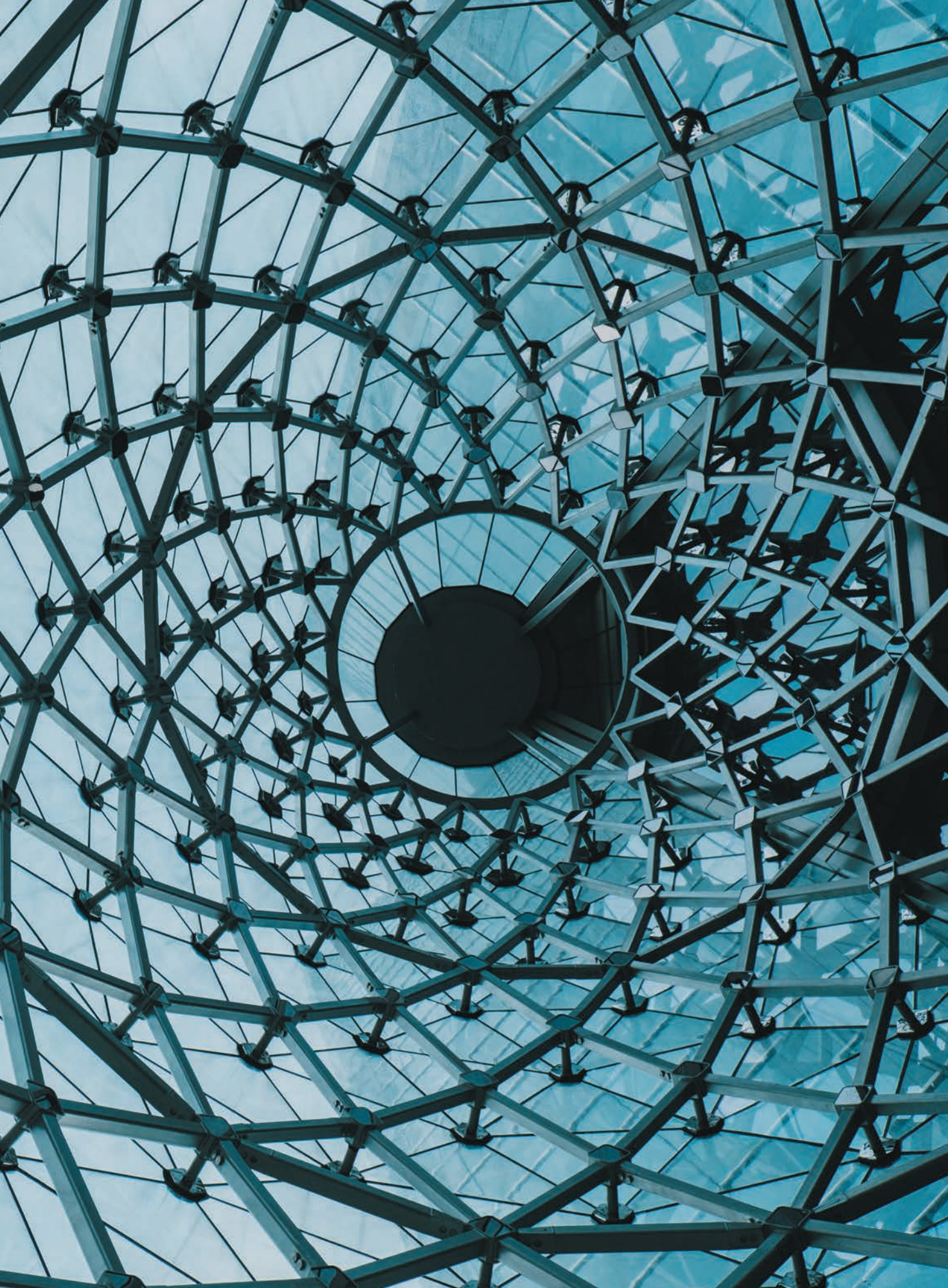
(a) Relating to Chapters 3 to 5

- The case mentions 'culture' at several points. What sub-cultures can you identify, and what may this imply for senior management's attempts to establish a unified image of the business? (Section 3.3)
- Consider which of Porter's five forces are likely to be affecting BP most seriously. Do they represent threats or opportunities? (Section 3.4)
- Construct a PESTEL analysis to establish the main aspects of the environment that affect BP. (Section 3.4)
- Which stakeholders is management dealing with in the case? (Section 3.5)
- In what ways will managing in BP, with such an international exposure, be different from managing in a national company with no international business? List the three most significant. (Sections 4.3, 4.4 and 4.5)
- Visit the BP website and gather examples of its corporate responsibility activities. How do the examples relate to the headings in Table 5.2?
- From what you read in the case, and your wider knowledge, in what ways is BP fulfilling the four responsibilities of business? (Section 5.3)

(b) Relating to the company

Visit the BP website, including the pages on 'investor relations' and 'sustainability review'.

- Note recent events that add to material in this case. Make notes on which, if any, of the dilemmas identified in the case are still current, and how the company has dealt with them.
- How prominent are safety issues in the company's report, and what has been the outcome of the legal proceedings brought by the US Government after the Gulf of Mexico disaster?
- What is BP's relative share of world oil production in the most recent trading period? Which competitors have gained and lost share? Access this information from the websites of *Economist, Financial Times* or *BBC News* (Business and Technology pages).
- What new issues appear to be facing the company that were not mentioned in the case?
- For any one of those issues it faces, how do you think it should deal with it? Build your answer by referring to one or more features of the company's history outlined in the case.



PART 3

PLANNING

Introduction

This Part examines the generic management activities of making decisions and planning, and then two substantive applications of these ideas – to strategy and marketing respectively. Both depend on understanding the environment of the business and the stakeholders within it. They also depend on building an internal capability to deliver whatever direction management decides upon.

Finite resources and infinite demands mean that practitioners continually face decisions on where to allocate resources – about inputs, transformation processes and outputs. The quality of these decisions affects performance. Chapter 6 introduces theories about how people conduct the process.

The outcome of a decision is usually some form of plan about how best to add value. Chapter 7 provides an overview of planning, setting out the purposes of planning, the types of plan and their generic features. The shape of these elements is likely to reflect the circumstances (context) of the plan.

Chapter 8 outlines the strategy process, and introduces techniques that managers use to analyse the options facing all forms of business. This analysis can lead to clearer choices about future direction.

Central to that is the market the organisation chooses to serve, so Chapter 9 presents some marketing methods. Like strategy, marketing uses external and internal analysis to establish a way forward. And, like strategy, it depends on the support of other units to meet customer expectations profitably.

The Part Case is Virgin Group, illustrating the interaction of the external environment with the developing corporate and marketing strategies of this unique venture capital firm.



CHAPTER 6

MAKING DECISIONS

Aims

To show that decisions can create or destroy value, and to outline alternative ways to make them.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Outline the (iterative) elements in making decisions
2. Distinguish types of decisions, including programmed and non-programmed
3. Contrast decision contexts – certainty, risk, uncertainty and ambiguity
4. Outline theories of decision processes – rational, judgemental, negotiated and adaptive
5. Give examples of common sources of bias in making decisions
6. Be aware of some process of making decisions in groups (CW)
7. Think clearly to evaluate these management practices and theories, and as you begin to develop your skills of setting success criteria

Key terms

This chapter introduces these terms:

decision
decision making
success criteria
decision tree
programmed (or structured) decision
procedure
rule
policy
non-programmed (or unstructured) decision
certainty
risk
uncertainty
ambiguity
rational model of decision making
judgemental model of decision making
bounded rationality
satisficing
adaptive model
negotiated model
heuristics
prior hypothesis bias
representativeness bias
illusion of control
escalating commitment

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

Idea discovery and idea imposition
Managing Risk
A study of escalation
Decision-making models
Making decisions in groups

Case study IKEA www.ikea.com



© Katharine Rose/Alamy Stock Photo

In 2018, IKEA employed 208,000 co-workers and had over 420 home furnishing stores in over 50 countries, though profits were falling sharply. In the financial year to the end of August, net profit dropped from 2.47 billion euros the previous year to 1.47 billion euros. The company's performance had suffered from the costs of improving its logistics and digital operations as it moves away from out-of-town warehouses to more online and city-centre sales. The chief financial officer said it was a conscious decision to lower profits to finance the business transformation, and that they expected profits to remain low for the next three years.

The IKEA vision 'to create a better everyday life for the majority of people' developed from a decision by Ingvar Kamprad (1926–2018), a Swedish entrepreneur, to sell home furnishing products at prices so low that many people could afford them. He aimed to achieve this not by cutting quality, but by applying simple cost-cutting solutions – products are designed, manufactured, transported, sold and assembled to support the vision. This has evolved into the 'IKEA concept', elements of which include:

- focus on younger people and young families, and on modern innovative design
- operate large stores on the outskirts of cities
- customers serve themselves and assemble the furniture at home
- purchase 90 per cent of stock from global suppliers
- buy the land and build the store
- emphasise responsible and sustainable operations.

The first showroom opened in 1953 and until 1963 all stores were in Sweden. International expansion began with a store in Norway – it has entered one new country in almost every year since, and is now planning to enter South America, opening ten stores in the next decade.

The Kamprad family own the Stichting INGKA Foundation, based in the Netherlands. This owns IKEA Group, which runs the retail stores and associated businesses. The Foundation also controls Interogo Foundation in Liechtenstein, which owns Inter IKEA in the Netherlands, holder of the IKEA brand. The stores pay an annual fee of 3 per cent of turnover to Inter IKEA to use the brand and trademark. In 2017, the European Commission began to investigate the tax treatment in the Netherlands of Inter IKEA.

The company aims to enable co-workers to grow individually and professionally, taking care to recruit people who share the company's values. The website explains that it seeks people with these personal qualities – a strong desire to learn, the motivation to continually do things better, common sense, able to lead by example, efficiency and cost-consciousness:

> **These values are important to us because our way of working is less structured than at many other organisations.**

In 2017, the company, through the IKEA Foundation, gave 144 millon euros to projects in 41 countries. These are run by established local partners such as the UN refugee agency (UNHCR) and medical charity Médecins Sans Frontières.

Sources: *IKEA Annual Report, 2018*; *Financial Times*, 1 January 2011, p.23, 19 December 2017, p.17, 29 November 2018, p.17.

Case questions 6.1

- Identify (three) assumptions about elements of the general environment that underlie the 'IKEA concept'?
- How are changes in the context helping or hindering IKEA now? Add to your notes in later instalments.
- Visit the company's website, and note examples of recent decisions shaping the company.

6.1 Introduction

The Case introduces one of Europe's biggest and most successful companies, now a global player in the home furnishing market. As they developed a small Swedish general retailer to its present position, managers at IKEA made countless decisions about where to allocate time, effort and other resources. Over the years, most of these paid off and they now face new issues, such as how to build their online business, how to increase their city centre presence as shopping habits change and how to attract well-qualified staff. They also face questions from environmental campaigners about their sources of timber (they are the world's third largest user). How they resolve these decisions will shape IKEA's future.

Choice creates tension as we worry about 'what if' we had selected the other option. Good decisions add value, poor ones do the opposite. In 2012, the board of directors of Wellcome, a medical charity (www.wellcome.org.uk), decided to invest £250 million to create Syncona – a company that invests in small healthcare companies with strong prospects of growth, and helps them to achieve that. By 2018, it had invested in nine such companies, whose success meant that Syncona was now worth £1.8 billion (*The Times*, 8 September 2018, p.59).

The board of directors of Carillion, which provided services to government and local authorities, decided to expand the company by buying similar, smaller businesses, and securing contracts by offering low prices. It was able to present a healthy financial position to investors and, in 2016, the value of its shares on the London Stock Market was £1.3 billion. In early 2018, its lenders refused to provide further funds and the company collapsed – so the shares were worthless. It also owed many suppliers for work they had done, so their businesses also lost value (*Financial Times*, 16 May 2018, p.19).

The challenge of making decisions in organisations is enhanced by structural divisions. People at all levels and in all units make (often independent) decisions throughout the management task: inputs (how to raise capital, who to employ), outputs (what to make, how to distribute it) and transformations (how to make a new product, how to control costs). Decisions shape the plans that commit resources to one use rather than another, so directly influence whether or not they add value. If they do, this is probably because the company has good decision processes – routines people have learned from experience and provide guidance on how to set goals, consider all relevant aspects, build support and monitor progress. They usually codify some of these topics into formal procedures (on selection, perhaps, or capital spending), while leaving managers with more discretion on how they decide other matters.

Figure 6.1 illustrates the central theme of the chapter – that there are alternative ways to make decisions, depending on how people see the nature of the decision (content) and

Activity 6.1 Questions about a decision

Identify a decision of which you are aware. You may be able to discuss this with a manager you know, or use a situation at school or university where others made a decision affecting you.

- Why did the situation requiring a decision arise? What did they decide, with what outcome?
- Identify two assumptions that those involved made during this process (about the context, for example, or their objectives).
- How did they make the decision – for example, how widely did they ask for ideas?
- Was the outcome of the decision satisfactory or not? Why was that?

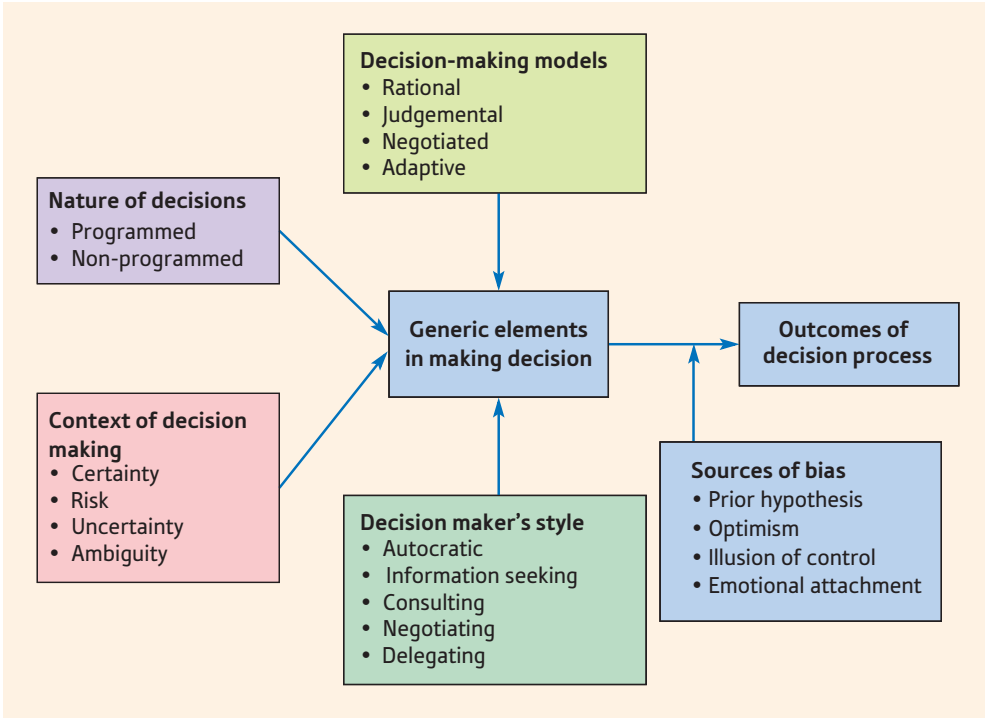


Figure 6.1 An overview of the chapter

their context. Considering these factors can shape a process that is more likely to add value than destroy it. The chapter is an opportunity to develop one dimension of this – the skill of setting success criteria.

6.2 Iterative elements in making a decision

A **decision** is a specific commitment to action (usually a commitment of resources), so several related decisions can form a plan to deal with the issue managers are addressing.

A **decision** is a specific commitment to action (usually a commitment of resources).

Management in practice — Shell decides a path to a petrol-free future www.shell.com

Shell is undertaking one of the most dramatic corporate reshaping acts ever undertaken as it attempts to reinvent itself in the face of the Paris climate change targets. Two senior staff are deciding how best to make the company a world leader in supplying clean energy – and believe that the biggest shift will be in how much electricity the world uses. One said:

> **The world relies on electricity for about 20 per cent of [its energy] – but that needs to go up beyond 50 per cent to meet the Paris targets.**

Their decisions have begun to take Shell towards that goal. It has bought NewMotion which makes electric car charging points for homes and workplaces, and First Utility a supplier of electricity and gas to nearly a million users. It has also bought a stake in Silicon Ranch, an operator of US solar plants. These decisions move Shell towards the time when it can supply all our energy needs:

We are essentially trying to put the pieces of the puzzle together and to become a fully integrated supplier of electricity to business and consumers around the world.

Maarten Wetselaar, head of the gas and new energy unit, which generates a third of the company's revenues, said he wanted to raise Shell's investment in low-carbon energy. The firm has committed to spending up to $2 billion annually in the next two years: he said that if these initial investments generated a good enough return, he would be able to argue for an increase from 2020 onwards.

Sources: *Daily Telegraph*, 10 September 2018, p.5; *The Guardian*, 26 December 2018, p.37.

Decision making is the process of identifying and defining problems and opportunities, and making plans to resolve them.

Such choices are part of a wider process of **decision making**, as practitioners seek to transform resources into outputs of higher value. It involves effort before and after the immediate issue. In deciding whether to select Jean, Bob or Rasul, the unit head would also have decided:

- that they needed a new member of staff
- to allocate money from their budget to pay for this
- what experience and qualifications candidates should have
- where to advertise the post
- who should join the selection panel
- which applicants to invite for interview.

Managers deal with such tasks iteratively, as they also divert their attention to other responsibilities – such as to authorise the purchase of some new equipment. Samsung's decision about which new models to offer follows many earlier decisions about the target market, the design concept, how much to invest in design, production volumes and price. A manager makes small but potentially significant decisions all the time – which of several urgent jobs to do, whose advice to seek, which customer to call. These affect the way people use their time and the plans they make.

Figure 6.2 shows information at the centre of the process, moving to and from each of the elements in a continuous, iterative fashion. As we deal with one element we find new

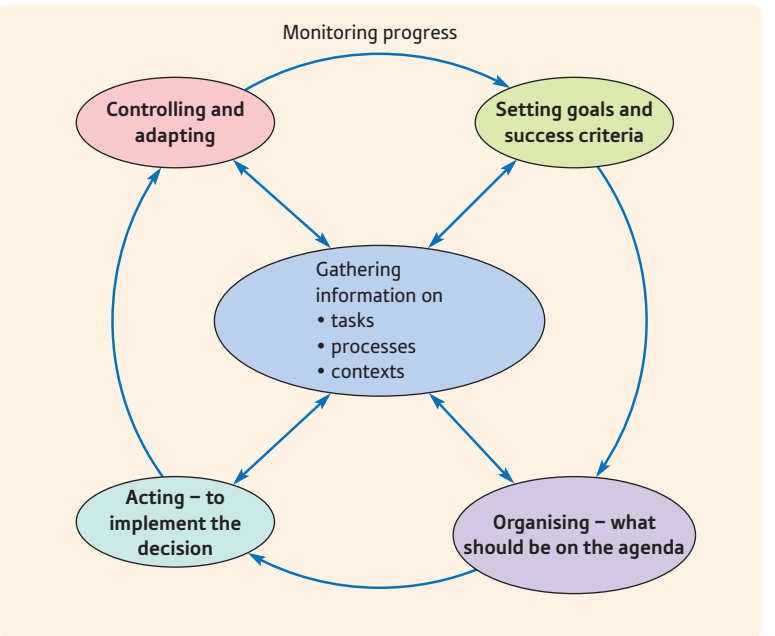


Figure 6.2 Generic elements in making a decision

information, reconsider, revisit an earlier element and perhaps decide on a new route to our goal. We miss an element, give too much attention to one or too little to others.

Sometimes, we move quickly, and perhaps intuitively, from one stage to another. For familiar or routine decisions this makes sense, as we know the situation and have the relevant information. Some also decide major, very uncertain, issues this way.

Setting goals and success criteria

It is difficult to set acceptable and plausible goals (objectives) – to decide what we want an activity or project to achieve. It requires an ability to look to the future, and to identify a future state at which to aim. Paul Nutt (2008) distinguished between an 'idea discovery process' which usually led to success, and an 'idea imposition process' which usually led to failure. Those using 'idea discovery' spend time at the start looking beyond the initial claim that 'a problem has arisen that requires a decision': they spend time understanding the claims by talking to stakeholders to judge the strength of their views. This leads to a clearer view of the arena of action on which to take a decision. They also identify at the start the forces that might block them from implementing a decision, and the interests of stakeholders whose support they may need. These early actions enable decision makers *to set a direction* – a plausible route towards an agreed outcome.

CWS More on idea discovery and imposition

It is useful to refine broad goals – about (taking IKEA as an example) expanding the business in India or increasing their online presence – by adding **success criteria**: for online sales. Two examples could be 'doubling online sales within three years' and 'achieving a 10 per cent annual rate of return on the capital invested'. These are measures against which to assess the success of a decision, and so be more objective about whether it is adding value. Table 6.1 shows four (there are many others) dimensions of success, with a description alongside. It is for those responsible to decide how they measure success: the point here is to show that there are alternative ways to add value, from the relatively immediate to the longer term.

Success criteria are the measures against which the outcomes of a decision can be assessed.

Table 6.1 Dimensions of success

Dimension	Examples only – specific criteria will be unique to each enterprise
Efficiency	Was the issue (such as changing a process) completed on time and within budget? Did it work as expected, meeting technical specifications?
Impact on customers	Are customers satisfied with the change? Is it meeting, or exceeding, their expectations?
Effects on the business	Is the change providing the expected increase in sales, income, profits or other benefits? Has it helped to increase market share?
Preparing for the future	Has the change helped to prepare the organisation's culture and technology for the future? Have we learned new transferable skills?

Sources: Based on Shenhar et al. (2001); Boddy (2002).

Management in practice — Nationwide's alternative criteria www.nationwide.co.uk.

Nationwide is owned by its members, so can apply different criteria to some of its investments. It has a £50 million fund to invest in financial technology start-ups – most of which will fail. Chief executive Joe Garner is relaxed:

If we come out at break-even, we'll be very happy about that. Even if it costs us a bit of money, I still think we'd be happy with that.

He is also considering investing in a house-building scheme near Swindon, the company's base.

We're not becoming a housebuilder. Even if all we do is contribute to bridging the housing crisis in a location where we are a major employer and we get out of it at break-even, that is enough for us.

He hopes that the project could inspire others to follow suit.

If you are a large employer and you've got money sitting on your balance sheet, which corporate Britain does, and if we can prove this is a relatively low-risk thing to do, then why not?

[Mr Garner] … has no shareholders, no quarterly earnings targets, no share price to agonise about, no dividends to pay. Underlying profit is well within the target range – Mr Garner is more concerned with customer service levels: Nationwide did well in the recent league table, coming third out of 16 leading providers.

Source: From an article by Patrick Hosking in *The Times,* 20 October 2018, p.55.

If the decision concerns a small internal issue such as buying new mobile devices for staff, criteria could include useful features, price, delivery, warranty, and ease of use. Some criteria are more important than others, and the decision process can represent this by (say) assigning 100 points between the factors depending on their relative importance. We can measure some criteria (price or delivery) objectively, while others (ease of use) are subjective.

People differ over the factors to include, and their relative weight. They will also have private and unexpressed criteria – such as 'will cause least trouble', 'will help my career'. Changing the criteria or their weights will change the decision. Agreeing success criteria when several people are involved is hard work: the 'Develop a skill' feature at the end of the chapter is an opportunity to practise.

Organising – what should be on the agenda

In simple decisions, such as which flight to choose, this would be to list the available options. Schwartz (2004) found that giving people too many choices brings stress, frustration and anxiety about making the wrong decision – there is an example in the 'Key ideas' feature that follows.

Those responsible for large decisions (like the example from Shell) probably take time to ensure that their 'agenda' includes as many significant variables as they can think of. Figure 7.6 in the next chapter shows how to do this. Rushing a decision and dealing with only the most obvious issues is unlikely to produce a good outcome. Framing the decision so that, as far as possible, people take account of a wider range of implications will usually work better.

The safest approach is to seek ideas extensively from those who know the situation. This requires skill to integrate possibly conflicting ideas, but is better than ignoring people who may be able to help. Consulting takes time, but is worth trying in some contexts.

Key ideas **Too many jams to choose**

Iyengar and Lepper (2000) demonstrated that consumers protect themselves from the stress of too much choice by refusing to purchase. In an experiment conducted in a food store, they set up a tasting booth offering different types of jam. When 24 types were on display, about 60 per cent of passers-by stopped at the booth, compared with just 40 per cent when only 6 jams were shown. But when it came to choosing a pot of jam to buy, the proportions changed. Only 3 per cent of visitors to the 24 jam booth made a purchase, while 30 per cent of those visiting the smaller display did so. The limited selection was the most effective in converting interest into sales.

Source: Iyengar and Lepper (2000).

Sometimes, people use a **decision tree** to structure a decision. This helps to assess the relative suitability of the options by assessing them against identified criteria – successively eliminating the options as each relevant factor is introduced – there is an example on the companion website, under 'Making decisions in groups'. The main challenge in using the technique is to identify the logical sequence of intermediate decisions and how they affect each other.

A **decision tree** helps someone to make a choice by progressively eliminating options as additional criteria or events are added to the tree.

Acting or leading to implement the decision

This is often a problematic stage as it is here that the plan commits scarce resources – and perhaps meets new objections. Implementing often takes longer than expected, as it may depend on actions by people who have not been consulted. This element is often in itself a material decision – people often oppose a decision not because of the content (what it is), but because of the process (how someone implemented it). Involving those affected by a decision can turn potential opponents into useful allies.

Controlling and adapting

The final stage is controlling – observing to see if the decision appears to be moving things in the expected direction and, if not, what to do about it. It is also an opportunity to learn deliberately from experience.

Figure 6.2 also shows that information informs choices throughout the (iterative) cycle.

Activity 6.2 **Preparing to decide on a problem**

Identify a problem you need to deal with – such as how to make a presentation, complete a group project, or organise a social event. Use Figure 6.2 to guide you. Gather as much information as you can to work through 'setting goals' and 'organising': note ideas and suggestions under each heading:

- Setting goals – your ends
- Organising – what has to be on your agenda – your means

Work on this for about ten minutes, compare your work with other course members, and consider these questions:

- Did working through these steps affect your views about the task?
- How confident are you that the assumptions you made about the relevant variable were valid (e.g. about what is on your agenda to meet your goals)?

6.3 Nature of a decision

People at all levels and in all areas of an enterprise make decisions. Some deal with strategy – whether to commit significant resources to develop a new line of products, acquire another business or build a new factory. In 2018, Alison Brittain, chief executive of Whitbread (www.whitbread.co.uk), owner of the Premier Inn budget hotel chain, was trying to increase profits from the international business. To achieve that, she decided to focus investment on fewer locations – withdrawing from loss-making operations in India and South-East Asia, and adding capacity in the profitable German business, where it has ten hotels: 'If we could find a hotel company with 15 or 20 hotels we would definitely be interested' (*The Times*, 9 December 2017, p.65). Entrepreneurs face strategically important decisions about whether to accept capital from this investor or that one: investors face equally daunting decisions about which new businesses to put their money in (see 'Management in practice' on page 151).

Operational decisions include how to allocate resources between departments, how to use them more efficiently and how to manage relations with suppliers. Work groups and individuals decide how to organise their work, allocate responsibilities, how to monitor progress. Wherever a decision arises, a useful generic distinction is whether it is 'programmed' or 'non-programmed'.

Programmed decisions

A **programmed (or structured) decision** is a repetitive decision that can be handled by a routine approach.

A **procedure** is a series of related steps to deal with a structured problem.

A **rule** sets out what someone can or cannot do in a given situation.

A **policy** is a guideline that establishes some general principles for making a decision.

Programmed (or structured) decisions (Simon, 1960) deal with problems that are familiar, and where information is easy to define and obtain. If a store manager notices a product is selling well, they use a routine procedure to decide how much new stock to order. Decisions are 'structured' if they arise frequently and people deal with them by following a **procedure** – a series of steps, often online, to deal with that problem. The procedure may use a **rule** setting out what to do, or not do, in a given situation or refer to a **policy** describing general principles to follow.

Programmed decisions deal with routine matters – ordering supplies, appointing junior staff, lending money to a retail bank customer. Once managers formulate procedures, rules or policies, others can usually make the decisions. Computers handle many decisions of this type – the checkout systems in supermarkets link to systems recording sales and ordering stock.

Non-programmed decisions

A **non-programmed (unstructured) decision** is a unique decision that requires a custom-made solution when information is lacking or unclear.

Simon (1960) also observed that people make **non-programmed (unstructured) decisions** to deal with situations that are novel or unusual, and so require a unique solution. The issue has not arisen in quite that form, and the information required is unclear, vague or open to several interpretations. Major management decisions are of this type – such as the choice which managers at Marks & Spencer faced in 2010 in deciding whether to launch their programme to become the world's most sustainable retailer by 2015. Whatever benefits this may bring, it will be challenging and time-consuming to introduce as it involves changing the way suppliers work. While the company will have done a lot of research before making the decision, they could not know how customers and competitors would respond, or how long any benefit would last. Most issues of strategy are of this type, as they involve great uncertainty and many interests.

While analytical techniques are good for programmed decisions, non-programmed decisions depend on judgement and intuition. Many decisions have elements of each type – complex non-programmed decisions probably contain elements that can be handled in a programmed way.

Management in practice — Inamo – choosing a designer www.inamo-restaurant.com

Inamo has three London restaurants where customers place their order directly to the kitchen from an interactive ordering system on their table. Selecting the designer for such a novel idea was a big step. Noel Hunwick, Chief Operating Officer:

> **An early and crucial decision we had to make was to select our interior design company. The way we've always worked is to make sure that we always [have] options from which to choose so, based on recommendations and on web research, and going to various shows and events, I put together a large portfolio of work … to get a rough price per square foot that these companies generally charged.**
>
> **We then selected eight companies to give us a full design brief, and then cut that down to three – who came out with three entirely different concepts so we narrowed it down to two for final showdown. [Given that our ordering system was so novel] I think that was a crucial decision – we had to make sure it didn't overload the customer, so I think that was a very delicate and difficult business decision. We always want options. Every single decision, everything, we want three options at least. I think that's very important.**

Source: Interview with Noel Hunwick.

Figure 6.3 relates the type of decision to the levels of the organisation. People at lower levels typically deal with routine, structured problems by applying procedures. As they move to senior work, they face more unstructured decisions – junior staff hand decisions that do not fit the rules to someone above them, while the latter pass routine matters to junior staff.

Activity 6.3 — Programmed and non-programmed decisions

Identify examples of the types of decision set out above. Try to identify one example of your own to add to those below or that illustrates the point specifically within your institution:

- **Programmed decision:** whether to reorder stock
- **Non-programmed decision:** whether to launch a new service.

Compare your examples with those of other students and consider how those responsible made each decision. How easy is it to divide decisions between these categories?

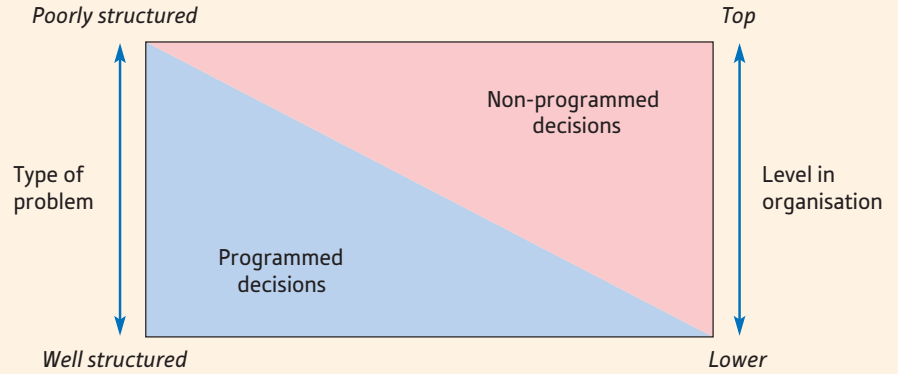


Figure 6.3 Types of decision, types of problem and level in the organisation

Source: Robbins, S.P. and Coulter, M. *Management*, 8th edition, © 2005. Reprinted by permission of Pearson Education, Inc. Upper Saddle River, NJ.

6.4 The context of decisions

Decisions arise within an organisational, competitive and general context: this section is about a further contextual dimension – measured by the degree of *certainty, risk, uncertainty and ambiguity*. These materially affect the decision task and processes. Figure 6.4 relates the nature of the problem to the type of decision. We can deal with conditions of certainty by making programmed decisions. Many situations are both uncertain and ambiguous; for these we need a non-programmed approach.

Certainty

Certainty describes the situation when all the information the decision maker needs is available.

Certainty is when the decision maker has all the information they need – they are fully informed about the costs and benefits of each alternative. A company treasurer wanting to invest reserve funds can easily compare rates of interest from several banks, and calculate the return from each. Few decisions are that certain, and most contain risk and/or uncertainty.

Risk

Risk refers to situations in which the decision maker is able to estimate the likelihood of the alternative outcomes.

Risk refers to situations where the decision maker can estimate the likelihood of the alternative outcomes, possibly using statistical methods. Banks have developed tools to assess credit risk, and so reduce the risk that the borrower will not repay the loan. The questions on an application form for a loan (home ownership, time at this address, employer's name, etc.) enable the bank to assess the risk of lending money to that person. Yet, after the 2008 financial crisis, much blame was attributed to banks misjudging credit and market risks, and making bad loans:

> A move away from professional exams in favour of narrow quantitative and sales data has … created a cultural inability by some banks to recognize and [deal with] risk (Carolyn Williams, technical director at the Institute of Risk Management, quoted in *Financial Times*, 28 April 2015, Special Report on Risk Management, p.2).

CWS More on managing risk

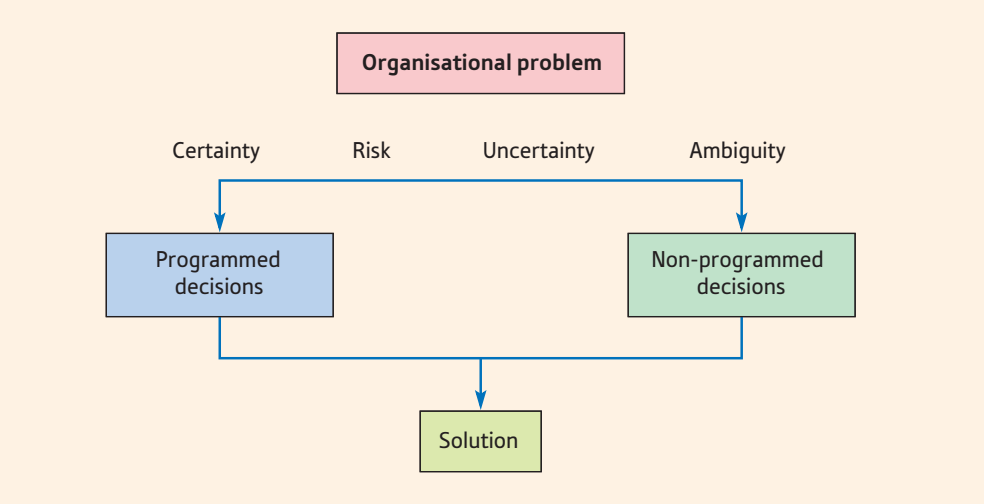


Figure 6.4 Degree of uncertainty and decision-making type

Uncertainty

Uncertainty means that people know what they wish to achieve, but do not have enough information about alternatives and future events to estimate the risk confidently. Factors that may affect the outcomes of deciding to launch a new product (future growth in the market, changes in customer interests, competitors' actions) are impossible to predict. Entrepreneurs live with very high levels of uncertainty: they cannot know if their venture will succeed, and it is not in their nature to allow that to deter them.

Uncertainty is when people are clear about their goals, but have little information about which course of action is most likely to succeed.

Management in practice — How angel investors decide who to back

Huang and Pearce (2015) assess the criteria which 'angel investors' used when deciding which early-stage entrepreneurs to support. Angel investors participate in the earliest stages of new ventures, when the entrepreneur has used their personal savings and that from friends and family. They need more money to build the business, and present their plans to angel investors – rich private individuals (distinct from venture capitalists who may make larger investments later). Such investors have clear objectives – to invest small stakes in new ventures in the hope of finding those that are very profitable.

They make such decisions in conditions of extreme uncertainty, and fully expect to lose their entire investment. They pay attention to the formal plans and analysis the entrepreneur provides, but are aware of their limitations – they are inherently based on very little performance information, and are always presented optimistically. Angels give greater weight to another criterion – the personal credibility of the entrepreneur. They form this judgement by looking for signs of preparedness, commitment and trustworthiness:

> **You notice right away, sometimes within five seconds of meeting the entrepreneur, how you feel about them, and what your overall sense is for them as a person (p.11).**

The authors found that investors combine business viability data with their perception of the entrepreneur to assess the proposal. If both look positive, that will encourage investment. If one is positive and the other negative, the investor will rely on 'gut-feel' – a combination of analysis and intuition based on their experience.

Source: Huang and Pearce (2015).

Managers at GlaxoSmithKline, the pharmaceutical group, experience great uncertainty in allocating research funds. Scientists who wish to develop new vaccines have to persuade the board to back them. Uncertainties include rapid change in the relevant science, what competitors are doing, and how many years will pass before the vaccines begin to earn revenue (if any).

Ambiguity

Ambiguity describes a situation in which the intended goals are unclear, and so the alternative ways of reaching them are equally fluid – leading to stress. Students would experience ambiguity if their teacher created student groups, told each group to complete a project, but gave them no topic, direction, or guidelines. Ambiguous problems are often associated with rapidly changing circumstances, and unclear links between decision elements – see 'Management in practice' on the following page.

Ambiguity is when people are uncertain about their goals and how best to achieve them.

Dependency

Another way to sort decisions is by their dependency (or not) on other decisions. People make decisions in a historical and social context, influenced by past and possible future decisions, and by events elsewhere. Legacy computer systems (the result of earlier decisions) frequently constrain how quickly a company can adopt new systems.

Management in practice

Different conditions, different ways to decide

www.mcdonalds.co.uk

Rosenzweig (2013) shows how the context of a decision affects how to reach it, by contrasting two decisions (amongst many) that McDonald's, and similar fast-food outlets, faces.

1. **Where to locate a new outlet.** They have done this many times, and have developed a sophisticated database of the factors that affect the profitability of a store – traffic patterns, incomes, demography and many more. These data are readily available, and it is a routine calculation to compare which of several possible locations would be most profitable. This decision is in a 'certain' context, which routine calculations will answer.
2. **How to respond to obesity.** The public is critical of the fast-food industry's role in obesity, and is expecting it to respond. But McDonald's has little or no information on how the public will respond to new, healthier products, nor about competitor responses. It cannot anticipate medical advances that may allay, or aggravate, health concerns, nor the lawsuits it may face if litigants claim that by offering new products it is admitting there was something wrong with the old ones. This a highly ambiguous and uncertain context, requiring a very different approach to decisions.

Source: Rosenzweig (2013).

Some decisions have few implications beyond their immediate area, but others have significant ripples around and beyond the organisation. Changes in technology usually require consistent, supportive changes in structures and processes if they are to be effective – but decisions on these areas are harder to make than those on technology. Figure 6.5 illustrates this.

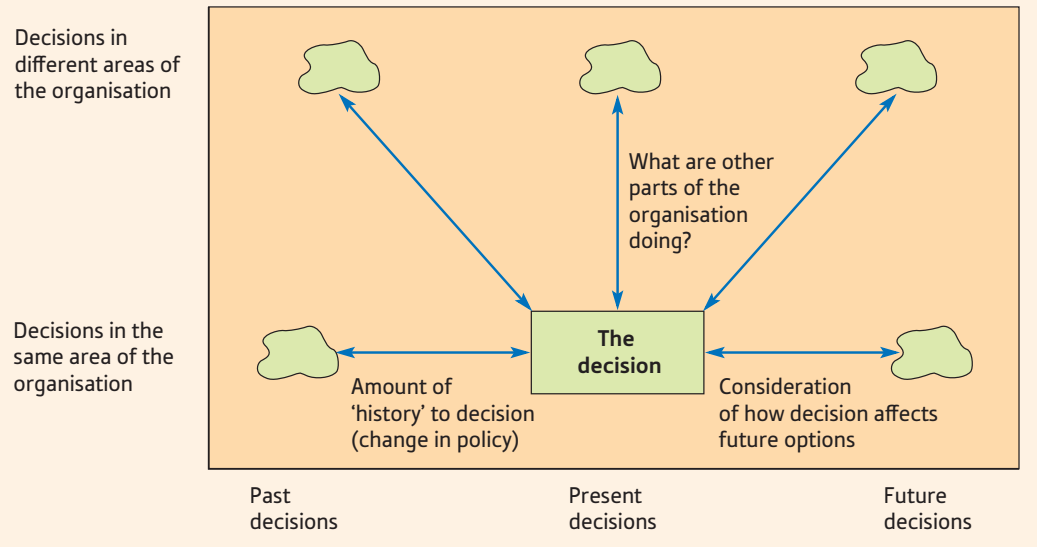


Figure 6.5 Possible relationships between decisions

Source: Cooke and Slack (1991), p.24.

Case study IKEA – the case continues www.ikea.com

Overseas expansion has been especially rapid in China, where it has ten stores and is the company's fastest growing market. It is also active in Indonesia, Japan and Russia (its second fastest growing market) as well as in Western Europe and the United States. Many governments want to attract the revenues and modernising influences of international companies, but also face pressure from domestic retailers trying to protect their interests. IKEA's Asia-Pacific retail manager:

> **We still face a very high level of uncertainty. It is a very sensitive political issue in India and it may take a new government more time to negotiate with the different parties and agree the changes that are required to open up and develop the retail sector.**

In 2014, IKEA opened in Indonesia – attracted by the growing consumer class in south-east Asia's biggest economy, and undeterred by the travails of doing business there. The government has banned foreign investment in the retail sector, so the store is operated under licence by an Indonesian business.

This was followed in 2018 by their first store in India – after 12 years of lobbying the government for permission. The 400,000 sq ft store in the southern city of Hyderabad is the first of 25 outlets the company hopes to open across the country of 1.25 billion people by 2025. Permission to build the store included a requirement that within five years 30 per cent of all goods sold in its Indian stores be made in the country. Juvencio Maeztu, IKEA's chief financial officer:

> **We met and interacted with 1000 Indian families to understand what were their dreams, their frustrations and what they want.**

To overcome Indians' aversion to assembling furniture, with people used to small, family-owned businesses providing a bespoke service, IKEA has teamed up with UrbanClao, an online platform that connects people looking for work with consumers. As in other stores around the world, the model rooms have been adapted for Indian custom. Patrik Antoni, IKEA's deputy country manager for India, said:

> **In Sweden, the washing machine is always in the bathroom. You go to Portugal and it's always in the kitchen. You go to India and it's on the balcony. So the rooms you see in the store are grouped differently, adapted for local custom.**

Sources: *The Guardian*, 10 August 2018, p.29; *The Times*, 11 August 2018, p.42.

Case questions 6.2

- Reflect on IKEA's decision to invest in India. What risks, uncertainties, ambiguities or dependencies may have arisen? Use Figure 6.5 to structure your answer on dependencies.
- The company's decisions on the location, and rate, of expansion will have been informed by significant rational analysis. Identify examples of the questions managers probably considered regarding the 'setting goals' and 'organising' headings of Activity 6.2.

6.5 A generic theory of decision processes

Process refers to the way people work together – what they say or do to help them add value. Pentland (2013) shows the value of seeking ideas from many people, and testing them with an extensive network. He finds that good decision makers continuously engage with new people and ideas – not just leaders in their field, or well-known names. Instead, they engage with people from many backgrounds to gain exposure to unconventional views – enabling

them to combine their own ideas with those reflecting the 'wisdom of crowds'. This is an example of a theory about how the process of making decisions affects the outcome.

This section introduces a generic theory of decision making in organisations, showing how peoples' beliefs about a decision (an aspect of its context) suggest a process. James Thompson (1967) distinguished decisions on two dimensions – the degree of agreement on goals, and beliefs about the relationship between cause and effect. Figure 6.6 shows that a decision can be positioned on these two dimensions, and suggests an approach to making decisions that seems best suited to each cell.

The companion website contains a longer version of what follows.

CWS More on decision-making models

Rational

The **rational model of decision making** is sometimes called the 'economic model' because economists use it to analyse pricing, investment or other decisions in conditions where the goal is clear, and there are several ways to achieve it. The model prescribes structuring the problem:

The **rational model of decision making** assumes that people make consistent choices to maximise economic value within specified constraints.

- specify the goal and the intended economic outcome
- gather information about the likely costs and benefits of each route to the goal and
- select the route that will probably bring the greatest economic return.

The model depends on the assumption that the decision maker is rational and logical in setting preferences, assigning values to costs and benefits, and evaluating alternatives.

Judgemental

The **judgemental model of decision making** (derived from Simon's (1960) 'administrative model') describes how managers make decisions in situations which are uncertain and ambiguous. Many problems are 'unstructured' – goals, and routes to achieve them, are unclear – so not suitable for a computational method. People use their judgement to resolve such issues – and this text uses that term to identify the approach.

The **judgemental model of decision making** describes how people make decisions in uncertain, ambiguous situations.

Simon based the model on two concepts – bounded rationality and satisficing. **Bounded rationality** expresses the fact that people have mental limits, or boundaries, on how rational

Bounded rationality is behaviour that is rational within a decision process that is limited (bounded) by an individual's ability to process information.

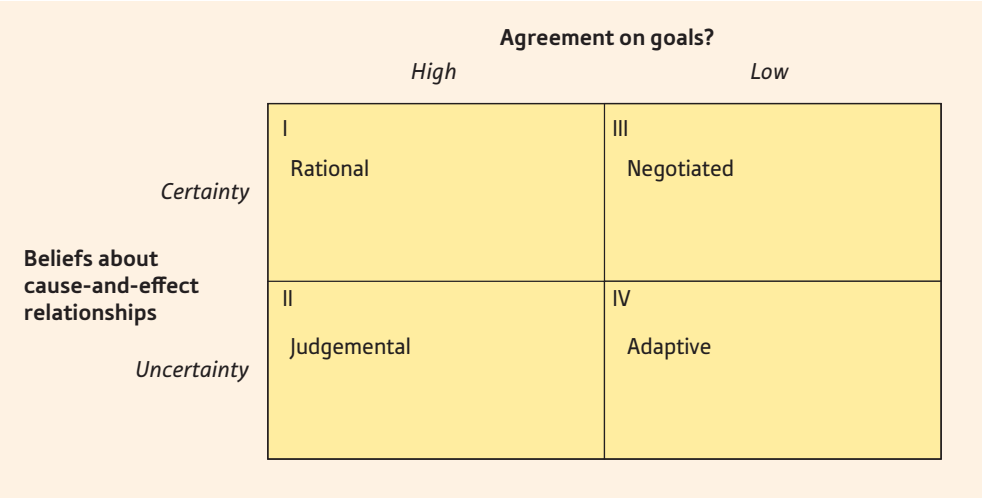


Figure 6.6 Conditions favouring different decision processes

Source: Based on Thompson (1967), p.134.

they can be. We cannot comprehend all the options, so select from what is available. We decide by **satisficing** – choosing the first solution that is 'good enough'. Searching for other options may produce a better return but identifying and evaluating them would cost more than the benefits.

Satisficing is the acceptance by decision makers of the first solution that is 'good enough'.

Klein (1997) studied how effective decision makers work, including those under extreme pressure like surgeons, fire fighters and nurses. He found they rarely used rational models to weigh the options: instead they used pattern recognition to relate the situation to their experience. They acted on intuition – a non-conscious mental process of basing decisions on experience and accumulated judgement – sometimes called 'tacit knowledge'. Klein concluded that effective decision makers use their intuition as much as formal processes – perhaps using both as the situation demands. Experienced managers act quickly on what seems like very little information – they rely on judgement. Hodgkinson et al. (2009) quote the co-founder of Sony, Akio Mariata, the driving force behind one of the great innovations of the twentieth century:

> Creativity requires something more than the processing of information. It requires human thought, spontaneous intuition and a lot of courage (p.278).

They stress that intuition is not the same as instinct (autonomous reflex actions or inherited behaviour patterns), nor is it a random process of guessing. This text includes it within the judgemental group.

Negotiated

The **negotiated model** examines how people make decisions when people disagree over goals and how to pursue them (Pfeffer, 1992a; Buchanan and Badham, 1999). It recognises that while an organisation is a working system, it is also a political system that establishes the relative power of people and functions. A decision will enhance the power of some and limit that of others. People pursue goals supporting personal and sub-unit interests, as well as those of the organisation, evaluating a decision in terms of its likely effects on these interests.

Negotiation models reflect the view that an organisation consists of groups with different interests, goals and values which affect how they act.

They will often support their position by building a coalition with those who share their interest. This gives others the opportunity to contribute their ideas and enhances their commitment if the decision is adopted. Encouraging participation with employees and consulting widely on the decision is part of this 'negotiated' approach.

Adaptive

The **adaptive approach** takes its name from work by Mintzberg (1994) who identified this as part of the way in which many strategies develop. There is more on his work in Chapter 8: he found that intended strategies were often not implemented, but also that some unintended actions evolved ('emerge') into significant parts of an organisation's strategy. Mintzberg noted:

People use an **adaptive approach** of decision making when they are uncertain about the consequences. They search for a limited range of options, and policy unfolds from a series of cumulative small decisions.

> the real world inevitably involves some thinking ahead of time as well as some adaptation en route (p.26).

It also draws from work by Cohen et al. (1972) who suggested that decisions are made when four independent streams of activities meet – usually by chance: opportunities (typically a meeting, but also chance encounters), participants who can decide, problems that people recognise, and potential solutions – ideas and information that people continually generate. In this view, the choice opportunities (scheduled meetings and chance encounters) provide the setting in which participants, problems and solutions come together. One combination of the three may be such that enough participants are interested in a solution that they can match to a problem – and take a decision accordingly. Another group of participants may not have made those connections, so would not have reached that decision.

Table 6.2 Four theories of making decisions

Features	Rational	Judgemental	Negotiated	Adaptive
Clarity of problem and goal	Clear problem and goals	Vague problems and goals	Conflict over goals	Goals and solutions independent
Degree of certainty	High degree of certainty	High degree of uncertainty	Uncertainty and/or conflict	Ambiguity
Available information on costs and benefits	Much information about costs and benefits	Little information about costs and benefits of alternatives	Conflicting views about costs and benefits of alternatives	Costs and benefits unconnected at start
Method of choice	Rational choice to maximise benefit	Satisficing choice – good enough	Choice by bargaining amongst players	Choice by accidental merging of streams
Outcomes	Plans made before action	Initial direction with limited information may be supported as action provides information	May be left vague to secure support; adjustment and compromise	Not all plans realised; some unplanned actions succeed

Table 6.2 summarises these theories: they are complementary in that a skillful manager will use all of them, depending on the context. A new product idea may emerge from an adaptive process – but someone needs to build a rational case to persuade the board to invest in it.

Activity 6.4 Decide which approach to making decisions is most suitable

Here are some decisions that Virgin (see Part Case) has faced:

- What fare structure to set for the unregulated services it operates (where it is free to set fares without involving the rail regulator).
- Whether to bid to retain its railway franchise to run the UK West Coast Main Line.
- Whether to bid for about 300 branches that the EU required RBS to sell.
- Whether to order further airliners for Virgin Atlantic.

In each case, decide which of the four theories about making decisions best describe the situation, and explain why. Compare your answers with colleagues on your course, and prepare a short report summarising your conclusions.

6.6 Biases in making decisions

Heuristics Simple rules or mental short cuts that simplify making decisions.

Since people have a limited capacity to process information they use **heuristics** – simple rules, or shortcuts, that help us to overcome this constraint (Khaneman and Tversky, 1974). While they help us to make decisions, we may also allow one or more 'biases' to shape our choice. There is no reason why a 'bias-free' decision is morally superior to any

other sort – life does not have to follow rational criteria. Perhaps the main risk is that the biases are unconscious, and so may or may not be in our best interests. Being open to potentially unconscious sources of bias alerts us to them, and may help us avoid them if we wish.

Prior hypothesis bias

People who have strong prior beliefs about the relationship between two alternatives base their decisions on those beliefs, even when they receive evidence that their beliefs are wrong. This is the **prior hypothesis bias**, which is strengthened by paying more attention to information that supports their beliefs, and ignoring what is inconsistent.

Prior hypothesis bias results from a tendency to base decisions on strong prior beliefs, even if the evidence shows that they are wrong.

Representativeness bias

This is the tendency to generalise from a small sample or a single episode, and to ignore other relevant information. Examples of this **representativeness bias** are:

- predicting the success of a new product on the basis of an earlier success
- appointing someone with a certain type of experience because a previous successful appointment had a similar background.

Representativeness bias results from a tendency to generalise inappropriately from a small sample or a single vivid event.

Case study

IKEA – the case continues www.ikea.com

Managers in IKEA have placed great emphasis on developing a strong culture, transmitting this to new employees and reinforcing it for existing ones. They believe that if co-workers develop a strong sense of shared meaning of the IKEA concept, they deliver good service wherever they work (Edvardsson and Enquist (2002)):

> **The strong culture in IKEA can give IKEA an image as a religion. In this aspect the *Testament of a Furniture Dealer* [written by Kamprad and given to all co-workers] is the holy script. The preface reads:**
>
> **Once and for all we have decided to side with the many. What is good for our customers is also good for us in the long run.**

During 2018 the company announced several significant strategic decisions, to reflect changes in consumer preferences. Sales had grown by only two per cent in the previous year, against seven per cent the year before. The new chief executive, Jesper Brodin, (with IKEA since 1995):

> **More than ever, we are exploring. Before you could test a concept [in private] and then just roll it out. Now we are going to test and try. Augmented and virtual reality are things we are curious about. It offers people a chance to see how this product will work for 'me'.**

Mr Brodin is clear that IKEA no longer has the luxury of time. Its previous strategies were for five years, with targets often set for a decade later.

> **We are creating a new IKEA in three years. We have decided to be more ambitious than ever when it comes to growth.**

More, especially young, customers are shopping online, so Mr Brodin is trying to change IKEA quickly:

> **[We want] by 2021 to be able to deliver to your home at an affordable price, whatever you want.**

The company:

- is rolling out a new IT backbone for its ecommerce operations, hoping to double online sales from 5 to 10 per cent
- has bought TaskRabbit, a pioneer of the gig economy, that lets people pay for odd jobs, including assembling IKEA furniture

- is experimenting with city centre stores and specific customer groups: it is testing kitchen showrooms in Stockholm and London
- is turning some of its huge out-of-town stores into distribution centres to deliver goods to customers.

Industry observers welcomed the new approach, but noted that it depended on management commitment throughout the business. Mr Brodin is aware of the risks:

> **IKEA has grown too fast in central resources. We want to spend less time planning, and more time doing.**

FT Sources: Edvardsson and Enquist (2002); *Financial Times*, 17 April 2018, p.15, 11 October 2018, p.14.

Case questions 6.3

- How might the culture described here, and in the first instalment of the case study, affect decision-making processes in IKEA? How may it affect reaction to the changes now proposed?
- The company was slow to promote online shopping, and is now trying to catch up. What assumptions about (a) the company and (b) its customers may have prompted this decision?

Illusion of control

The illusion of control is a source of bias resulting from the tendency to overestimate one's ability to control activities and events.

The **illusion of control** is the human tendency to overestimate our ability to control activities and events. Those in senior positions with a record of success overestimate their chances of future success. The Part 4 Case on Royal Bank of Scotland shows how several profitable acquisitions encouraged Fred Goodwin to bid for ABN-Amro Bank. Some questioned the value of the deal anyway, but a wider financial crisis (beyond Goodwin's control) ensured that it became a major cause of the RBS collapse.

Escalating commitment

Escalating commitment is a bias that leads to increased commitment to a previous decision despite evidence that it may have been wrong.

Managers may also fall into the trap of **escalating commitment**, which happens when they decide to increase their commitment to a previous decision despite evidence that it may have been wrong (Drummond, 1996 – see companion website). People are reluctant to admit mistakes, and rather than search for a new solution, they increase their commitment to the original decision.

CWS A study of escalation

Emotional attachment

Finkelstein et al. (2009) note that emotional attachments influence our outlook, and our decisions. They are to:

- family and friends
- communities and colleagues
- objects – things and places that have meaning for us.

These attachments (negative or positive) bring us meaning and happiness and are bound to influence our decisions. Most of the effects are insignificant, but sometimes a manager's emotional attachments can lead them to make bad business decisions. They

give examples such as Samsung's disastrous investment in car manufacturing (widely opposed as a poor use of resources, but initiated and supported by a chairman who liked cars); and the chairman who justified the retention of a small and unprofitable design consultancy because:

> I like it! It's exciting. I enjoy it … So I'm keeping it! (Finkelstein et al. 2009, p.87).

Key ideas **Daniel Kahneman and the danger of biases**

Nobel Prize-winning psychologist Daniel Kahneman has demonstrated the effects of cognitive biases on decisions, such as basing them on assumptions that are no longer relevant, or seeking information that confirms our established opinions. In his book *Thinking, Fast and Slow,* Professor Kahneman advises managers to create a form of quality control round important decisions to avoid the negative effect of these biases, as well as of self-interest and political considerations. The goal is to liberate decision makers from wrong-headed bias, mistaken analogies and emotional attachment. Since human judgement is flawed, he aims to limit its worst consequences.

Source: Kahneman (2011).

Activity 6.5 **Examples of bias**

- Try to identify one example of each bias that you have experienced in your everyday discussions with friends, family or colleagues.
- What (be specific) did they (or you) say that led you to label it as being of that type?
- Compare your results, and try to identify a clear example of each bias.

CWS Making decisions in groups

6.7 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 6.3 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and what variables they assumed would help them achieve them) and about process (how they went about gaining the support of other stakeholders). *These are examples only – not a comprehensive analysis*. You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *Outline the rational approach to making decisions and give examples of situations in which it will be most suitable. One or more of several biases are believed to affect decision making: what, if anything, does that imply for those using rational methods?*

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 6.3 'Clear thinking' questions about practice and theory

Clear thinking elements	From the Chapter Case study – creating a 'New IKEA' (Section 6.6)	Theory – a question on rational approaches to making decisions, and the role of bias
Check assumptions (task and process)	**Introduction** Built success on large stores, and resisted online selling. That is rapidly changing Assumptions may be that: **Task** • The 'IKEA experience' will translate from stores to website • Online shopping will generate more sales than stores • Redundant stores (or parts of) will not be a financial burden for long **Process** • 'Test and try' method of introducing change will work • Speed of change will be accepted	**Introduction** Outline features of the approach, and conditions in which it is most useful (Section 6.5) Also outline several of the sources of bias – possibly selecting two or three you think most significant (Section 6.6) Assumptions behind the theory could include: **Task** • Rationality inherently more valid than other values • Stakeholders agree on the goals of the issue • Data about alternatives is of good quality and accepted by all parties as unbiased • Staff have properly considered other feasible options **Processes** • That those making the decision are free from bias and have no other interests in the topic or its promoters. • How valid are these, and other, assumptions likely to be?
Recognise contexts	Will IKEA's strong culture be a significant contextual influence on 'New IKEA'? • Consumer shift towards renting, away from owning • Trend towards online shopping – do countries vary in accepting this? • Ongoing costs of store estate	Some participants may suffer from bias – such as illusion of control Which contexts suit the method? Confident that those views are unbiased? Do all involved interpret contexts in that way, or is there potential disagreement? Can bias shape data and the weight given to a factor?

Clear thinking elements	From the Chapter Case study – creating a 'New IKEA' (Section 6.6)	Theory – a question on rational approaches to making decisions, and the role of bias
Imagine alternatives	Develop logistical capacity to use redundant store space to make third-party deliveries (see Chapter 18 Case study – Amazon)	Not all aspects of a big decision or project have the same features – some aspects may be open to judgemental or inspirational methods Judgemental approach may be less risky in some contexts (see Part 6 Case, and the description of how Tesco developed Clubcard)
Limitations	Will speed of implementing activate cultural resistance? Resources to manage transformation?	Biases may affect interpretation of contexts: • In some cases (see Shell's Brent decommissioning analysis of how to remove superstructure), it is the most suitable approach • In more ambiguous situations, is it inherently superior to other methods? Bias can influence apparently rational approaches in the choice of data, criteria, points of comparison, etc. • Some biases (family, place etc.) represent legitimate alternative values to those underlying the rational approach; 'quality of decision' is not always judged on rational criteria

Skill

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of setting success criteria.

Develop a skill: setting success criteria

Ensuring that when involved in a project we set suitable criteria to measure the success of the project is a valuable skill that can be applied to small tasks as well as large ones.

- **Assessment.** Assess how consciously you seek to measure the success of tasks and projects you take on. Do you, for example, prefer to act quickly to find a solution, rather than spend time thinking about the goals of what you are doing? Do you accept the immediate goal and focus on meeting that? Or do you prefer to spend time finding other goals that the project might also meet, and that would increase value even more?
- **Learning.** Read Section 6.2 again, especially Table 6.1. Summarise the main points made in this section. Also read Section 7.5, especially the piece on page 179 about 'Criteria for assessing goals'. Why is knowing about these ideas expected to help managers in their work?

- **Analysis.** Read the IKEA case, noting particularly what it says about international expansion, and especially any references to India. Note any goals or objectives that the company mentions in these reports, and relate the IKEA story to Table 6.1.
- **Practice.** For each of the four types of goal, suggest two success criteria that could help IKEA add more value if they were able to meet them.

  Compare your answer with other people in your class, and add new ones to your list

  Reflect on what you have learned about the variety of measures of success.
- **Application.** Decide on another opportunity to practise this skill within the next week.

Summary

1 Outline the (iterative) steps in making decisions

- Decisions are choices about how to act in relation to organisational inputs, outputs and transformation processes. The chapter outlined the iterative steps of setting goals, organising what has to be done, acting to implement decision and monitoring results.
- Most decisions affect other interests, whose response will be affected by how the decision process is conducted, in matters such as participation and communication.

2 Explain, and give examples of, programmed and non-programmed decisions

- Programmed decisions deal with familiar issues within existing policy – recruitment, minor capital expenditure, small price changes.
- Non-programmed decisions move the business in a new direction – new markets, mergers, a major investment decision.

3 Distinguish generic contexts of decisions – certainty, risk, uncertainty, ambiguity and dependence

- **Certainty:** decision makers have all the information they need, especially the costs and benefits of each alternative action.
- **Risk:** where the decision maker can estimate the likelihood of the alternative outcomes. These are still subject to chance, but decision makers have enough information to estimate probabilities.
- **Uncertainty:** when people know what they wish to achieve, but information about alternatives and future events is incomplete. They cannot be clear about alternatives or estimate their risk.
- **Ambiguity:** when people are unsure about their objectives and about the relation between cause and effect.
- **Dependence:** when a decision affects, and is affected by, decisions by others around the organisation.

4 Outline a theory about the processes of making decisions – rational, judgemental, negotiated and adaptive

- Rational models are based on economic assumptions that suggest that managers maximise economic returns by making decisions on economically rational criteria.
- Judgemental models describe how managers make decisions in situations of uncertainty and ambiguity. Many problems are unstructured and not suitable for computational methods.

- The negotiated model focuses on uncertain conditions, limited information and disagreement over goals and processes. People resolve this by negotiation and consultation.
- The adaptive model refers to situations where significant changes arise from unplanned events, and (sometimes) chance encounters of participants, problems and solutions.

5 **Give examples of common sources of bias in decisions**

- Sources of bias stem from the use of heuristics – mental shortcuts that allow us to cope with excessive information. Five biases are mentioned here:
  - Representativeness – inadequate samples or single incidents.
  - Prior hypothesis – prior beliefs, despite contrary evidence.
  - Illusion of control – excessive belief in one's ability.
  - Escalating commitment – retaining faith despite evidence of failure.
  - Emotional attachment – to people and things that are threatened.

6 **Think clearly to evaluate these management practices and theories, and as you begin to develop your skills of setting success criteria**

- Setting success criteria for a task or decision is a widely-useful management skill, and the chapter has provided an opportunity to develop this.
- The skill of setting success criteria assumes a reasonable degree of agreement and common purpose, and may be difficult to apply when that is lacking – people can become defensive. If the context is highly uncertain, there may also be resistance to the idea. An alternative, less threatening approach is to ask people to 'visualise' the end-result – 'what will it look like when we are finished?': this is a less challenging way of expressing an objective clearly.

Test your understanding

1 List three decisions you have recently observed or taken part in. Which of them were programmed, and which non-programmed?

2 How does the type of decision tend to vary with a person's level in the organisation?

3 Paul Nutt noted the difference between 'idea imposition' and 'idea discovery'. What are the main features of 'idea discovery'?

4 Explain the difference between risk and ambiguity.

5 What are the differences between the rational and judgemental models?

6 What does 'satisficing' mean? Can you illustrate the concept with an example from your experience? Why did those involved not try to achieve an economically superior decision?

7 List and explain three common biases in making decisions.

Read more

Adair, J. (2019) *Decision Making and Problem Solving: Break Through Barriers and Banish Uncertainty at Work*, fourth edition, Kogan Page, London.

Practical guidance from one of the leading writers on leadership.

Heath, C. and Heath, D. (2012) *Decisive: How to Make Better Choices in Life and Work*, Penguin Random House, London.

The authors show convincingly how frequently people make bad decisions, explain their common causes, and so how to avoid them – not only in management, but throughout life.

Finkelstein, S., Whitehead, J. and Campbell, A. (2009) 'How inappropriate attachments can drive good leaders to make bad decisions', *Organizational Dynamics*, vol. 38, no. 2, pp.83–92.

Revealing insights into this source of bias in decision making.

Harvey, J.B. (1988) 'The Abilene Paradox: The management of agreement', *Organizational Dynamics*, vol. 17, no. 1, pp.17–43.

First published in the same journal in 1974, this reprint also includes an epilogue by Harvey, and further commentaries on this classic paper by other management writers.

Hodgson, J. and Drummond, H. (2009) 'Learning from fiasco: what causes decision error and how to avoid it', *Journal of General Management,* vol. 35, no. 2, pp.81–92.

An accessible account of the topic that draws on the authors' extensive knowledge of, and research into, the hazards of making decisions in organisations.

Go online

These websites have appeared in the chapter:

www.ikea.com
www.wellcome.org.uk
www.mcdonalds.co.uk
www.whitbread.co.uk
www.shell.com
www.nationwide.co.uk
www.inamo-restaurant.com

Visit two of the business sites in the list, or any other company that interests you, and navigate to the pages dealing with recent news or investor relations.

- What examples of decisions which the company has recently had to take can you find?
- How would you classify those decisions in terms of the models in this chapter?
- Gather information from media websites (such as www.FT.com) that relate to the companies you have chosen. What stories can you find that indicate something about the decisions the companies have faced, and what the outcomes have been?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



CHAPTER 7
PLANNING

Aim

To introduce the tasks, processes and contexts of planning in management

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the terms below in your words and:

1. Explain five iterative tasks in planning, why people plan, and the types of plan they make
2. Outline common techniques to gather information
3. Explain the significance of setting goals, and how they can affect motivation
4. Use a model to help ensure the content of a plan is sufficiently comprehensive
5. Be aware that identifiable processes affect the outcome of planning (CW)
6. Show how context affects the ability of managers to implement and monitor a plan
7. Think clearly to evaluate these management practices and theories and as you begin to further develop your skills of planning how to use your time

Key terms

This chapter introduces these terms:

planning
goal (or objective)
strategic plan
strategic business unit
business plan
operational plans
activity plans
SWOT analysis
critical success factor
optimism bias
strategic misrepresentation bias
sensitivity analysis
stated goal
real goal
organisational readiness
time management

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

Scenario planning
Goal-setting theory
Planning processes, including rational and creative approaches

Case study

Crossrail builds the Elizabeth Line www.crossrail.co.uk

Crossrail was the company created to build what is now called the Elizabeth Line, a new railway for London and South-East England. It connects the City, Canary Wharf, the West End and Heathrow Airport to commuter areas east and west of the capital. The line is expected to:

- relieve congestion on some Underground and rail lines
- provide new connections and services on modern trains
- provide eight new stations in Central London.

It adds 10 per cent to London's transport capacity and provides 40 per cent of the extra rail capacity London is expected to need. Main construction of the railway began in 2010, with services (now) planned to begin in 2019. The Elizabeth Line uses main line trains, each carrying more than 1500 passengers.

It is the largest single addition to the London transport network for over 50 years, running from Maidenhead and Heathrow in the west to Shenfield and Abbey Wood in the east, joining the Great Western and Great Eastern railway networks. These networks have long-established signalling systems, as does the existing line to Heathrow; 21km of the route runs through new Central Tunnels beneath London.

The project was proposed in 1990, but after strong opposition was cancelled in 1996. Supporters, especially national and London business groups, continued to advocate the line as a contribution to London's transport, and eventually gained sufficient political support. Parliament passed the Crossrail Act in July 2008 giving authority to build the railway, and in December of that year the Government and the Mayor of London signed funding agreements.

It depended on cooperation amongst many organisations including Crossrail Central, London Underground, Network Rail, Docklands Light Railway, Canary Wharf Group and Berkeley Homes. Major construction tasks included:

- using eight tunnelling drives to bore the tunnels under Central London
- shipping 7 million tons of excavated material to Wallasea Island in Essex to form a nature reserve



© Chrispictures/Shutterstock

- building eight Underground stations to connect with the Underground and rail network
- building four overground lines from the central section, including one to Heathrow Airport.

The Central Tunnel crosses above the Jubilee Line and below the Central and Circle Lines, weaving around buried utilities and deep building foundations. The Chairman of Crossrail:

> **It's a huge engineering challenge to protect the assets around us. St Paul's Cathedral, for instance, has no foundations. But the Gherkin has very deep foundations, to precisely the depth at which we want to tunnel (*Financial Times*, 25 June 2013, p.3).**

In early 2018, most work on constructing the new stations and track was complete, and the trains were nearly ready. Work continued on fitting out the stations and on signalling.

Sources: Company website; *Financial Times*, 25 June 2013, p.3.

Case questions 7.1

Visit the Crossrail website.

- What are the main items of recent news about the Elizabeth Line?
- What were the most significant tasks and processes with which those managing the project had to deal?
- What contextual factors would you expect to have been most troublesome?

7.1 Introduction

Managing involves performing countless activities to transform resources into something of value. A sales rep meeting a potential customer; three engineers designing a plastic-free package; the heads of two clinical divisions considering a project to redesign a hospital A&E unit. These are glimpses of an enterprise at work, most as part of the regular flow of events, some as a distinct one-off project. The specific issues are unique to their situation, but they have one thing in common: they will all, however informally, involve people in 'planning'.

Planning sets out the overall direction of a piece of work, large or small, and wherever it is within the enterprise: some plan for the future of the enterprise, others plan how to reorganise their function, others plan how to finish their piece of work on time. In varying degrees, people are looking ahead, assessing resources, setting goals. They are deciding on the scope of the activity, the areas of work in which to engage, and how to allocate time and resources. It also means putting ideas into practice and agreeing how to monitor results to ensure work meets the goals and adds value. When planning, people perform identifiable tasks and processes, within a context.

Crossrail is an example of a major project in which managers and staff dealt with an infinite number of problems – before, during and after construction. Those charged with delivering the project plan how best to overcome these problems. From the early political processes to secure support from many interested parties (Glaister and Travers, 2001) – some in favour, some against – then raising capital and securing public consent, managers were continually developing, revising and implementing the detailed plans required to drive a railway beneath the centre of London. They also had to plan how to work with clients, main contractors and sub-contractors to ensure sure that the hundreds of firms working on the project had the right staff and equipment in place. The case study shows that while detailed planning is essential in that context, unexpected events will intervene.

A plan is usually a distinct written entity setting out how a person or unit will achieve a goal. It records decisions people made about how to allocate and manage available resources.

Figure 7.1 shows five generic elements in planning. In daily tasks people go through these without much thought: larger tasks will need deliberate attention as they:

- think about their goals, the resources they need, the scope of the work (*setting goals*)
- allocate people and resources to tasks, and set time limits (*organising*)
- act to implement the plan, produce the deliverables (*acting and leading*)
- monitor progress against the plan, and adjust as needed (*controlling*).

The Figure also shows that *gathering information* (and disseminating it) links the elements together throughout the (iterative) cycle.

Informal, unwritten plans work perfectly well in many situations – individuals planning their regular work, a familiar group arranging an event and so on. As more people become involved, and the distances between them increase, some form of written record enables the widening range of tasks and people to work together productively. When two entrepreneurs decided to create the City Inn hotel chain they planned in detail the kind of hotels they would be – contemporary, city centre, newly built, and an 'active and open' atmosphere. They communicated their plans to ensure the builders worked to the goals.

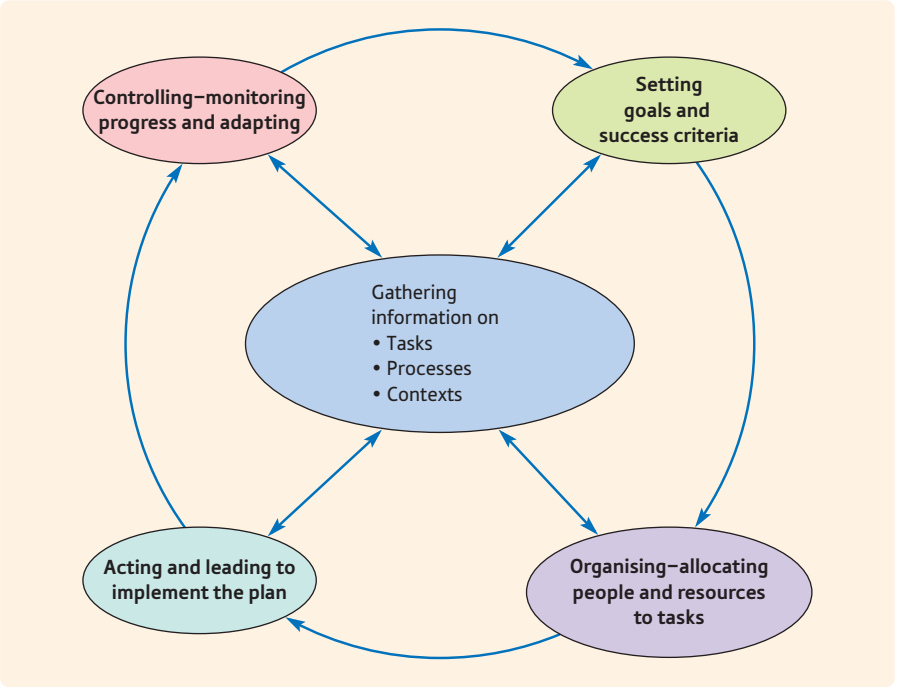


Figure 7.1 Five generic elements in planning

The content of the plan is shaped as people decide the elements in Figure 7.1: they do so iteratively, reconsidering an earlier stage when action brings new information that suggests a change of plan. Those responsible also decide their processes – how they will work together to develop and implement the plan: there are many (sometimes unconventional) ways to do this, so it is a significant choice. These processes will shape the quality of the plan, and how easy it is to implement. The Companion website contains more on planning processes.

Figure 7.2 provides an overview of the chapter. At the centre are the generic elements in planning. The chapter outlines why people plan, the content of plans (tasks) for which they plan and how they plan (process) – all of which goes on within their context. The practical skill you can begin to develop here is how to plan your time.

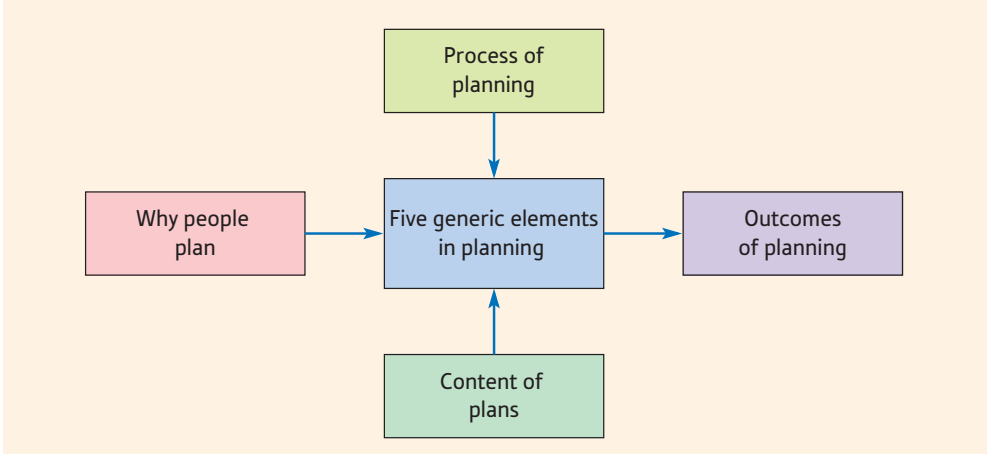


Figure 7.2 An overview of the chapter

7.2 Why people plan

Planning is the iterative task of setting goals, specifying how to achieve them, acting on the plan and monitoring results.

A **goal** (or **objective**) is a desired future state for an activity or organisational unit.

A planner is an individual contemplating future actions: the activity of **planning** involves thinking and acting to gather relevant information about the task and its context. It requires deciding which **goals** (or **objectives**) to set, which have priority, and showing how to achieve them, including how to cope with distractions when time is limited. It involves implementing the plan and monitoring results. Goals are the desired future state of an activity or unit: achieving the end requires deciding the means – what needs to be done, by when, and by whom?

A plan, if done well:

- clarifies direction, so that people give attention and effort to the right tasks
- motivates people, by letting them see where their work fits into the whole
- uses resources efficiently by estimating the likely duration of tasks
- increases control, by enabling people to protect their task from interference and to measure progress against targets.

Good plans give focus to work by enabling all to know the larger purpose and how their work contributes to it. When people know the end result (the big picture) they can respond intelligently to change, act independently, see their contribution, take more responsibility. People who need others to invest in their business prepare a plan to convince them that they can reasonably expect a good return. Social enterprises do this as much as commercial ones. Barraket et al. (2016) show that gaining legitimacy with potential investors was the driving force for planning by social enterprises. The government agencies upon whom they depended for some income required a convincing business plan before they would commit public money.

Management in practice

Maersk – planning key to strategy www.maersk.com

The shipping company Maersk depends on planning. Mark Cornwall, Operations Manager, explains:

Maersk operates 470 container ships with 1.9 million individual containers that are all travelling around the world, and our job is to build efficiencies into the system – moving the cargo to the customer on time.

Part of our strategy is to deliver unmatched reliability, and operations is key to that. From the top of the company right down to the clerks on the desk, everybody's focussed on meeting deadlines and the requirements of the customer every step of the way. Whether it's a ship arriving in a port on time, or a container loading on a ship on time, or a truck delivery to a warehouse, everybody's focussed all the way through the chain on making sure that everything happens against the deadline as planned.

Efficiency's all about making the best use of your assets, so whether it's putting as many containers as possible on a ship, or maximising your utilisation of a particular train, or getting as many miles out of a truck as you can during a shift, it's all about planning your assets to get the biggest use out of them during that period.

In 2018 the company pledged to cut carbon emissions to zero by 2050, challenging an industry that is one of the biggest polluters to produce radical solutions in the next decade. It needs its entire supply chain, from engine makers and shipbuilders to new technology providers to come up with a plan for carbon free ships by 2030 to meet the goal.

FT Sources: Interview with Mark Cornwall; *Financial Times*, 5 December 2018, p.16.

The content of a plan is the subject – *what* aspect of business it deals with: strategic, business unit, operational, tactical. The next section deals with those topics, and Section 7.4 on *how* – the problem-solving processes which lead to the plan.

7.3 Types of plan

Strategic

Strategic plans apply to the whole organisation. Strategy is concerned with deciding what business an organisation should be in and how to get there. These decisions involve major resource commitments and usually require convincing plans showing how managers will put the vision into effect. A large business will make plans for each major unit or function. If subsidiaries operate as autonomous **strategic business units (SBUs)** they develop largely independent plans.

A **strategic plan** sets out the overall direction for the business, is broad in scope and covers all the major activities.

A **strategic business unit** consists of closely related products for which it is meaningful to formulate a separate strategy.

Strategic plans usually set a direction for several years, though in businesses with long lead times (energy production or aircraft manufacture) they look perhaps 15 years ahead. In 2018, Volvo (www.volvo.com) published its plan to double sales and raise profit margins by 50 per cent by 2025 through expanding its subscription service and selling more cars to ride-hailing services. 50 per cent of the cars will be electric, 50 per cent for the subscription service and 30 per cent fully autonomous. Such plans are not fixed: managers update them to reflect new conditions, so they are sometimes called 'rolling plans'.

People starting a new enterprise set out their strategy in the form of a **business plan** – a document showing the markets the business will serve, how it will do so and what finance they require (Sahlman, 1997; Blackwell, 2008). Table 7.1 summarises the likely contents of the business plan an entrepreneur would prepare for potential investors. It does so in considerable detail to reassure potential investors.

A **business plan** is a document describing the markets or users a business intends to serve, how it will do so and what finance they require.

Operational

Operational plans detail how managers will achieve their strategy, showing what each department or function will do. Managers seeking capital investment or other corporate resources need to convince senior managers – so they aim to make a credible plan. Public sector managers do the same – a director of roads (for example) needs to present a plan to convince the chief executive

Operational plans detail how the overall objectives are to be achieved, by specifying what senior management expects from specific departments or functions.

Table 7.1 Likely contents of an entrepreneurial plan

1 Executive summary	7 Design and development – development tasks and likely costs; challenges and risks
2 Industry analysis – size, growth rate and sales forecasts; key success factors; prospects	8 Operations plan – general approach; business location; facilities and equipment
3 Company description – mission, products, legal status and ownership	9 Management team – members and skills profile; advisers, company structure
4 Market analysis – market, target segment, buyer behaviour, competitor analysis	10 Overall schedule – milestones and key events in sections 4 to 9
5 Economics – revenue sources and profit margins, fixed and variable costs	11 Financial projections – sources and uses of funds, likely income, cash flow for several years
6 Market plan – products, price, promotion, sales tactics	

Source: Based on Barringer and Ireland (2016), p.212.

or elected members that investing in roads will be a good use of resources – knowing that (say) the director of social services will present a competing plan. Service managers inevitably compete with each other for limited resources, and develop business plans to support their case.

Case study

Crossrail builds the Elizabeth Line - the case continues

An article in *Civil Engineering* explained how a construction company and their client used unusual planning practices to increase the speed and reduce the cost of building Canary Wharf Station.

Crossrail had developed outline designs for every station, but this one was on land owned by Canary Wharf Group (CWG) – a property company that had developed 30 nearby sites. CWG offered to contribute £150 million towards the cost if it was given full responsibility for design and construction. Crossrail agreed and those managing the project claimed that:

- involving the designers (Arup) of the station and the client (CWG) in early discussions enabled significant improvements to the original plan – reducing the size of the station without any loss of function, and adding a retail outlet
- using CWG's local experience enabled radical innovations – such as changing the original Crossrail plan to fill in a dock before building the station; CWG believed this solution was costly and environmentally damaging so, using their knowledge of groundwater conditions, solved the problem in a way that avoided filling the dock and so cost less
- commissioning a trial of a new piling machine which provided valuable data about the time required for that work. The trial cost £250,000 but saved many times that during construction
- good communications between client and designers enabled them to adapt the design as work progressed, using the experience gained during implementation.

They claimed these arrangements reduced the cost of the station to 58 per cent of the original budget, and reduced construction time by one year.

Source: Yeow et al. (2012).

Case questions 7.2

This instalment shows a significant change to part of the content (or task) of the project.

- What changes in the project's processes did management make to enable the change in task?
- Which aspects of the context did they change?

Activity plans set out what a unit, work group or individual is expected to do to help achieve the goals of a larger plan.

Time management refers to the behaviours that aim to use time effectively while performing certain goal-directed activities.

Activity

Vodafone decided to open 150 new stores in the UK by 2018 as part of a £1 billion investment to improve retail services, itself part of a broader plan for the UK division. Within the plan for store locations there were many others about their layout, construction, staffing – becoming progressively more specific down to the work needed in each store. These are **activity plans**, showing in detail how the overall strategy will be delivered. Individuals often set plans for how they will complete a task – and for how they will use their time - see 'Key ideas' below.

Key ideas

Research on how to use time

'Time' is intangible, so no one can 'manage' it: we *can* manage how we use it. For brevity, this book uses the familiar, though inaccurate, term **time management**. Claessens et al. (2007) note that while many publications advocate 'time management' practices there are few empirical studies on whether they work. They reviewed those available, and defined time management as behaviours that aim [to use time effectively] while performing certain goal-directed activities (p.262). They identified time planning behaviours as setting goals, planning tasks, prioritising them, making 'to do' lists, and coping with interruptions. They found that the

(methodologically very diverse) studies suggested that some time planning practices (setting goals, setting priorities, coping with interruptions) had a positive effect on control of time, job satisfaction and reducing stress. They had no significant effect on performance.

The team then conducted an empirical study of daily task completion amongst 29 R&D engineers in a Dutch electronics firm, who completed a daily diary on their use of time (Claessens et al. 2010). This measured the effect of time management practices and other variables – task attributes (urgency); job characteristics (autonomy); and conscientiousness, on daily task completion. This showed that both time management practices and time management training had a positive effect on daily task completion.

Parke et al. (2018) show (in a study of almost 200 full-time employees) that Time Management Planning (TMP) – making a daily list of tasks, prioritising and scheduling them, and deciding how much time to spend on each – increased employees' engagement and performance. This effect was even stronger when they also made Contingency Plans (CP) – making a plan flexible to cover unforeseen circumstances and interruptions.

Sources: Claessens et al. (2007, 2010); Parke et al. (2018).

Activity 7.1 Planning how to use your time

- Use the 'Key ideas' feature to plan your time for a day.
- Make a Time Management Plan (TMP) and a Contingency Plan (CP) for your chosen day (using the items in the 'Key ideas').
- Follow your plan as best you can.
- Reflect on the results, and consider how you may use this method again.

Table 7.2 compares features of each type of plan.

Other

Larger organisations usually prepare *annual plans* which focus on finance and set budgets for the coming year – these necessarily include sales, marketing, production or technology plans as well. *Standing plans* specify how to deal with routine, recurring issues like recruitment or customer complaints. Wise managers plan to deal with unexpected disasters such as product failures, accidents and explosions. Organisations have plans to counter cyber crime, and in the event that hackers enter their systems they have a *recovery plan* – which includes how to be sure that people, months or years later, are able to use it.

Table 7.2 A planning hierarchy

Type of plan	Strategic	Operational	Activity
Level	Organisation or business unit	Division, department, function or market	Work unit, team or individual
Focus	Direction and strategy for whole organisation	Functional changes or market activities to support strategic plans	Actions needed to deliver products or services
Nature	Broad, general direction	Detail on required changes	Specific detail on immediate goals and tasks
Timescale	Long term (2–3 years?)	Medium (up to 18 months?)	Very short term (hours, days, weeks)

Management in practice — Shell plans to remove Brent structures — www.shell.co.uk

In 2015, Shell began to consult on its plan to decommission the UK's biggest oilfield – Brent, in the North Sea. The initial stage has been to remove and recycle the 'topside' of one of the four platforms on the Brent field. In 2017, engineers cut through the concrete legs supporting the 24,000 ton steel superstructure of the Brent Delta drilling rig and accommodation block. The *Pioneering Spirit* vessel set a world record when it lifted the entire structure onto a ship, which took it to the Able UK decommissioning yard in Teesside. Planning the operation had taken five years of engineering analysis, and two years preparing the structure for removal.

Earlier that year, Shell submitted its recommendations for de-commissioning the rest of the field to the UK Department for Business, Energy and Industrial Strategy. This included capping the 154 wells, removing scrap materials from the sea bed, and removing oil stored at the rig. It proposes to leave the concrete legs in position, as the risks to employees of removing them outweigh the environmental benefits. Shell believes that the plan will substantially reduce the risk, cost and environmental impact of the operation.

However, Greenpeace believes that Shell should take full responsibility for the waste it has generated and not leave anything on the seabed that it is possible for them to recover.

Source: Company website – search for Brent Field decommissioning.

Figure 7.3 contrasts *specific* and *directional* plans. Specific plans have clear, quantified objectives with little discretion in how to achieve them. When Tesco opens a new store, staff follow defined procedures detailing the tasks required to ensure it opens on time and within budget. Where there is uncertainty about what needs to be done, managers may use a directional plan, setting the objective, but leaving staff to decide how to get there. Ed Smith, the former England cricketer, recalls that his experience as a cricket captain taught him that too much planning could be harmful and it was better to trust his players to react to what they found on the field:

> 'The same is true in business: 'If you are committed to over-prescriptive, over-predictive ... courses of action then you are unable to react to [chance events] (*Financial Times*, 9 October 2012, p.14).

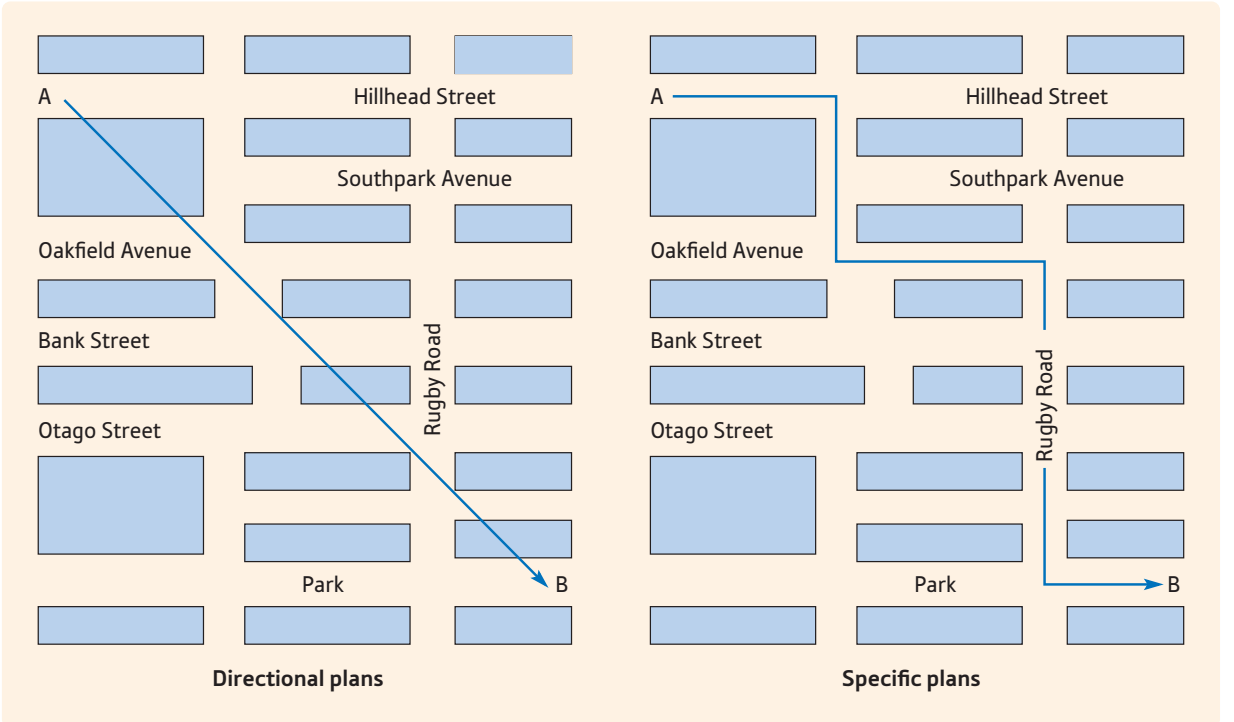


Figure 7.3 Specific and directional plans

Many of the later chapters discuss planning in relation to their respective topic, including Chapter 8 (Strategy), Chapter 9 (Marketing) and Chapter 18 (Managing change).

Activity 7.2 Learning from an example

Try to identify something you, or someone you know, did recently, for which you/they made at least a rough plan (a holiday trip, a visit, a job around the house).

- Write a sentence describing what it was about.
- Write two or three sentences describing the goals of the plan and whether (if it is complete) it achieved them, or not.
- How did aspects of the context affect the outcome(s)?
- What lessons can you learn about planning from what you have discussed and written?

7.4 Information for planning

Any plan depends on information – to create the plan and to monitor what happens in practice. It includes informal, soft information from casual encounters, and formal analyses of economic and market trends. This is a human, subjective process, and people often differ on the significance or reliability of information.

Competitive and general environments feature prominently in business plans. Public sources include official economic, social and industry statistics: companies also commission private surveys on market or other issues relevant to their context.

SWOT analysis

At a strategic level, planning usually combines internal analysis of strengths and weaknesses with external analysis of opportunities and threats – a **SWOT analysis**. Internally, managers look at the resources within, or available to, the organisation – staff, strong R&D. Weaknesses could include limited space for expansion. They probably base their external analysis on PESTEL and/or Porter's (1980) five forces model to identify relevant trends (Chapter 3 and companion website). Figure 7.4 shows a 2018 SWOT analysis for Games Workshop (www.games-workshop.com), who states its plan very clearly:

A **SWOT analysis** is a way of summarising the organisation's strengths and weaknesses relative to external opportunities and threats.

> We make the best fantasy miniatures in the world and sell them globally at a profit and we intend to do this for ever.

While the SWOT method appears rational, it is a human representation, so participants will differ about the weight of the factors: that debate may add value (Hodgkinson et al. 2006).

Given the diversity and complexity of organisational environments it is easy to have too much information, implying a need to focus on only the most significant trends and events. De Wit and Meyer (2010) found that planners at Royal Dutch Shell focused on critical

Activity 7.3 Conduct a SWOT analysis

Choose a company featured in the text (or another that interests you).

- Gather information from their website and other public data to prepare a SWOT analysis.
- Compare your analysis with that of a colleague on your course.
- Identify any differences between you in terms of the factors identified, and the significance given to them. What do they tell you about the assumptions and limitations of the method?



Strengths	Threats
• Loyal customer base • Powerful, unique branding twinned with product innovation • Strong overseas expansion	• Growing competition in the wider entertainment market as fashions shift away from physical games • Risk of lost revenue from 3D printing
Weaknesses	**Opportunities**
• Reliance on marketing a few core games which have existed for decades • Lack of independent governance • Weak sterling is at best a one-off boost	• Growing prowess in digital and online gaming • Increased royalties income • Potential for further expansion in Asia

Figure 7.4 A SWOT analysis for Games Workshop

Source: *Daily Telegraph*, 17 September 2018.

factors such as oil demand (economic), refining capacity (political and economic), the likelihood of government intervention (political) and alternative sources of fuel (technological).

Optimism bias refers to a human tendency to judge future events in a more positive light than is warranted by experience.

Strategic misrepresentation is where competition for resources leads planners to underestimate costs and overestimate benefits, to increase the likelihood that their project gains approval.

Forecasting

In stable environments people can reasonably assume that past trends will continue, but in uncertain ones they have to consider radical alternatives. Newspaper publishers face a difficult problem planning how much (if any) print capacity to retain as more readers obtain news online.

Forecasting is big business, with companies selling analyses to business and government, using techniques such as time-series analysis, econometric modelling and simulation. Some believe that uncertain conditions reduce the value of detailed forecasts, and forecasts in public projects are notoriously unreliable – see 'Key ideas' below. An alternative to forecasting is 'scenario planning' - of which there is more on the Companion website.

CWS More on scenario planning

Key ideas — The planning fallacy in large projects

Large infrastructure projects regularly cost more and deliver less than their promoters promised: Flyvbjerg (2008) shows that the average cost inaccuracy for rail projects is 44 per cent, for bridges and tunnels 34 per cent, and roads 20 per cent. He then draws on work by Lovallo and Kahneman (2003) which identified a systematic fallacy in planning, whereby people underestimate the costs, completion times and risks of planned actions, whereas they overestimate their benefits. This 'planning fallacy' has two sources:

- **optimism bias**: a human tendency to judge future events more positively than experience warrants
- **strategic misrepresentation**: where planners underestimate costs and overestimate benefits to make their proposal more attractive than competing ones.

These biases lead planners to take an 'inside view', focusing on the constituents of their plan, rather than an 'outside view' – guided by information about the outcomes of similar, completed, plans.

Source: Flyvbjerg (2008).

Sensitivity analysis

A **sensitivity analysis** tests the effect on a plan of several alternative values of the key variables.

One way to test assumptions is to make a **sensitivity analysis** of key variables in a plan. If this assumes a new product will gain (say) a 10 per cent market share within a year, a sensitivity analysis calculates what the effect on returns would be if they secure 5 per cent, or 15 per cent. What if interest rates rise, increasing the cost of financing the project? Planners can then compare the options and assess the risks. Johnson et al. (2014) give a worked example (pp.380–1).

7.5 Setting goals

A useful plan (whether in an annual planning cycle or a one-off project) depends on clarifying goals for the activity. This seems obvious, but managers favour action above planning, and can easily disagree over goals. Until they agree on these they will make little progress.

Goals

Goals give a task focus – what will we achieve, by when? Setting goals is difficult as people need to look beyond a relatively known present to an unknown future. Bond et al. (2008) asked people to set objectives for a personally-relevant task (finding a good job) – and they consistently omitted nearly half of the objectives they later identified as important when these were drawn to their attention. The researchers secured the same results in a software company.

Goals, with a set timetable in which to meet them, provide the reference point for other decisions, and the criteria against which to measure performance. At the business level they usually include quantified financial objectives – earnings per share, return on shareholders' funds and cash flow. The 'Management in practice' feature shows how one very small enterprise (the flowerfolk) sets out likely goals for the year ahead. Others use non-economic measures, such as employee satisfaction, involvement with a community, or environmental performance – see the 'Management in practice' feature on the companion website for an example.

CWS More on setting goals

Management in practice — The flower folk www.theflowerfolk.com

By 2018, Pip had built a successful floristry business in London, but as single parent with a young child she wanted to move to Newcastle to be closer to her family. She decided to wind up the London business and set up again as a sole trader in Newcastle (Chapter 13 includes the story of the London business).

Pip invested £50,000 of personal money in the Newcastle business. She spent £33,000 to buy a ten-year lease on the shop, and £17,000 on refurbishing, fixtures and fittings, buying stock, paying the initial quarterly rent (£4,750) which was due before the shop could open. She planned that in the first year she would pay herself a very small salary. She will live mainly off her savings, putting almost all revenue back into the business to:

- buy more stock
- pay for photoshoots to expand online sales
- marketing
- improve the workshop area.

She includes the last item in her plan as she knows that a traditional high street flower shop cannot survive on flower sales alone. She is diversifying into running regular floristry and creative workshops, while continuing with the mix of services she had built up in London – online sales, and floristry for weddings and events.

She expects that within two years of opening, 50 per cent of her revenue will come from these offerings, with the rest coming from the traditional walk-in customer. She will see which ideas are successful and profitable and expand on these. Forward budgeting is difficult and predicting cash flow at this stage is complex – probably the hardest aspect of running a small business, as stock to fill the shop is expensive.

Pip's achievement is built on the constant moral and practical support of family members – without her mum to help she would not have built the business to where it is now.

Sources: Private communication with the author; company website.

A hierarchy of goals

A way of relating goals to each other is to build them into a hierarchy, in which organisational goals are transformed into specific goals for functions like marketing or human resources. Managers in those areas develop plans defining what they must do to meet the overall goal. Figure 7.5 illustrates this in a hypothetical example when IKEA was planning to open stores in India – the first of which opened in Hyderabad in 2018. That evolved into a plan for their probable location, and then into a precise construction plan for the first four. Managers then developed progressively more detailed plans for the thousands of tasks needed to achieve the overall goal.

Plans like this need to be flexible to cope with changes in conditions between design and completion. Managers may be committed to achieving high-level goals – but leave staff to decide on intermediate goals that will meet them.

Effective goal setting (producing goals which guide action) involves balancing multiple goals, ensuring they are SMART, and evaluating how they affect motivation.

Single or multiple goals?

Stated goals are those that are prominent in company publications and websites.

Real goals are those to which people give most attention.

Statements of goals – whether long-term or short – are usually expressed in the plural, since a single measure cannot indicate success or failure. Emphasis on one goal, such as growth, ignores another, such as dividends, so practitioners usually balance multiple, possibly conflicting goals. This can lead to conflict between **stated goals**, as reflected in public announcements, and the **real goals** – those to which people give most attention. The latter reflect senior managers' priorities, expressed through what they say and how they reward and discipline managers.

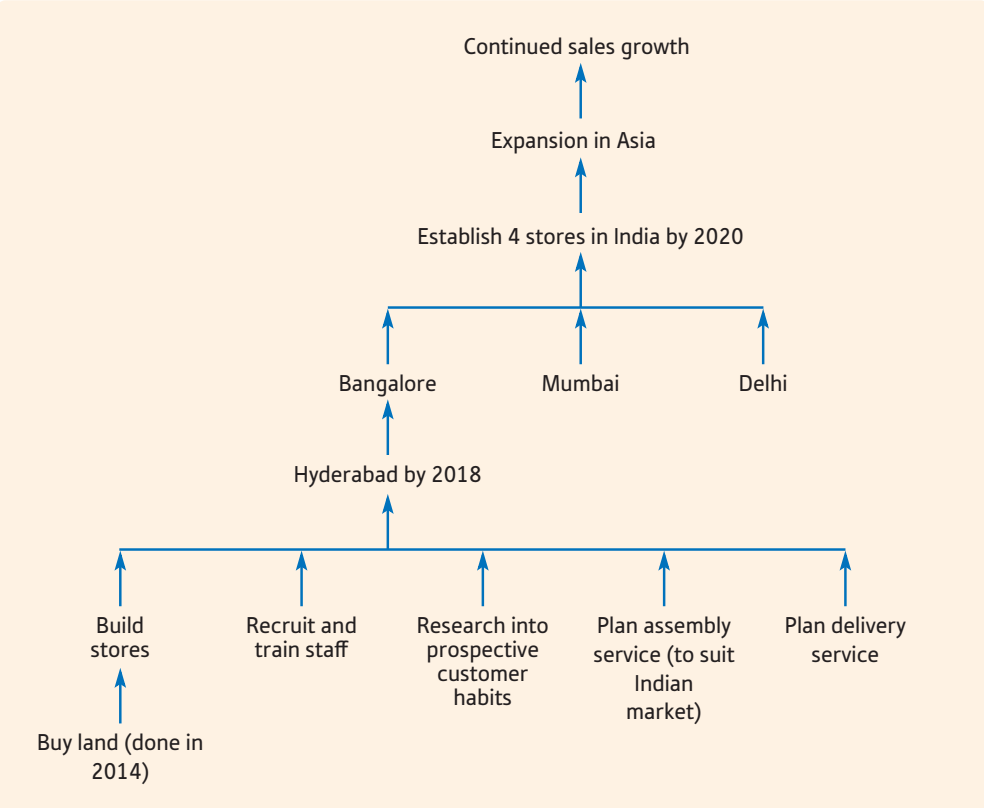


Figure 7.5 Developing a plan for IKEA (India)

Criteria for assessing goals

The SMART acronym summarises some criteria for assessing a set of goals though the form of each depends on circumstances.

- **Specific:** does the goal set specific targets? People who are planning a meeting can set specific goals for what they hope to achieve, such as:

  > By the end of the meeting we will have convinced them to withdraw their current proposal, and to have set a date (within the next two weeks) at which we will start to develop an alternative plan.

  A clear statement of what a meeting (or any other activity) should achieve helps to focus effort.
- **Measurable:** some goals may be quantified ('increase sales of product X by 5 per cent a year over the next three years') but others, equally important, are more qualitative ('to offer a congenial working environment'). In 2018, Volkswagen set managers the challenging target of achieving a 6 per cent profit margin in its passenger car division by 2022, up from a current margin of 4 per cent. Quantitative goals are not inherently more useful than qualitative ones – what can be measured is not necessarily most important. What matters is that people define goals precisely enough to measure progress.
- **Attainable:** goals should be challenging, but not unreasonably difficult, or so easy as to seem trivial. Goal setting theory (see 'Key ideas' in the Companion website) predicts the motivational effects of goals.
- **Rewarded:** if people know that if they attain a goal they will receive a reward they will be more committed.
- **Timed:** does the goal specify the time over which it will be achieved, and is that also a reasonable and acceptable standard?

Management in practice

Setting goals at Lloyds www.lloydsbankinggroup.com

In February 2018, Lloyds Banking Group set out a three-year strategic plan, promising that 2020 profits will be 25 per cent higher than observers expect – driven by a £3 billion digital investment plan and the expansion of its pensions, insurance and business lending activities. Chief executive Antonio Horta-Osario acknowledged:

> **These are ambitious targets. As you all know ... this is the way we like to manage the bank because we think ambitious targets that are difficult to achieve, but are achievable, drive the company to be a better and better bank.**

FT Source: *Financial Times*, 22 February 2018, p.15.

Activity 7.4 Developing goals

- Go to the website of a company in the text, or another that interests you, and navigate to the section that contains their annual reports (usually in 'Investor relations').
- Look through the statements by the chairman and/or the chief executive, trying to find points where they mention their plans for the next year or two, or how an earlier plan has been working.
- Make brief notes about what the plan is intending to achieve, and how.
- Do these (to be fair, brief summaries) give any clues about how 'SMART' the plans are?

7.6 Organising

This part of a plan sets out what needs to be done, who will do it, by when – and communicates that to all concerned. In a small activity such as planning a project in a club this would mean listing the tasks and dividing them clearly amongst able and willing members. At the other extreme, Crossrail's plans will have run to many thousands of pages. But the principle is the same – plans must specify what has to be done, who will do it, by when – even though everyone knows this will change with circumstances.

Identifying what has to be done

Figure 1.5 (reproduced as Figure 7.6) helps to specify systematically what has to be done to achieve a goal. It reflects the organisational context of a plan – the range of easily-overlooked factors that may need to appear in a 'to do' list.

If the goal is to launch a new product, the plan could identify which parts of the organisation will be affected (structure), what investment is needed (finance), how will production fit with existing lines (business processes), and so on. New technology projects often fail because planners pay too much attention to technology, and too little to context – structure, culture and people (Boddy et al. 2009). Each main heading will include further actions that people can identify and assign. Specifying who is responsible for each action removes the risk of confusion and uncertainty. Apple (Part 1 Case) identifies the Directly Responsible Individual (DRI) against each action agreed at a meeting.

Communicating the plan

In a small organisation, or where the plan deals with only one area, formal communication is probably unnecessary, as those who have been involved in developing the plans will

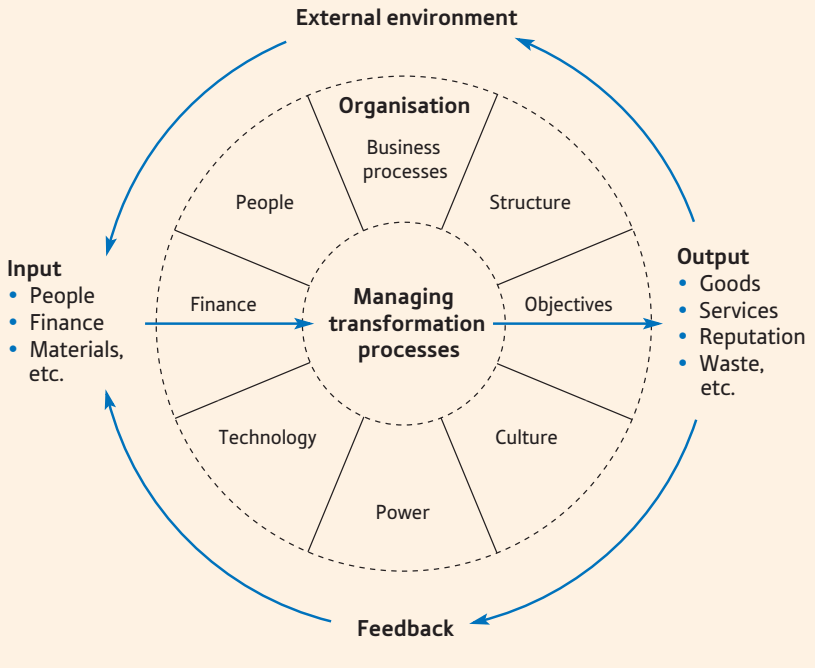


Figure 7.6 Possible action areas in a plan

probably be implementing it. In larger enterprises managers will probably invest time to communicate the goals and the actions required throughout the areas affected. They do this to:

- ensure that everyone understands the plan
- allow them to resolve any confusion and ambiguity
- communicate the judgements and assumptions that underlie the plan
- ensure that activities around the organisation are coordinated in practice as well as on paper.

7.7 Acting and leading – to implement and monitor

Implementing the plan

However good the plan, nothing worthwhile happens until people implement it, by making visible, physical changes to the organisation and the way people work. This is often challenging when the plan comes into contact with the processes and people affected. Those promoting the plan may encounter objections – and perhaps find that some of their assumptions are incorrect.

Organisations, which are the context within which people implement plans, are slower to change than plans are to prepare. Miller et al. (2004) tracked the long-term outcomes of 150 strategic plans to establish how managers put them into action and how that affected performance. They defined implementation as:

> all the processes and outcomes which accrue to a strategic decision once authorisation has been given to ... put the decision into practice (Miller et al. 2004, p.203).

They concluded that success was heavily influenced by:

- managers' experience of the issue, and
- **organisational readiness** for a change.

Organisational readiness refers to the extent to which staff are able to specify objectives, tasks and resource requirements of a plan appropriately, leading to acceptance.

> Having relevant experience of what has to be done ... enables managers to assess the objectives [and to] specify the tasks and resource implications appropriately, leading [those affected to accept the process]' (p.206).

Readiness means a receptive organisational climate that enables managers to implement the change within a positive environment.

They illustrated the statistical results with cases showing, for example, how managers in one company were able to implement a plan to upgrade their computer systems because they had *experience* of many similar changes. They were 'able to set targets, detail what needed doing and allocate the resources ... That is, they could plan and control the implementation effectively'. In another illustration, a regional brewer extending into the London area had no directly relevant experience, and so was not able to set a specific plan. But people in the organisation were very *receptive* to new challenges, and could implement the move with little formal planning.

The authors concluded that the activities of planning do not in themselves lead to success, but are a means for gaining acceptance of what has to be done when it is implemented. Planning gives people confidence in the process, leading to high levels of acceptability:

> Planning is a necessary part of this approach to success, but it is not sufficient in itself (p.210).

Case study

Crossrail builds the Elizabeth Line - the case continues www.crossrail.co.uk

In May 2018, the company revealed that costs were £500 million over budget – but a much greater problem was looming. On 31 August 2018 the Chairman of Crossrail, Terry Morgan, confirmed to Transport for London that the £15.4 billion project would not open as planned in December 2018, but would be delayed for at least nine months. In July 2019, the crossrail website reported that the company hoped to open the control section between October 2020 and March 2021. Business leaders, commuters and the Mayor of London expressed outrage at the news, and at the delay in making it public.

In early 2018 it had become clear that work to fit out the Central Tunnels (removing temporary structures and installing lighting) was behind schedule. That in turn would delay signal testing. Someone close to the company told *Construction News*:

> **The signalling systems were significantly more complicated than they were ten years ago when we did the original planning. We have to do hundreds of tests across three signalling systems – Crossrail uses a Communication-based Train Control System in the Central Tunnel; The Great Western and Great Eastern Railways at either end run on a Train Protection Warning system; and the Heathrow section uses a European Train Control system. The trains will have to move between all three systems. Integrating the trains to these systems and ensuring the train software works across all three has been far more complicated than first expected.**

The delay to completing the tunnels reduced the opportunities to test the signalling. Crossrail faced the dilemma: continue doing both jobs together, with constant interruptions to both, or to wait until the tunnel work was complete, and then start testing the train software. Crossrail's (then) chief executive, Simon Wright responded to *Construction News*:

> **The Elizabeth Line is one of the most complex and challenging projects ever undertaken in the UK, and brings together multiple companies, new rolling stock and three different signalling systems.**
>
> **The original programme for testing has been compressed by a delayed start and more time being needed by contractors to complete fit out activities in Central Tunnel and the development of railway system software.**

In November 2018, Transport for London announced that Mark Wild, managing director of London Underground, would replace Simon Wright, and in December the Chairman of Crossrail Sir Terry Morgan also resigned. The delay at Crossrail damaged the finances of Transport for London: it was budgeting on the extra revenue the line will earn (one estimate was that a one year delay would cost TfL £600 million). Without that it has had to defer other projects, such as modernising signalling on the Piccadilly line. It is also having to borrow money from the UK Government to balance these losses. Crossrail itself is asking for further financial help from government – after receiving £590 million in July and £350 million in October, bringing the cost of the scheme to £15.8 billion. Observers have offered ideas on the causes of failure, including 'optimism bias' following the success of the tunnelling phase; the Crossrail board rarely asked management challenging questions about progress; and frequent changes of management at contractors and suppliers.

FT Sources: From an article by Zak Garner-Purkis and Jack Simpson in *Construction News*, 1 October 2018; *The Guardian*, 27 October 2018, p.43, 3 November 2018, p.42, 12 December 2018, p.42; *Financial Times*, 4 December 2018, p.1, 21 December 2018, p.13.

Case questions 7.3

- What aspects of the context have contributed to the events in this instalment?
- What management assumptions during the original planning may also have contributed?
- What does the reaction of key stakeholders to the delay imply?

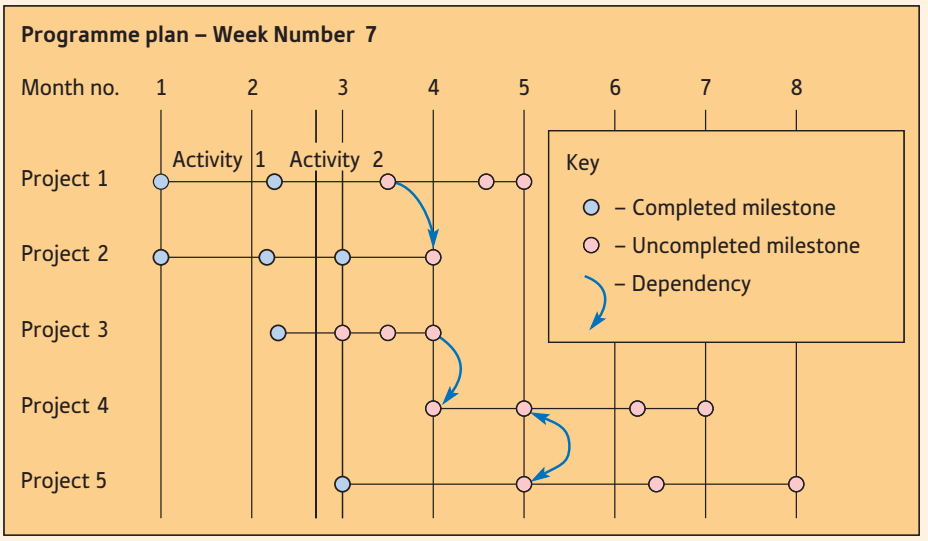


Figure 7.7 A programme overview chart

Source: Boddy et al. (2009).

Controlling

The final stage in planning is to set up a system of control that monitors progress towards the goals. This happens at all levels – from a Crossrail project manager monitoring whether a supplier delivered material today, to the board at the Co-op Bank monitoring progress on its recovery plan. In complex projects such as that, monitoring focuses mainly on the interdependencies between the many smaller plans that make up the whole. One way to do this is to create a single chart (sometimes called a Gantt chart) with a simplified view of each project on a timeline. Figure 7.7 illustrates this. Details vary but the main features are usually:

- a timeline, showing its passage
- a list of the tasks or sub-projects, with symbols showing planned and actual completions or major milestones in each project
- indications of interdependencies between projects.

Part 6, especially chapter 20, has more on control.

CWS More on planning processes, including rational and creative approaches

7.8 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 7.3 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and what variables they assumed would help them achieve them) and about process (how they tried to gain the support of stakeholders). *These are examples only – not a comprehensive analysis.* You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *You want the next 12 months to be as rewarding as you can reasonably expect. You decide that rather than leave that to chance, you will make a personal plan for your year. Outline how you would approach that task, including a preliminary list of the topics you would include, and why.*

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 7.3 'Clear thinking' questions about practice and theory

Clear thinking elements	From the Chapter Case study – Crossrail delivers late	Theory – outlining your approach to a question about personal plan (detail of plan not required).
Checking assumptions (Task and process)	Recall situation – all seemed to go well throughout the vast project – until the last year. What can we learn? **Task** • Did planners pay enough attention to the final stages of the project like they did to the early ones? If so what assumptions guided them? • They knew there were three signalling systems, which would themselves change independently during the Crossrail project: what assumptions seem to have guided plans for developing and testing the software to cope with that? **Process** • There is dispute about communication about the impending delay with London's Mayor and other powerful players • What assumptions guided Crossrail's communication plans when things began to go wrong? • See Section 7.4 – 'Key ideas – The planning fallacy in larger projects'	Introduce your answer with a brief summary of where you are starting from, and the form of your plan (no detail needed) **Task** • Scope of the plan: study only or other aspects of life? Relationships? • Is the focus on doing much the same as now but better, or exploring wider life choices and opportunities? • Things you have never considered? • Can you focus this by specifying the variables – what you want the outcomes to be? Your goals, and what you may need to do to get there? • Organise your approach using the tasks of planning (Figures 7.1 and/or Figure 7.6). Or some other method? • Is 'time management' part of your plan? Each of these headings (and others you could include), and how you deal with them in your plan, reflect your stated or unstated assumptions about your goals and preferences. Making a plan may help you think more clearly about those, and which you prefer **Process** • Prepare it yourself? • Share your ideas with one or more others? • Ready to change as circumstances change?
Recognising contexts	The context of one job includes any other work going on at the same time – software testing depended on tunnel fit-out being complete. Was the complexity of the latter also underestimated?	Immediate – your ambitions, commitments, obligations, abilities, etc.

Clear thinking elements	From the Chapter Case study – Crossrail delivers late	Theory – outlining your approach to a question about personal plan (detail of plan not required).
	Skilled, hard-to-replace staff tend to leave as projects come to an end, as they receive new job offers Advertising an opening date weakens management's position which suppliers or trade unions may exploit	Wider – relationships, possible or feasible career moves Plan a SWOT analysis on yourself to help organise your thinking What factors in your context may help or hinder your plan? Can you influence them? Some elements in your context may appear to be fixed – check that assumption: you may find they are not as fixed as they seem
Consider alternatives	The 'planning fallacy' feature (Section 7.4) suggests taking an outside view when gathering information – to what extent did Crossrail do that? Process – better communication with Mayor about delay? Why not? Planning fallacy again?	Events will disrupt or divert you – do you want to develop alternative or contingency plans to cope with the unforeseen, e.g. not committing all resources to one direction? Refer to the 'Key ideas' feature in Section 7.3 (Research on how to use time) and your work on Activity 7.1 Unexpected opportunities will also arise – can you be flexible enough to take advantage of them?
Recognise limitations	More lessons may become clear about why an apparently successful project fell apart so badly in the last stages	Uncertainties may be so many that some doubt the value of making a plan. What are the risks of not having a plan, however flexible?

Skill

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop using your time effectively.

Develop a skill: planning to use your time effectively

Being able to use your time effectively is likely to reduce stress, and may improve your job satisfaction. This feature will help you to do that.

- **Assessment.** Assess how well you manage your time when you are studying. Do you, for example, have a plan for significant pieces of work, or a daily list of what you will finish, or at least progress a bit, today? Or do you prefer to be flexible, working as and when you feel like it?
- **Learning.** Read Section 7.3 again, especially 'Key ideas' – Research on how to use time. Summarise the main ideas about planning how people use their time. Why is this likely to help a manager?

- **Analysis**. Identify someone (whom you know, or can read about) who appears to use their time well. Consider what they do, what the effects are, and what you may be able to learn from them – try to identify a specific practice.
- **Practice**. Select *one* of the time management practices in the 'Key ideas' (I suggest 'making a to do list' for tomorrow, but the choice is yours.
  - Make a list of things you need to do, or at least start, tomorrow.
  - Record them on paper or on your laptop.
  - Arrange them in the preferred order of doing them.
  - Estimate the amount of time you want to spend on each, and record that against each.
  - Show them visually, tasks down the left side of a grid, time amongst the top (see Figure 7.7 as an example).
  - Use the plan to guide your work, noting the time you finished each task alongside it in your list.
  - At the end of the day, record your results and what you have learned from using this technique. What assumptions did you make about the sub-tasks needed to complete the main one, and how long did they take?
  - Try to compare your work with that of others to see what else you can learn.
- **Application**. Decide on another opportunity to practise this skill within the next week, repeating this item from the list, or choosing another one.

Summary

1 **Explain five iterative tasks in planning, why people plan and the content of several types of plan**
- Planning involves the tasks of gathering information, setting goals, organising to achieve them, acting and leading to implement, and controlling.
- Effective plans can clarify direction, motivate people, use resources efficiently and allow people to measure progress.
- Plans can be at strategic, operational and activity levels, and in new businesses people prepare business plans to secure capital. Strategic business units plan relatively independently of the parent. There are also project plans and standing plans.

2 **Outline the sources of information planners can use and some analytical techniques**
- Planners draw information from the general and competitive environments using tools such as Porter's five forces model. They can do this within the framework of a SWOT analysis, and also use forecasting, sensitivity analysis and critical success factors.

3 **Summarise the SMART acronym for evaluating a statement of goals**
- Smart, measurable, achievable, realistic, timed

4 **Evaluate whether a plan is sufficiently comprehensive about how to achieve the goals**
- Figure 7.6 provides a model for recalling the likely areas in an organisation that a plan should cover, indicating the likely ripple effects of change in one area on others

5 **Show how aspects of context affect the ability of managers to implement a plan**
- The value of a plan depends on people implementing it, but Miller's research shows this depends on their experience, and the receptivity of the organisation to change.

6 **Think clearly to evaluate these management practices and theories, and as you begin to further develop your skills of managing your time**

- Research has identified identifiable practices that help improve how people use time, and the chapter has provided an opportunity to develop your skill in this area.
- The skill of using time may be more effective if a practitioner recalls that we cannot 'manage' time, though we can improve how we use it, and that that will not be the only factor in performance – colleagues or customers also affect our ability to use time well. There are also alternative ways to use our time well, and simple suggestions have limitations of being more suited to some contexts than others.

Test your understanding

1 What types of planning do you do in your personal life? Describe them in terms of whether they are (a) strategic or operational, (b) short or long term, (c) specific or directional.
2 What are four benefits that people in organisations may gain from planning?
3 What are the main sources of information that managers can use in planning? What models can they use to structure this information?
4 What are SMART goals?
5 In what ways can a goal be motivational? What goal-setting theory imply for practice?
6 What is meant by the term 'hierarchy of goals'?
7 Explain 'organisational readiness', and how people can use the idea during implementation.
8 What is a Gantt chart, and how does it help to control a task?

Read more

Clearfield, C. and Tilcsik, A. (2019) *Meltdown*, Penguin, London.

Absorbing account of the weaknesses in complex systems and how this very easily leads to failure – even if people thought they had a good plan.

Parke, M.R., Weinhardt, J.M., Brodsky, A., Tangirala, S. and DeVoe, S.E. (2018) 'When daily planning improves employee performance: the importance of planning type, engagement, and interruptions', *Journal of Applied Psychology*, vol. 103, no. 3, pp.300–12.

Complex study that gives guidance on how to deal with a practical problem.

Sahlman, W.A. (1997) 'How to write a great business plan', *Harvard Business Review*, vol. 75, no. 4, pp.98–108.

Classic guidance by an experienced investor, relevant to start-ups and established businesses.

Whittington, R., Molloy, E., Mayer, M. and Smith, A. (2006) 'Practices of strategising/organising: broadening strategy work and skills', *Long Range Planning*, vol. 39, no. 6, pp.615–29.

Latham, G.P. and Locke, E.A. (2006) 'Enhancing the benefits and overcoming the pitfalls of goal setting', *Organizational Dynamics*, vol. 35, no. 4, pp.332–40.

Two articles cited in the chapter which are worth reading in their entirety, not only for the subject of their citation.

Go online

These websites have appeared in the chapter:

www.crossrail.co.uk
www.volvo.com
www.games-workshop.com
www.shell.co.uk
www.theflowerfolk.com
www.lloydsbankinggroup.com
www.maersk.com

Visit two of the sites in the list, and navigate to the pages dealing with corporate news, or investor relations.

- What planning issues can you identify that managers in the company are likely to be dealing with?
- What kind of environment are they likely to be working in, and how will that affect their planning methods and processes?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



CHAPTER 8
MANAGING STRATEGY

Aim

To describe and illustrate the processes, tasks and contexts of managing strategy.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Explain how strategy can destroy or create value, and how the issues vary by sector
2. Compare rational, judgemental, negotiated and adaptive theories of the strategy process
3. Summarise evidence on how managers develop strategies
4. Explain the tools for external and internal analysis during work on strategy
5. Use the concept of generic strategies to compare business level strategies
6. Give examples of the methods practitioners use to deliver strategies
7. Think clearly to evaluate these management practices and theories, and as you begin to develop your skills of setting clear goals

Key terms

This chapter introduces these terms:

strategy
competitive strategy
emergent strategy
relational resources
unique resources
strategic capabilities
value chain
cost leadership strategy
economies of scale
differentiation strategy
focus strategy

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

Grant's study of the evolving strategy process
The value chain
Corporate strategies
Sull on the implementation deficit

Case study GKN www.gkn.com

In 1759, nine entrepreneurs built a blast furnace at Dowlais, high in a Welsh valley, powered by water from a stream. Eight years later, they appointed John Guest to manage their business, and he was followed by his son and grandson – whose wife Charlotte led the business for several years after his death in 1852. They and their successors continued to invest in modern technology and new markets – a steam engine, a link to Cardiff docks, and a mill supplying railways in the UK and overseas (Lorenz, 2009, p.9).

In 1900, Guest's iron company merged with a major customer – Arthur Keen's nut and bolt company – to form Guest, Keen and Co. In 1902, this company acquired Nettlefold's to create the company which traded for many years as Guest, Keen and Nettlefolds (GKN).

By 1963, the company was a steel maker, with interests in castings, forgings, screws, nuts and bolts. In 1967, the Labour Government nationalised the UK steel industry, including the part owned by GKN. Senior management assumed that when the Conservatives returned to office they would denationalise the industry and the company would buy back the steel plants.

Trevor Holdsworth joined the company in 1975 for a senior finance role, and believed that returning to steel would be a strategic error. He saw the potential value of a resource GKN had recently acquired – Birfield, an engineering company supplying components to the motor industry. It had a stake in Uni-Cardan – a German supplier to Volkswagen and other European car makers. Holdsworth concluded the company should not return to the 'commodity' steel business: it should focus on supplying high-technology components to the international motor industry.

Lorenz (2009) shows it was only with great difficulty that Holdsworth, a courteous man who led by reason rather than charisma, persuaded the then chairman to change his mind. The Board then agreed not to return to steel, but to increase their stake in Uni-Cardan. Over the next 20 years, GKN established a powerful position in Europe's motor industry: Holdsworth had a clear idea of what sectors GKN should be in, and what it should leave.

It gradually extended its business into the global aerospace industry by acquiring suppliers



© Bloomberg/Getty Images

of components to the major aircraft manufacturers, though some observers questioned whether this was a profitable strategy.

In March 2018, Melrose Industries offered to purchase the shares of GKN, claiming that while the company had a proud history, it had not performed well in recent years. The GKN Board, trade unions and politicians opposed the deal, claiming Melrose would seek short-term profits rather than invest to add long-term value. Melrose claimed it routinely invested 4 per cent of annual sales in research and development compared to GKN's 2.2 per cent (*The Guardian*, 20 March 2018, p.33). In August, Melrose announced that a majority of shareholders had accepted their offer.

Sources: Lorenz (2009); *The Guardian*, 20 March 2018, p.33.

Case questions 8.1

Visit the company website and note recent events and developments in the company.

- Three features of the context shaped the start of this business. What were they?
- What contrasting assumptions about the industrial context probably guided the Board, and Holdsworth, in their initial 1963 debate about GKN's future?
- What contrasting assumptions about the ability of GKN to prosper in the current industrial context may have guided Melrose and the GKN Board in their 2018 debate about GKN's future?

Activity 8.1 Describing strategy

- Before reading this chapter, write some notes on what you understand 'strategy' to be.
- Think of one organisation with which you have had contact, or about which you have read.
- Make brief notes summarising what they do and how they do it.
- What clues does that give you about the strategic decisions they have made?
- Record your ideas as you may be able to use them later.

8.1 Introduction

GKN, based in the UK's West Midlands, supplies components to automobile and aircraft manufacturers around the world, employing about 60,000 people, 6000 in the UK. Its history shows the value of managing strategy. At successive periods it has faced major decisions about where to allocate capital – replacing water power with steam, investing in a mill to meet rising demand for rails, deciding to merge with other businesses to create GKN and, in more recent times, deciding not to buy back former steel assets, but instead to enter the motor components industry. These strategic investments re-shaped the company.

All organisations face these issues of where to allocate effort and resources – see 'Management in practice' below. Strategic issues at Virgin often focus on whether to extend the brand into more areas of activity, and if so, which will offer the best return? Wiedner at al. (2017) show how the National Health Service (NHS) in England initiated a programme of strategic change to alter the way local hospital contracts were managed leading (indirectly) to major changes in the way mental health contracts are managed. Hansen and Ferlie (2016) review how other parts of the public sector manage their strategy.

Management in practice A strategy for more renewables at Scottish Power

www.scottishpower.com

Lindsay McQuade became chief executive of Scottish Power Renewables in 2018: it operates 39 onshore windfarms, about a sixth of Britain's onshore capacity. When Mrs McQuade started work as an internal auditor with the company in 1999:

We had a renewables business but it was niche compared to the coal side. Gas plant was still pretty novel, but coal was king. I've seen an industry utterly transform.

She is an evangelist for renewable energy and is determined to build more wind farms. The biggest obstacle is the government's decision in 2015 to end the subsidy that had fuelled the growth of onshore wind farms. Mrs McQuade is lobbying ministers to resume offering onshore wind contracts guaranteeing a price for the power they generate, like those that subsidise other green technologies.

She argues that onshore wind costs have fallen so far that the contract would not entail subsidies, and would save consumers money by reducing the SSE costs.

Onshore wind is the cheapest by a country mile in terms of new, scalable generation.

Source: *The Times,* 1 September 2018, p.55.

Strategies enable staff to be clear to themselves and others about how they add value. Strategy links the organisation to the outside world, where changes in the competitive (micro) and general (macro) environment bring opportunities and threats. As external situations change, managers adjust parts of their strategy to new conditions – Table 8.1 gives examples.

Table 8.1 Examples of organisations making strategic changes

Organisation and strategic issue	Strategic decisions or moves
Reckitt Benckiser (UK consumer goods company) – to focus on areas of strength to increase growth (www.rb.com)	Sells the pharmaceuticals unit, to concentrate on personal care products (toothpaste) and health products which can be sold without a prescription
Lloyds Banking Group (UK's largest retail bank) – how to create a 'multi-channel' bank, able to meet the needs of online customers and those who use branches (www.lloydsbankinggroup.com)	Closing 200 branches that few customers use, and reinvesting the money saved to develop new digital services and more automated administration
Coca-Cola – revenues from sugary soft drinks are declining, so needs to diversify into other beverages. Demand for coffee is strong in most parts of the world (www.coke.com)	Acquired Costa Coffee from Whitbread in 2018 for £3.9 billion. Coke plans to open stores in more countries, especially China where Costa already has almost 500 stores

The first sections in the chapter outline the strategy process, how managers develop strategy, and the tools they use for external and internal analysis. A section focuses on corporate and business unit strategies, followed by one on how companies deliver strategy. A widely used technique to develop strategy is the workshop, whose effectiveness depends on clear goals. The chapter offers an opportunity to begin to develop this skill, which is useful in all aspects of managing.

8.2 Strategy – process, content (task) and context

What is strategy?

Strategy is about how people organise major resources to create more value. These resource decisions are large, expensive and visible – with matching implications for performance: decisions that are not strategic are operational or tactical. Elaborating on the definition:

Strategy is about how people decide to organise major resources to enhance performance of an enterprise.

- *people* – strategy is typically the responsibility of senior management, but some advocate engaging more people in the process
- *decide* – in formal planning processes and/or informal conversations amongst managers
- *organise* – how to divide and coordinate activities to add most value
- *major* – significant, expensive, visible
- *resources* – inputs the enterprise needs – including those in other organisations
- *to enhance performance* – the intended outcome of strategic decisions
- *enterprise* – all types of organisation can benefit from managing their strategy.

The definition is consistent with the view of Johnson et al. (2007) who suggest that strategy is something that people do (strategy *process*), *and* that organisations have (strategy *content* or 'task' in the terminology of this book).

Process

People, usually senior managers, talk and email and argue about present and future strategy – their strategy process. In this sense, strategy is something that people *do* (Johnson et al. 2007). Understanding this perspective implies finding out who creates strategy, what information they gather, what tools they use and how they organise it. Sections 8.3 and 8.4 introduce ideas on strategy processes. Le and Jarzabkowski (2016) note that process conflicts can arise over how a team should accomplish a project and who should lead it.

Task

The current strategy is the starting point for any strategy process, from which a new strategy emerges – so in this sense strategy is something that organisations *have*. Something stimulates managers to question current strategy, such as a hostile takeover bid or an idea for a new service. They then try to identify what can give their enterprise an edge, to redefine their **competitive strategy** and support it with suitable resources. This includes deciding what to offer, to which markets, using what resources. Le and Jarzabkowski (2016) point to potential conflicts between people over the strategic goals and how to measure success in achieving them. Sections 8.5 and 8.6 examine the tasks (content) of strategy.

Competitive strategy explains how an organisation (or unit within it) intends to achieve competitive advantage in its market.

Context

The organisation's context affects the issues those managing strategy will face. Not-for-profit (NFP) or public sector organisations share some characteristics with commercial businesses (they need to attract and retain enthusiastic and capable staff) and differ in others (their performance criteria and sources of funding). Table 8.2 illustrates these differences.

Whatever their context, strategists hope to enhance performance by clarifying and unifying purpose, linking short-term actions to long-term goals, and measuring performance.

Activity 8.2 Think about the definition

Reflect on an organisation you have worked in, or ask a friend or relative who works in an organisation to help.

- Can you identify people there whose jobs included some or all of the items in the definition?
- Did any of them mention things they did that the definition leaves out?
- Decide if the definition accurately describes 'strategy'.
- If not, how would you change it?

Table 8.2 Examples of strategic issues in different settings

Type of organisation	Distinctive strategic issues	Examples in this text
Large multinational corporations (MNCs)	Structure and control of global activities; allocating resources between units	Coca-Cola (this chapter); BP (Part 2 Case)
Small and medium enterprises (SMEs)	Strongly influenced by founders or owners; lack of capital limits choices	innocent drinks (Chapter 2)
Manufacturing	Relative contribution to competitive advantage of the manufacturing (physical product) or service aspect (delivery, customer support) of the offer	BMW (Chapter 11)
Firms in innovative sectors	Adding value depends on rapid innovation, so strategy aims to create a culture of questioning and challenge	Dyson (Chapter 13)
Public sector	Competing for resources, and so aim to demonstrate best value in outputs; most problems require cooperation between agencies, complicating strategy	Crossrail (Chapter 6)
Voluntary and NFP sector	Balancing ideology and values with interests of funding sources; balancing central control (consistency) with local commitment (volunteers and local staff)	The Eden Project (Chapter 15)

8.3 Strategy processes – rational, judgemental, negotiated, adaptive

This section uses the framework for making decisions that Chapter 6 presented to distinguish four ways of making strategy.

Rational or Planning

Often referred to as the 'planning view', this reflects the assumption that strategy requires a formal approach to guide managers through the process. Ansoff (1965) presented it as a systematic process, following a prescribed sequence, and using many analytical tools and techniques – shown in Figure 8.1.

Those favouring this method assume that events and facts can be expressed objectively, and that people respond rationally to such information. The outcome will normally be substantial documents, essentially following the headings shown for preparing a business plan in Table 7.1, adapted to the setting.

Amazon used this approach when deciding where to site its second HQ (HQ2), promising to invest $5 billion in the chosen site and to create 50,000 jobs:

> The selection process emerged as a potent example of Amazon's tried and tested method of hoovering up vast amounts of data – from customers, sellers on its online marketplace and cloud computing clients – and then using that information to guide business strategy. [One observer]:
>
> 'Their mantra internally is to have people take their hands off the wheel', referring to an initiative where Amazon has shifted responsibility for tasks such as forecasting demand and negotiating prices from humans to algorithms.
>
> 'I think that is probably true here. They set up an algorithm for where they were going to go [with HQ2], they plug in the cities' offers and data, and what the algorithm says is where they are going to lean toward' (from an article by Shannon Bond, *Financial Times*, 9 November 2018, p.17).

An alternative (and often complementary) approach is to rely less on analysis, and more on judgement and intuition.

Judgemental

Some face strategic choices that are 'unstructured' – it is not practicable to define clear goals and, apart from that, it is not clear how to evaluate the available options – perhaps because they involve new and tested technologies. They may pay attention to computational

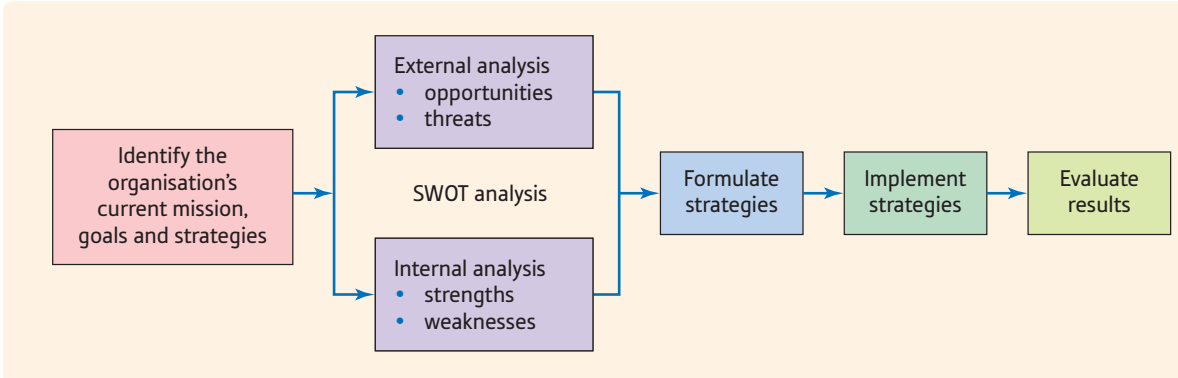


Figure 8.1 The planning view of strategy

data, but supplement that with judgement (intuition): there is an example in Chapter 6 (Section 6.4) from a study of how investors decide whether to back an entrepreneur seeking funds. This is a situation of extreme uncertainty and, most of the time, they lose their investment (and make it up on the small number of investments that succeed). Huang and Pearce (2015) found that while they pay attention to the entrepreneurs' formal plans and analyses, they give greater weight to the personal credibility of the person. They form this judgement by looking for signs of preparedness, commitment and trustworthiness.

Virgin (Part Case) provides another example. Its strategy depends largely on identifying which joint-venture opportunities to invest in, from the many that are available. According to a manager who works on these issues, the company combines objective and subjective methods:

> Richard [Branson] is brilliant and very instinctive. Yet now consumers and attitudes move so quickly that we have to be more analytical. We need to combine intuition and qualitative analysis with the real quantitative analysis that says, 'This is your demographic, this is your profile, and this is where you go next' (cited on page 240).

The company's management teams try to identify growth areas, basing their investment decisions on financial returns (measured by return on investment, payback time, and capital required) *and* on more subjective 'fit with brand' criteria.

Finally, Brad Stone describes a point in Amazon's history (Chapter 18 Case study) when sales were growing by 300 per cent a year, and the distribution centres were unable to cope. Jeff Bezos recruited a talented distribution manager, Jimmy Wright, and told him to design a distribution system ten times larger than the present one:

> Wright asked Bezos what products they would be shipping. He said 'I don't know. Just design something that will handle anything'. [A few months later] Wright showed Bezos a blueprint for a new warehouse [highly automated], with blinking lights on aisles and shelves to guide ... workers to the right products, and conveyor belts that ran into and out of massive machines that took products from the conveyors and scanned and sorted them into customer orders to be packaged and shipped.
>
> The founder's eyes lit up. 'This is beautiful, Jimmy,' Bezos said.
>
> Wright asked who he needed to show the plans to, and what kind of return on investment he would have to demonstrate.
>
> 'Don't worry about that,' Bezos said. 'Just get it built.'
>
> 'Don't I have to get approval for this?' Wright asked. 'You just did,' Bezos said (Stone, 2013, pp.96–97).

Negotiated

While the adaptive view below reflects the logic that planning can never give complete foresight, the negotiated view adds dimensions of power, conflict and ambiguity.

Drawing on his experience in the public sector, Lindblom (1959) drew attention to political influences on strategy, especially as value judgements influence policy and how stakeholders' conflicting interests frustrate attempts to agree strategy. He concluded that strategic management is not scientific, comprehensive or rational, but an iterative, incremental process with much bargaining between the players. He notes 'successive limited comparisons' whereby 'new' strategy is made by marginal adjustments to existing strategy that are politically acceptable:

> Policy is not made once and for all; it is made and remade endlessly ... [through] ... a process of successive approximation to some desired objectives.

Crossrail (Chapter 7 Case study) may illustrate this approach, in the episode on page 172. Crossrail typically designed all the stations, but in this case Canary Wharf Group owned the land. They offered to contribute to the costs of the station if they were given full responsibility for design and construction. The parties had different interests so the only way to

integrate these to bring a satisfactory outcome, was through negotiations. This worked, as the outcome was a better station than originally planned, at lower cost.

A contemporary example arose over Shell's strategy to cut its carbon footprint. When this is published in 2019, it will set carbon emissions targets for each year, and link these to executive pay – a massive change from normal corporate practice. Chief executive Ben van Beurden had originally believed that setting targets was a superfluous exercise that would expose the company to litigation if it failed to meet them. Major investors in the company disagreed, saying that an earlier statement about 'ambitions' was not enough – and evidently persuaded the board to think again. Mr van Beurden acknowledged that:

> it was 'dialogue' with investors that led to the 'evolution' in Shell's position, with the short-term targets creating a more effective way to manage the company through a multi-decade energy transition (*Financial Times*, 3 December 2018, p.1).

Strategies are likely to contain elements of all four approaches, as those developing them move through the process. They may well start in an adaptive way as participants uncover a possible new market – but is then likely to involve negotiation with other players, and computational analysis of market prospects, capacity and costs.

Case study

GKN – the case continues www.gkn.com

Commenting later on his disagreement over strategy with the then Chairman, Trevor Holdsworth said:

> **Thank goodness he gave in, or the constant velocity technology – which became central to our strategy – would have been lost (Lorenz, 2009, p.140).**

This decision to invest in Uni-Cardan was the basis of GKN's future in driveline systems (equipment to control vehicle steering) and, by the mid-1980s, the automotive business made 68 per cent of group profits.

For several years, the company invested time and energy building close links with the Japanese motor industry, which wanted an alternative to their local supplier. Rather than build a plant in Japan, the company offered Toyota, Nissan and Honda the right to make the components they required under licence, on condition that if they started to produce outside of Japan, they would buy these components from GKN.

This led GKN to supply components to Japanese plants in the United States and then in the UK when Nissan built a plant in Sunderland, followed by Honda in Swindon. Both honoured their commitment to buy drivelines from GKN. By 1984, 75 per cent of GKN's auto component sales (under the Driveline brand) were to non-UK customers: it was becoming an international company making innovative engineering products (Lorenz, 2009, pp.225–39).

One unexpected benefit of close links with the Japanese motor industry was that the Driveline operation developed a cultural affinity with Japanese ways of working. This includes the concept of *kaizen* – continuous, incremental improvement in production processes.

> **By the early 1980s GKN's Driveline operations had ingrained into their modus operandi a culture of continuous improvement [and] invested consistently in incremental improvements to both the joints themselves and their methods of manufacture (Lorenz, 2009, p.231).**

As part of GKN Board's defence against Melrose in 2018, it agreed to sell Driveline to Dana, a US company, and return the £4.4 billion price to shareholders. Christopher Miller, Chairman of Melrose, said that this was a 'hasty and ill-thought-through transaction' that would leave the remaining aerospace business with pension liabilities 'inappropriate for the size of the underlying business'.

Sources: Lorenz (2009); *The Guardian*, 13 March 2018, p.25.

Case questions 8.2

- What external developments have affected the company's strategy?
- What examples are there in the case of alternative perspectives on strategy?

Activity 8.3 Gather evidence about the four perspectives

Read one of these case studies – Crossrail (Chapter 7), Apple (Part 1) – or any other organisation suitable for this activity.

- Identify two or three strategic moves made by the company, and record a brief note of each.
- Which of the four perspectives did they appear to use – either alone or in combination?
- Compare your answers with other students and look for common themes.
- What are the assumptions of the negotiated view of strategy, and does this view have any limitations?

Adaptive

Mintzberg (1994) regards formal strategic planning as a system developed in stable times to suit the central bureaucracies typical of Western manufacturing industry in the mid-twentieth century. It worked well then, but rather less so when events require a quick response.

Emergent strategies are those that result from actions taken one by one that converge in time in some sort of consistent pattern.

He distinguished between intended and **emergent strategy** (Figure 8.2). This shows an intended plan, some parts of which are realised (deliberate strategy) – but also that some parts are not (unrealised strategy). Other moves or investments occur that were not intended when the plan was made – local managers deal with local problems, and their solutions become established as the way to do things. Mintzberg describes these as 'emergent strategies' which result from:

> actions taken one by one, which converged in time in some sort of consistency or pattern (p.25).

The realised strategy is a combination of surviving parts of the intended strategy, and of the emergent strategy.

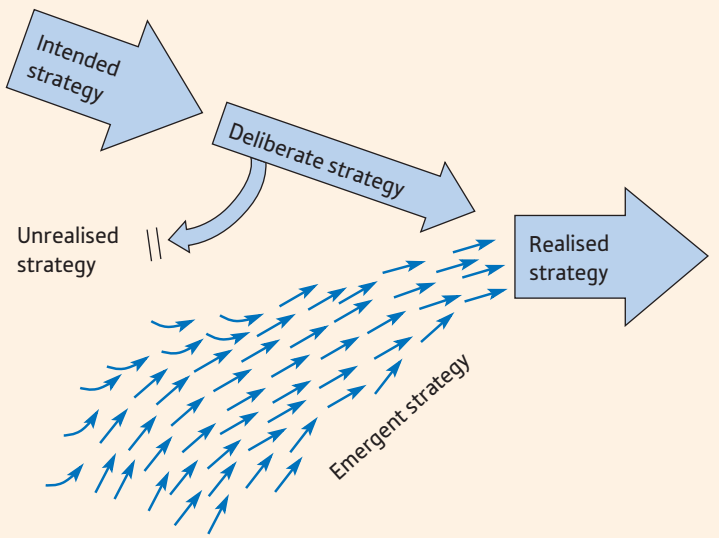


Figure 8.2 Five forms of strategy
Source: Mintzberg (1994).

Management in practice — Adaptive strategy at IKEA www.ikea.com

Barthélemy (2006) offers an insight into the strategy process at IKEA. Its strategy has clearly been successful, but how did it come about? The company's history shows that many elements of the strategy were not brought about through deliberate formulation followed by implementation:

> **Instead, the founder, Ingvar Kamprad started with a very general vision. IKEA's specific strategy then emerged as he both proactively developed a viable course of action and reacted to unfolding circumstances (p.81).**

Examples include:

- The decision to sell furniture was an adaptation to the market, not a deliberate strategy – furniture was initially a small part of the retail business, but was so successful that he soon dropped all other products.
- The flat pack method, which symbolises the group, was introduced to reduce insurance claims on the mail order business – its potential became clear when the company started opening stores, and realised that customers valued this type of product.
- The company only began to design its own furniture because other retailers put pressure on established furniture makers not to sell to IKEA.

Source: Barthélemy (2006).

This view of strategy recognises that:

> the real world inevitably involves some thinking ahead of time as well as some adaptation *en route* (p.26).

While advocating an adaptive view, Mintzberg notes the value of planning:

> Too much planning may lead us to chaos, but so too would too little, more directly (Mintzberg, 1994).

8.4 Strategy processes (2) – Strategy as practice?

CWS Grant's study of the evolving strategy process

Grant's (2003) study in eight oil companies traced the evolution of their strategy processes from ones that were essentially formal, towards more informality – see the companion website.

Studies in other sectors confirm that contemporary strategic planning combines elements of formality and informality, and of close interaction between planning and acting. Whittington et al. (2006) see 'strategy as practice', drawing on qualitative research in ten organisations. They found that people formulate strategy and design organisations to deliver it as linked practical activities, using these tools – strategy workshops, strategic change projects, and symbolic artefacts (things that people develop to represent and communicate strategy – like a Powerpoint presentation).

The research also showed the transitory nature of strategies and organisational forms, implying that the verbs 'strategising' and 'organising' capture the nature of the work people do in 'strategy'.

They also stress the practical crafts of strategising and organising:

> Formal strategy can be renewed by a greater appreciation of the everyday, practical, non-analytical skills required to carry it out [especially those of coordination, communication and control] (p.616).

> Strategists run workshops and video-conferences, draw flip-charts, design Powerpoints, manipulate spreadsheets, manage projects, write reports, monitor metrics and talk endlessly: their skills at these activities can mean success or failure for entire strategy processes (p.625).

For more on strategy workshops, see 'Key ideas' below.

Key ideas — Setting goals helps strategy workshops

Healey et al. (2015) analysed the design and outcomes of over 650 strategy workshops – a common management practice in which managers leave daily activities to deliberate on the longer term. These events commonly use tools of SWOT analysis, stakeholder analysis, scenario planning, PESTEL and value chain analysis. This study was designed to identify which design features of the workshops had most effect on the outcomes. For example, goal setting theory (Chapters 6 and 15) predicts that having clear goals at the start of any group task is vital to focus effort, energise participants and maintain persistence.

Healey et al. (2015) designed their research to test, amongst other things, the effects of clear goals on workshop outcomes. The results showed that the single most significant influence on outcomes was the extent to which organisers clarified workshop goals, and communicated these to participants. Developing clear goals is evidently a valuable skill, and the 'Develop a skill' feature at the end of the chapter is an opportunity to do so.

Source: Healey et al. (2015).

Sull (2007) believes that since volatile markets mean a steady stream of opportunities and threats, managers cannot predict their form, magnitude or timing. This makes the planning view of strategy inadequate, as it may deter people from taking account of new information. He sees the strategy process as iterative – a loop instead of a line:

> According to this view, every strategy is a work in progress that is subject to revision in light of ongoing interactions between the organization and its environment. To accommodate [this], the strategy loop consists of four major steps: making sense of a situation, making choices on what to do (and what not to do), making those things happen and making revisions based on new information (p.31).

Figure 8.3 shows the strategy loop, the most important feature of which is the implication that managers incorporate and use new information as it becomes available, closely linking formation and implementation.

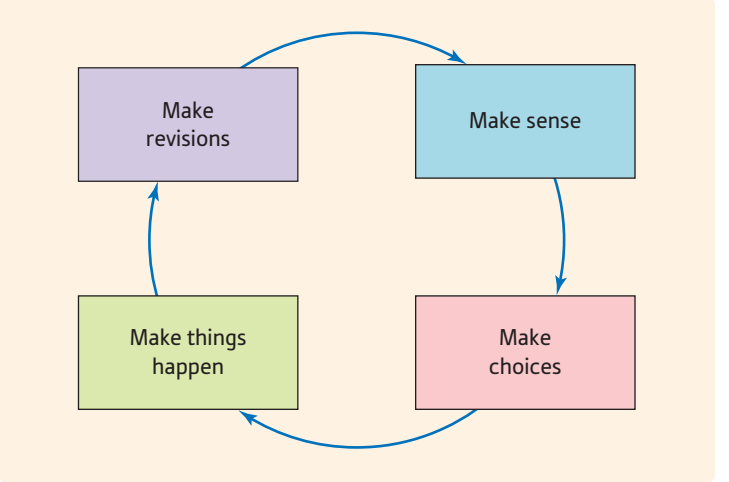


Figure 8.3 The strategy loop

Source: Sull (2007), p.33.

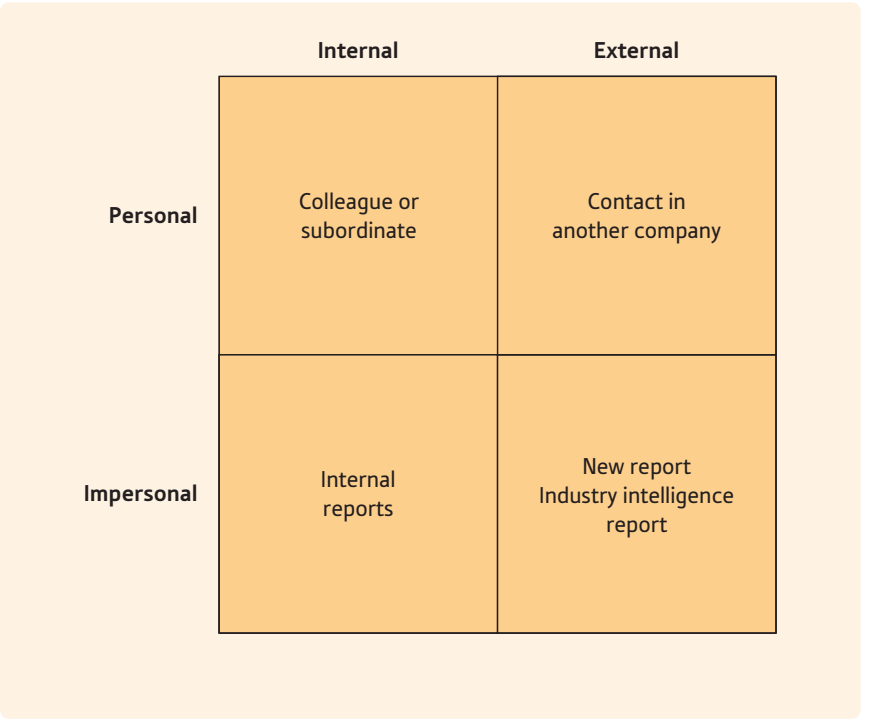


Figure 8.4 Four scanning modes

Source: Robinson and Spears (2018), p.527.

Where do managers find that information? Robinson and Spears (2018) distinguish the four scanning modes shown in Figure 8.4, and conducted research with senior managers in seven companies to establish which of these modes they used. The most popular sources were the personal ones – individuals within the company, or at customers or partner organisations. The main reason seemed to be that for many (not all) types of information these were more likely to be reliable and up-to-date than more formal sources.

Sull stresses the importance of conversations – formal and informal, short and long, one-on-one and in groups – for coordinating. Managers at every level may lead discussions about the four steps, and the following sections provide ideas and examples of each:

- making sense – external and internal environments
- making choices – strategy at corporate and business unit levels
- making things happen – delivering strategy
- making revisions – reflecting on results, and taking in new information.

8.5 Making sense – external analysis

Chapter 3 and the companion website outlined Porter's five forces model, showing the forces that affect the profitability of an industry – see 'Key ideas' below.

Key ideas — Using Porter's five forces in strategy

Analysing the likely effects on a company of the five forces (Porter, 1980; 2008) can show potential action points.

- **Threat of entry:** what are the barriers that new entrants need to overcome if they are to compete successfully?
- **Threat of substitutes:** what alternative products and services may customers choose?
- **Power of buyers:** if buyers have bargaining power they force down prices and reduce profitability.

- **Power of suppliers:** if suppliers have few competitors they can raise prices.
- **Competitive rivalry:** the other forces combine to affect the intensity of rivalry in a sector.

The model remains popular, and Porter published a revised version in 2008 – mainly by adding current examples: the five forces remain the same. They help strategists to understand the fundamental conditions of their industry, and to work out how to make their company less vulnerable and more profitable.

Source: Porter (1980, 2008).

While many retailers are losing money, WHSmith is, in 2019, doing well. Perhaps this reflects the way it has focused the business on some areas, and left others. This refocusing began when Kate Swann became chief executive in 2013: she convinced the board that the retail business could be much better, and that travel could become much bigger. Travel was just 10 per cent of revenues in 2003: in 2018, revenues from sales in airports, stations and motorway service stations were greater than those from high street stores – and earned and two-thirds of group profits (from an article by Jonathan Eley, *Financial Times*, 11 November 2018, p.19). In terms of the five forces, the company has reduced its exposure to the competitive rivalry of the high street, and increased it at locations with less competition.

The PESTEL framework (Chapters 3 and 4) also helps companies to identify relevant factors in the general environment. Cuts to local authority budgets encouraged many to outsource services to private companies, hoping they will save money: Care UK (and similar companies) have responded to the opportunity and now run many care homes and other services for local authorities.

External signals are often unclear, but being able to process vast amounts of information about customers may bring opportunities: see 'Key ideas' below.

Key ideas — Opportunities in 'big data'?

'Big data' describe the large volumes of data generated about business activities from new sources such as social media. It includes data from point-of-sale terminals, cash machines, Facebook posts and YouTube videos. Companies use sophisticated software to analyse it, looking for patterns or trends they can use to make products more attractive to customers.

Companies and governments have been doing this for years with 'structured data' that is already well-organised, like sales records, but they now have access to 'unstructured data' – like Facebook posts. The lack of structure make this data harder to analyse – but potentially give insights into what people and their friends think of a brand, or their intentions towards a new product.

Analytical companies are developing tools to capture and process this data, which is valuable to those selling consumer goods, insurance and entertainment who want to understand consumers' decisions. Companies making the computer systems and software to do the work such as IBM and Oracle also gain.

Strategy links an organisation's external relationships with its internal capabilities, so managers need an internal analysis to show how they may cope with external changes.

Activity 8.4 — Using 'five forces' to analyse a retail environment

- Select *one* of the retail case studies featured in this book (Co-op, IKEA, Eden, Zara, Tesco).
- Gather evidence and examples from the case and other sources of your choice showing how it appears to have changed its strategy to take account of one or more of the five forces.
- Compare what you have found and see what you can learn from your results.

8.6 Making sense – internal analysis

Resources and competences

Managers analyse the internal environment to identify strengths and weaknesses – what the organisation does well, where it might do better and where it stands in relation to competitors.

Chapter 1 introduced the idea of strategic capability – the ability to perform at the level required to survive and prosper: this depends on the resources available to the organisation, and its competence in using them. Tangible resources are physical – buildings, equipment, people or finance: intangible resources include relational resources and reputation – see Figure 8.5.

Relational resources arise as a firm interacts with the environment – building relations with influential customers, government agencies, media or research centres provides valuable information. Reputation amongst other players is also a resource – a reputation for quality, trust or innovation will be more useful than one for sharp practice and poor delivery. A firm also gains from having **unique resources** that others cannot obtain – a powerful brand, access to raw material or a distinctive culture. Joe Morris, operations director at TJ Morris (www.tjmorris.co.uk) a successful, family-owned chain of discount stores (trading as Home Bargains), claims their IT system (which his brother Ed designed) gives them a competitive advantage:

> It is our own bespoke product. It is extremely reliable and simple. We can do what we want to do very quickly.

Relational resources are intangible resources available to a firm from its interaction with the environment.

Unique resources are resources that are vital to competitive advantage and that others cannot obtain.

Successful firms add value to resources by developing competences – activities and processes that enable them to use resources effectively. If staff develop higher skills, cooperate better, are innovative and creative, the company is likely to perform better than one where they do not. Johnson et al. (2014) show that resources and competences combine to provide capabilities – the things that an organisation is able to do in a reliable, efficient way. They define **strategic capabilities** as those that contribute to long-term survival or competitive advantage – combining resources ('what we have') and competences ('what we do well').

Strategic capabilities are the capabilities of an organisation that contribute to its long-term survival or competitive advantage.

Ryanair grew not because it had unique resources (a fleet of modern, standard aircraft) – other airlines had the same, but lost money. The difference was that Ryanair had developed competences – such as quick turnrounds – that enabled it to use aircraft more efficiently. GlaxoSmithKline has a strategy to acquire half of its new drugs from other organisations: for this to work, it will develop a competence of identifying and working with suitable partners.

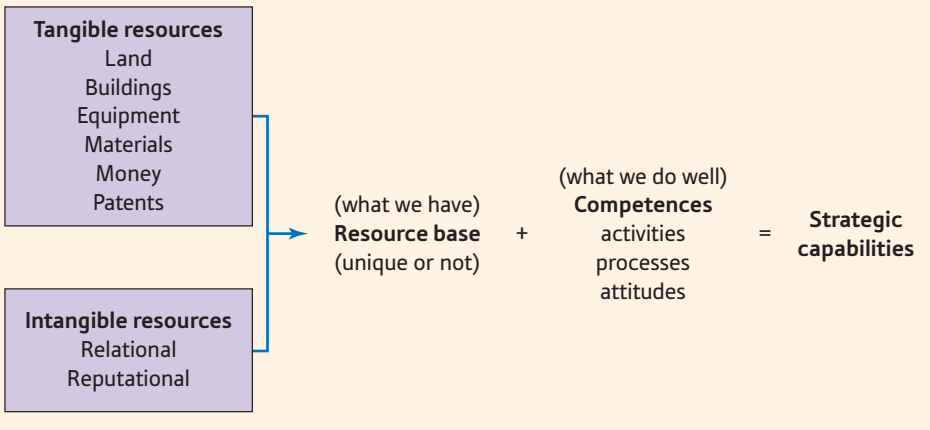


Figure 8.5 Resources, competences and capabilities

Source: Robinson and Spears (2018) p.527.

Management's task in internal analysis is to identify capabilities that customers value, at each level of the enterprise. These capabilities may be relatively formal, such as systems for sensing and responding to market opportunities or for identifying and acquiring firms with valuable skills or products. They may also be informal, such as the ability to reach decisions quickly when required, or the ability of staff to work well in constantly changing multi-professional teams.

Case study

GKN – the case continues www.gkn.com

Since the early 1990s the company had been building a presence in Aerospace, from an earlier investment in Westland helicopters and by 2015 the division accounted for 30 per cent of group turnover.

In November 2017 it became clear that there were serious problems in the North American Aerospace division. An audit discovered huge quantities of overvalued stock (raw materials and parts) – correcting this cut profits by £112m that year. Other observers noted many changes in management. There was a lack of investment, old machinery and a culture in which employees feared raising concerns.

GKN Aerospace was run until November 2017 by Kevin Cummings – who had previously run the North American division. The Board had chosen him to replace Nigel Stein as GKN chief executive when the latter retired in 2018. Mr Cummings left the company abruptly in November 2017. His successor, Ann Stevens, acknowledged that the company had made mistakes:

> **We put money into businesses that did not earn the opportunity to grow and, frankly, we shouldn't have (*Financial Times*, 21 January 2018, p.14),**

The failure of the succession plan drew attention to GKN's recent record – its market value has been weak since 2015. One analyst:

> **Shareholders in GKN have been frustrated for a while that the company hasn't delivered ... and in particular the aerospace business has been disappointing in what has been a good market.**

Mr Cummings was supposed to inject new vigour into the group. But the board misjudged their man [according to another close observer of the company]:

> **to do a *volte face* on an internal candidate who supposedly you know intimately is deeply embarrassing.**

Investors were pressing GKN to consider a break-up of its aerospace and automotive divisions:

> **The one clear thing to me is that this company is too sprawling – it is like a mini-conglomerate. A split now looks like a sensible way forward. There is no conceptual reason why this business should not have received a suitable valuation. But arguably the company has needed stronger management on several levels. For long-standing shareholders who have supported GKN over decades this is extremely sad.**

FT Source: *Financial Times*, 5 December 2017, 2 March 2018.

Case questions 8.3

Review the case in terms of the company's resources, capabilities and competences.

- What examples have you seen in the case about the company's resources and competencies?
- On the evidence in the case, how well do you think GKN had dealt with these matters in recent years?

Value chain analysis

The concept of the **value chain**, introduced by Porter (1985), is derived from an accounting practice that calculates the value added at each stage of a manufacturing or service process. Porter applied this idea to the activities of the whole organisation, as an analysis of each activity could identify sources of competitive advantage.

A **value chain** 'divides a firm into the discrete activities it performs in designing, producing, marketing and distributing its product. It is the basic tool for diagnosing competitive advantage and finding ways to enhance it' (Porter, 1985).

CWS The value chain

SWOT analysis

Strategy follows a 'fit' between internal capabilities and external changes – managers try to identify key issues from each and draw out the strategic implications. A SWOT analysis (see Chapter 7) summarises the internal and external issues and helps identify potentially useful developments – shown schematically in Figure 8.6.



Figure 8.6 Identifying the organisation's opportunities

Hodgkinson et al. (2006) found that managers often use the technique in strategy workshops, though like any technique the value depends on how thoroughly they do so – by, for example, taking time to gather evidence about the relative significance of factors, not just listing them.

Managers in large enterprises develop strategies at corporate, business and functional levels, though in smaller organisations there will be less complexity. Figure 8.7 shows this.

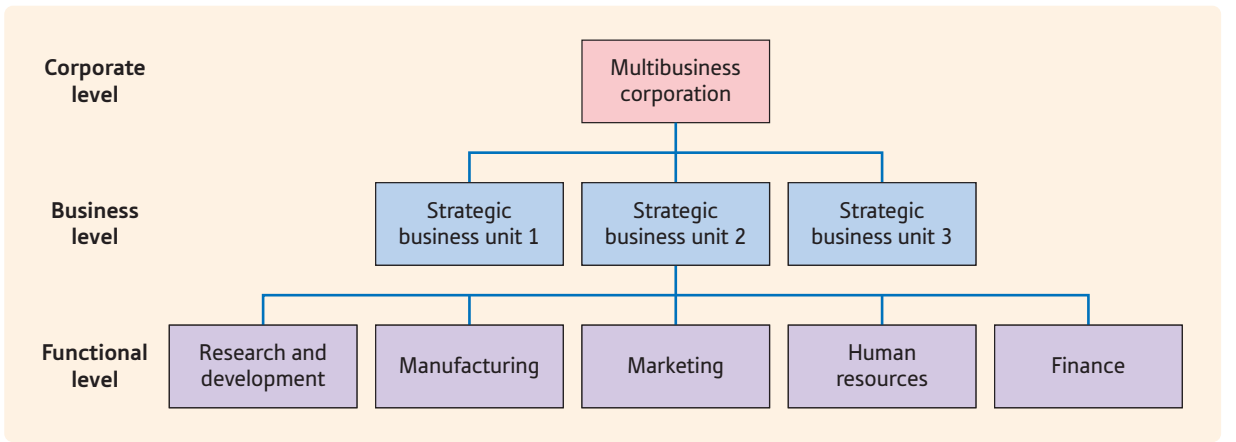


Figure 8.7 Levels of strategy

8.7 Making choices – strategy at business unit levels

CWS Corporate level strategies

Corporate and functional level strategies

The companion website includes material on corporate level strategy. Business unit level strategies need the support of suitable functional level strategies – Chapter 9 (marketing), Chapter 11 (human resources) and Chapter 12 (information systems) give examples.

At the business unit level, firms face a choice about how to compete. Porter (1985) identified two types of competitive advantage: low cost or differentiation. From this he developed the idea that firms can use three generic strategies: cost leadership, differentiation and focus, which Figure 8.8 shows. The horizontal axis shows the two bases of competitive advantage. Competitive scope, on the vertical axis, shows whether the company's target market is broad or narrow.

Cost leadership

A **cost leadership** strategy is one in which a firm uses low price as the main competitive weapon.

Economies of scale are achieved when producing something in large quantities reduces the cost of each unit.

Cost leadership is when a firm aims to compete on price rather than, say, advanced features or excellent customer service. They will typically sell a standard product and try to minimise costs. This requires **economies of scale** in production and close attention to reducing operating costs – including the benefits of what is known as the experience curve – the tendency for the unit cost of making a product to fall as experience of making it increases. Low costs alone will not bring competitive advantage – consumers must see that the product represents value for money. Retailers that have used this strategy with great success include Amazon, Lidl and Aldi.

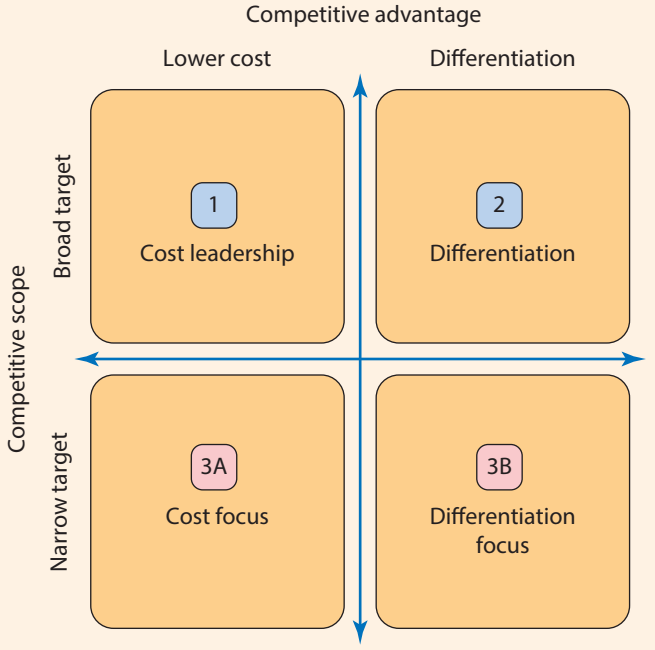


Figure 8.8 Generic competitive strategies

Source: Based on Porter, M.E. (1985), Competitive Advantage: Creating and sustaining superior performance, Free Press, New York, copyright © 1985 Michael E Porter, reprinted with permission of The Free Press, a division of Simon & Schuster.

Differentiation

A **differentiation strategy** is when a company offers a service that is clearly distinct from its competitors, and that customers value. It is 'something unique beyond simply offering a low price' (Porter, 1985) that allows firms to charge a high price or retain customer loyalty. Methods of differentiation include:

Differentiation strategy consists of offering a product or service that is perceived as unique or distinctive on a basis other than price.

- Apple offers innovation and an exceptional customer experience
- Sony offers superior reliability, service and technology
- BMW stresses a distinctive product/service image
- Coca-Cola differentiates by building a widely recognised brand.

The focus of differentiation is unique to each sector: firms selling construction equipment will stress durability and rapid service while in cosmetics differentiation relates to images of sophistication, exclusivity and eternal youth. Cities compete by stressing their cultural facilities, available land or superior transport links.

Focus

A **focus strategy** (sometimes called a 'niche' strategy) targets a narrow market segment, either by consumer group (teenagers, over-60s, doctors,) or geography. The two variants – cost focus and differentiation focus – are simply narrow applications of the broad strategies. Examples include:

A **focus strategy** is when a company competes by targeting very specific segments of the market.

- Saga (www.saga.co.uk) offers travel and insurance for those over 50
- Croda (www.croda.com) produces speciality chemicals used in other products, including cosmetics
- NFU Mutual offers insurance for farmers.

Management in practice — Strategic focus at Maersk www.maersk.com

I think because of the size of our organisation, our strategy is really targeted to focus on certain segments. One of the things we did this year was start a new service from Costa Rica to the UK, specifically bringing in bananas. That was a new service for us and provided a different service for the customer. They've always been shipped in bulk vessels, and now we've containerised them. Once the customer has committed, we have small teams of customer service people looking after each one, all over the world.

Once we've locked them into the customer experience, we then want to build a long-term relationship with them, get to know the business, get to know where we can improve it. Not just on service but also from a cost point of view, because obviously cost is very important in this market. We like to go into partnerships. Some of the biggest retailers in the UK for instance we have long term relationships with [...] where we've been able to take a lot of costs out of their supply chain by giving them a personalised service by actually knowing their business.

Source: Interview with Brian Godsafe, Customer Services Manager.

Activity 8.5 — Reflect on strategy

- Select two companies you are familiar with, and in each case gather evidence to help you decide which generic strategy they are following.
- What links can you see between the business and its context?

Porter initially suggested that firms had to choose between cost leadership and differentiation. Many disagreed, observing how companies often appeared to follow both strategies at the same time. By controlling costs, companies can reinvest the savings in features that differentiate them. Amazon may be an example – it continues to drive down costs in its fulfilment centres, and at the same time offers a generally seamless experience – which customers evidently value. Porter (1994) later clarified his view:

> Every strategy must consider both relative cost and relative differentiation ... a company cannot completely ignore quality and differentiation in the pursuit of cost advantage, and vice versa ... Progress can be made against both types of advantage simultaneously' (p.271).

However, he notes there are trade-offs between them and that companies should 'maintain a clear commitment to superiority in one of them'.

8.8 Making things happen – delivering strategy

Organisations deliver their strategies' by internal development, acquisition, or alliance – or a combination: the choice affects the success of the strategy.

Internal development

The organisation delivers the strategy by expanding or redeploying relevant resources that it has or can employ. This enables managers to retain control of all aspects of the development of new products or services – especially where the product has technologically advanced features. Microsoft develops its Windows operating system in-house. Wanda, China's biggest property developer by sales, aims to triple its annual turnover by 2020 (compared with 2014), by international property development. Its ambition is to turn Wanda, well-known in China and Asia, into a global brand. One of its moves has been to buy a site in London, where it plans to build 440 homes and a hotel.

Merger and acquisition

One firm merging with, or acquiring, another allows rapid entry into new product or market areas and is a quick way to build market share. It is also used where the acquiring company can use the other company's products to offer new services: Microsoft and Cisco Systems frequently buy small, entrepreneurial companies and incorporate products into their range. In 2013, accountancy firm PwC bought consultancy firm Booz and Company, so that it could quickly build an advisory capacity – a rapidly growing and profitable business. Shell bought BG in 2015 to gain access to the smaller company's oil and gas reserves.

Mergers and acquisitions frequently fail, destroying rather than adding value. When Sir Roy Gardner took over as chairman of Compass (a UK catering company) at which profits and the share price had fallen rapidly, he was critical of the previous management, who had tried to grow the business mainly by acquisitions. They made little attempt to integrate these, so they were essentially run by their previous managers, leading to inconsistency and high costs.

Joint ventures and alliances

An attraction of joint ventures is that they limit risk. In early 2015, China's largest shipbuilder announced it would build the country's first cruise vessels – a new market for the company. It is doing so in a joint venture with cruise-ship operator Carnival, which will contribute its expertise.

A second reason for joint ventures (JVs) is to learn about new technologies or markets. Alliances also arise where governments want to keep sensitive sectors, such as aerospace, defence and aviation, under national control. Airbus, which competes with Boeing in aircraft manufacture, was originally a JV between French, German, British and Spanish manufacturers. Alliances – such as the Star Alliance led by United Airlines of the United States and Lufthansa of Germany – are common in the airline industry, where companies share revenues and costs over certain routes. As governments often prevent foreign ownership of airlines, such alliances avoid that barrier.

Other forms of joint development include franchising, licensing and long-term collaboration with suppliers. Public bodies often act as service commissioners rather than as direct providers, developing partnerships with organisations to deliver services on their behalf.

Activity 8.6 Reflect on delivering strategy

- Select two companies you are familiar with, and in each case gather evidence to help you decide which of the available options (or a combination) they have chosen to deliver their strategy.
- What are the advantages of the route they have chosen compared to the alternatives?
- Compare your evidence with other students, and identify any common themes.

8.9 Making revisions – implementing and evaluating

Implementation turns strategy into action, moving from corporate to operational levels. Many strategies fail to be implemented, or fail to achieve as much as management expected. A common mistake is to assume that formulating a strategy will lead to painless implementation. Sometimes there is an 'implementation deficit', when strategies are not implemented at all, or are only partially successful.

CWS Sull (2015) on the 'implementation deficit'

The companion website includes a 'Key ideas' feature on recent research by Donald Sull (2015) on the obstacles to implementing strategy.

Chapter 2 includes a study by Arnaud et al. (2016) showing how the manager of one branch of a French bank adjusted the strategy proposed by HQ to suit local needs. Managers at HQ of the newly privatised bank developed a strategy to ensure staff in the branches were more customer-centred, more professional and more efficient. They designed new procedures, based largely on scientific management principles. In four branches staff opposed the strategy and it was never implemented. In one branch the manager designed three sets of local procedures and documents ('texts') which met the needs of staff and of HQ – and it was the only branch that implemented the strategy.

The texts were of three types – operating (what to do and how to do it); geosocial (where and who); and timing (when) – as shown in Table 2.3. Staff responded positively, and implemented the strategy.

Evaluate results

Managers, shareholders (current and potential) and financial analysts routinely compare a company's performance with its published plans. Only by tracking results can these and other interested parties decide if performance is in line with expectations or if the company

needs to take some corrective action. Many targets focus on financial and other quantitative aspects of performance, such as sales, operating costs and profit.

Although monitoring is shown as the last stage in the strategy model, it is not the end of the process. This is continuous as organisations adjust to changes in their business environment. Regular monitoring alerts management to the possibility that they will miss a target unless they make some operational changes. Equally, and in conjunction with continuous scanning of the external environment, performance monitoring can prompt wider changes to the organisation's corporate and competitive strategies.

8.10 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 8.3 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 8.3 'Clear thinking' questions about practice and theory

Clear thinking elements	From the Chapter Case study – the decision not to return to basic steel, but instead to enter the motor components business	Theory – outlining your approach to a question on the rational view of strategy and the alternatives
Check assumptions (task and process)	**Introduction** This was a decision that shaped the company for decades. What can we learn? Assumptions that may have shaped the views of Holdsworth and the chairman: **Task** • Holdsworth's belief that investing in Uni-Cardin would be more profitable than common steel • Chairman's opposite beliefs • In both cases – what evidence and analysis did they have to support their views? How reliable and robust were their calculations? What biases mediated their views? **Process** • Holdsworth appears to have relied on rational persuasion to win the argument. Chapter 14 describes other methods available to someone in that position	Outline the rational approach briefly, and where it is suitable Also note the adaptive and negotiated theories Assumptions behind a rational approach include: **Task** • People can agree goals • Information on variables is accurate and consistent • Forecasts will be quite accurate **Process** • Senior people have the knowledge, skill and information needed to make useful plans • Others will accept plans and implement them as intended These assumptions may or may not be accurate, depending on situation. Evidence either way?

Clear thinking elements	From the Chapter Case study – the decision not to return to basic steel, but instead to enter the motor components business	Theory – outlining your approach to a question on the rational view of strategy and the alternatives
Recognise contexts	Holdsworth probably saw: • growing demand for cars and other vehicles • Uni-Cardin gave a chance to be a high-tech supplier, hard to imitate • a chance to broaden the markets served by GKN Chairman saw things differently? Do their differences in age and time with GKN help explain different perceptions?	Suitable in stable contexts, little new competition, reasonable political certainty, fashion changing slowly Less suitable when contexts are less stable or when there are material differences of view about objectives
Imagine alternatives	1 Return to making common steel, competing with low-cost suppliers: adding little value 2 Less risky to enter joint-venture with Uni-Cardin – but balanced by less added value	Adaptive view – frequent small changes rather than big commitments limit risks of major moves Negotiate view – in which plans emerge from negotiation with other players
Acknowledge limitations	It would require substantial investment in an area in which GKN itself had no experience	Limitations of the rational view are essentially in the assumptions it makes about the contexts in which people are using it. If they are stable, etc. the approach can work well – limited use if not Most strategy issues contain elements of all four approaches Better to see them as complementary approaches, to be used in harmony when circumstances suit each

what variables they assumed would help them achieve them) and about process (how they tried to gain the support of stakeholders). *These are examples only – not a comprehensive analysis*. You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *Outline the rational view of strategy and explain the situations in which it will be a practical way to form a strategy, and when it will not. In the latter case, what alternative approaches could a practitioner consider?*

Skill

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of setting clear goals.

Develop a skill: setting clear goals

Setting clear goals is an essential management skill, and practising how to do this should help you while studying, and in later life.

- **Assessment.** Assess how well you set goals for a task. Do you routinely spend time clarifying the goals (objectives) of a task? Can you express them quickly if someone asks? Do you ever waste time by doing tasks that are not relevant to the goal?
- **Learning.** Section 8.4 introduced the way managers develop strategy, including strategy workshops. Read that section again, paying especial attention to the 'Key ideas' feature on page 200 which shows the value of setting clear goals. Also read Section 7.5 on setting goals, especially the sub-section 'criteria for assessing goals' (page 179) which describes the SMART technique, and the 'Key ideas' feature in the Companion website on goal-setting theory. What are the likely effects of clear goals?
- **Analysis.** Do you have experience of working (on any task) with unclear goals (or with clear ones)? How did either condition affect the outcome? How do you distinguish a clear goal from an unclear one?
- **Practice.** Identify a task that you need to complete soon, such as an essay, report or group presentation.
  - Use the SMART technique to set intermediate goals for what you want to achieve within, say, the next week. These could include three or four goals, such as identify topic, identify relevant literature, complete part of literature review, begin to plan data collection, and so on. Note each goal you want to achieve, and use the SMART technique to sharpen and clarify each of them.
  - Complete the task, bearing in mind your goals.
  - When you have completed the task, review whether you have achieved your goals. Also review how you worked, and whether the SMART goals you set helped you. Reflect on what you have learned, preferably sharing any insights with others on your course.
- **Application.** Decide on another opportunity to revise your approach and practise this skill again on the next stage of your work, or on another task.

Summary

1 **Explain the significance of managing strategy and show how the issues vary between sectors**

- Strategy is about the survival of the enterprise; the strategy process sets an overall direction for allocating resources with information about the external environment and internal capabilities.

2 **Compare rational, adaptive and negotiated perspectives on the strategy process**

- The rational approach is appropriate in stable and predictable environments; while the adaptive approach is more suited to complex, changing and ambiguous situations. Negotiated approaches are better when the situation includes interests of powerful stakeholders. Such strategy models are not prescriptive but rather frameworks for guidance.

3 **Summarise evidence on how managers develop strategies**

- Companies in turbulent environments have relatively informal strategy processes, with shorter planning meetings, and greater responsibility on line managers to develop strategy.
- Formulating strategy and designing the organisation are done as closely linked practical activities.
- Sull uses the 'strategy loop' to describe how managers continually develop and renew strategy.

4 **Explain the tools for external and internal analysis during work on strategy**
- External analysis can use Porter's five forces model and the PESTEL framework to identify relevant factors
- Internally managers can use the value chain to analyse their current organisation
- The two sets of information can be combined in a SWOT diagram

5 **Use the concept of generic strategies to compare business level strategies**
- Strategic choices are cost leader, differentiation or a focus on a narrow market segment.

6 **Give examples of the methods practitioners use to deliver a strategy**
- Strategy can be delivered by internal (sometimes called organic) development by rearranging the way resources are deployed. Alternatives include acquiring or merging with another company, or by forming alliances and joint ventures.

7 **Explain the benefits of setting objectives and how you can use these to develop your skill of setting clear goals**
- Setting clear goals for a task or decision is a widely-useful management skill, and the chapter has provided an opportunity to develop this.
- The skill of setting clear goals assumes a reasonable degree of agreement and common purpose, and may be difficult to apply when that is lacking – people can become defensive. If the context is highly uncertain there may also be resistance to the idea. An alternative approach is to set a general direction of travel, and refine goals as you become familiar with the situation.

Test your understanding

1 Why do managers develop strategies?
2 How does the rational theory differ from the adaptive and negotiated ones?
3 Describe what recent research shows about how managers develop strategy.
4 Draw Sull's strategy loop, and explain each of the elements.
5 Discuss with someone you know how their organisation developed its strategy. Compare this practice with the ideas in the chapter. What conclusions do you draw?
6 What are the steps in analysing the organisation's environment? Why is this worth doing?
7 The chapter described three generic strategies that business units can follow. Give an example of each.
8 What are the main ways to deliver strategy?

Read more

Stone, B. (2013) *The Everything Store: Jeff Bezos and the Age of Amazon*, Corgi, London.

Well-informed account of the evolution of the company, and how strategy has evolved as it has discovered opportunities.

Lorenz, A. (2009) *GKN: The Making of a Business*, Wiley, Chichester.

An account of how the company evolved over more than 250 years, with many examples of strategic decisions along the way.

Gaul, G.M. (2015) *Billion-Dollar Ball: A Journey Through the Big-Money Culture of College Football*, Viking, New York.

A well-researched account of the huge business of American college football – how it lobbies successfully to retain generous tax breaks, and how independent the teams are of their colleges.

Healey, M.P., Hodgkinson, G.P., Whittington, R. and Johnson, G. (2015) 'Off to plan or out to lunch? Relationships between design characteristics and outcomes of strategy workshops', *British Journal of Management*, vol.26, no. 3, pp.507–28.

An empirical study of the design and outcomes of strategy workshops, whose lessons apply to most types of management workshops and activities in which you are likely to become involved.

Robinson, C.V. and Simmons, J.E.L. (2018) 'Organizing environmental scanning: Exploring information source, mode, and the impact of firm size,' *Long Range Planning*, vol. 51, no. 3, pp.521–39.

Examines the sources practitioners use to gather useful information.

Go online

These websites have appeared in the chapter:

www.gkn.com
www.ikea.com
www.maersk.com
www.rb.com
www.lloydsbankinggroup.com
www.tjmorris.co.uk
www.whsmith.co.uk
www.scottishpower.com
www.saga.co.uk

Visit two of these sites, or any other company that interests you, and navigate to the pages dealing with news or investor relations.

- What are the main strategic issues they seem to be facing?
- What information can you find about their policies?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



CHAPTER 9
MANAGING MARKETING

Aim

To introduce the context and tasks of marketing that help to add value.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1 Define marketing and explain how it can add value

2 Outline the marketing context and be able to evaluate examples of practice and theory:
   a. internal – marketing orientation
   b. external – competitive and general environments

3 Describe these tasks of marketing and be able to evaluate examples of practice and theory:
   a. understanding customers and markets, and the sources of marketing information
   b. segmenting markets and targeting customer groups
   c. constructing a marketing mix
   d. customer relationship management (CW)
   e. the product life cycle (CW)

4 Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of identifying customers' needs

Key terms

This chapter introduces these terms:

marketing
marketing orientation
consumer-centred organisation
marketing environment
customer
customer satisfaction
needs
wants
demands
marketing information system
market segmentation
target market
market offer
marketing mix
brand

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

The Marketing Mix
The product life cycle
Customer relationship management

Case study

Manchester United FC

www.manutd.com

With over 50 million fans across the globe, Manchester United Football Club (MU) is one of the best-known soccer clubs. It rose to prominence in the early 1950s, and since then it has hired several legendary managers (including Sir Matt Busby and, from 1986 to 2013, Sir Alex Ferguson) and bought or developed world-recognised players. In early 2019, the club was going through a bad patch, having just dismissed José Mourinho, their third manager in three years. A season-ticket holder, when asked how the recent brand of football compares to United's glory years:

> **It doesn't. We've been spoiled. Fans should realise we're not going to keep that up for ever. It's disappointing particularly with City and Liverpool doing well – it makes it worse.**

Revenue comes almost equally from ticket sales, broadcasting rights and commercial partnerships. Some revenues are evidently football-related businesses (tickets, TV rights, and sports clothes) while others relate to the 'MU brand' (mobiles, travel, financial services). The value of commercial partnerships to the industry is growing rapidly.

In May 2005, American sports tycoon, the late Malcolm Glazer, bought the club for £790 million in a deal that was heavily financed by debt. Some fans object to this, believing that high interest payments on the debt have prevented the club from spending more on new players. In the year to 30 June 2018, club revenues increased by 1.5 per cent to £590 million, while operating profits fell 45.4 per cent to £44.1 million – not helped by poor performance in the Champions League. In June, *Forbes* magazine ranked it as the world's wealthiest club for the second year running, valuing it at $4.12 billion, 12 per cent above the previous year.

Manchester United Football Club (MU) is only a part of the worldwide operation. The holding company (Manchester United PLC) owns MU, Manchester United Catering and Manchester United Interactive. MUTV, the club's official channel, is a joint venture between Manchester United PLC, Granada and BSkyB.

The Club's ambition is to be the most successful team in football. Its business strategy is to do this by having the football and commercial operations work hand-in-hand, both in the UK and in the potential markets represented by the Club's global fan base.



© kovop58/Shutterstock

The marketing strategy is built on maintaining success on the field and building brand awareness through new products and partnered services that appeal to MU's fans. Adidas is a substantial partner who uses its marketing channels to generate new value from the MU trademarks by supplying replica kits (for example) to the millions of MU fans in the UK and Asia.

MU attempts to control and develop its own routes to market for media rights (for example, MUTV), thereby exploiting the Club's own performance and reputation rather than relying on the collective appeal of competition football. The management believes this enhances the ability to deliver branded services to customers anywhere in the world. They rely strongly on IT-based CRM (customer relationship management) technology to convert fans to customers.

Sources: Based on material from Butterworth Heinemann Case 0181, *Manchester United and British Soccer: Beautiful Game, Brutal Industry; Financial Times* 9 May 2013, 12 February 2016; BBC News, 23 January 2018, 17 July 2018, 29 September 2018; *The Guardian*, 19 December 2018, p.55.

Case questions 9.1

- Consider the marketing implications of MU's activities. What is it offering to customers?
- What groups would MU see as competitors? Are they simply other successful football clubs?
- What distinctive challenges do you think may arise in marketing a football club?

Activity 9.1 Describing marketing

- Before reading this chapter, record some notes on what you understand 'marketing' to be.
- Think of some recent purchases, and consider the different ways in which you came across 'marketing' before, during or after your purchase.
- Keep your notes as you will use them again at the end of the chapter.

9.1 Introduction

Manchester United (MU) depends on good marketing to ensure the continued loyalty and support of its diverse customers. An MU football fan might buy a season ticket to fulfill a psychological need as part of a group with a common purpose: someone with no interest in football might use an MU mobile phone because they trust the MU reputation. Someone with a replica jersey is making a statement about their personality, and is not sensitive to price, paying highly for something that costs very little to make.

How should the company manage the brand in these unrelated markets? How best to understand the needs of stakeholders – owners, managers, players, fans, sponsors, broadcasters? How to manage relationships with customers to ensure long-term loyalty – even if the club does badly on the field? How to present its goods and services to earn as much as it can?

All organisations face the challenge of understanding what customers want, and of meeting their expectations. Successful firms often place marketing at the heart of strategy. IKEA found and refined a formula that appeals to its target market, growing in 40 years from a single store to an international brand. Virgin has done the same – like MU, offering a wide range of products to a global market. Successful not-for-profit organisations like the Eden Project demonstrate the benefits of engaging with customers. All need to give value for money, by understanding customers' needs – this is the focus of the 'Develop a skill' feature at the end of this chapter.

We are familiar with the techniques of advertising and selling, when companies:

- distribute brochures
- offer promotional prices
- persuade celebrities to endorse their products
- send advertisements to mobiles.

Marketing is the process by which organisations create value for customers, to receive value from them in return.

These *selling* techniques are only the most visible part of **marketing**, which aims to identify and satisfy customer needs in a way that adds value. This depends on skills in researching customers and markets, designing products, setting prices, communicating the offer, ensuring delivery and evaluating responses. Marketing staff work with most parts of their organisation.

The chapter clarifies 'marketing' and shows how it can add value. It explains the internal (marketing orientation) and external contexts of marketing, both of which shape the marketers' task and are in turn shaped by marketing. It explains how marketers try to understand customers, distinguish market segments, and satisfy those through managing customer relationships and the marketing mix – see Figure 9.1.



Figure 9.1 An overview of the chapter

9.2 The internal context – a marketing orientation?

Four orientations

Chapter 3 showed how culture can influence where people focus their efforts and attention: Table 9.1 compares the focus, benefits and risks of four cultures (or 'orientations').

Table 9.1 Four organisational orientations

Organisational orientations	Focus	Benefits	Risks
Product	Technological skills and product features	High-quality, innovative products	Does not meet customer needs, so sales are poor
Production	Efficient, high-volume, low-cost production	Low price may build sales	Competition from lower-cost producers; inflexible
Sales	Seller's need to convert product into cash	May work for 'unsought goods' (insurance) and in cash-flow crises	Sales techniques may damage future sales prospects
Marketing	Understanding and meeting consumers' needs	Satisfying consumer needs improves firm performance	High costs of building and maintaining a marketing orientation

- **Product**: in units with a product orientation, people focus on the design and perfection of the product itself. This could mean sophisticated products using the latest science or a familiar product or experience. A risk in this approach is that of missing disruptive external changes in consumer preferences, and finding it hard to catch up.
- **Production**: here the aim is to produce large quantities of a limited range efficiently and economically. This works well when low cost allows the firm to build a dominant position in its market. A risk is that it loses the ability to work in other, possibly growing, sectors – if they expect variety and innovation.
- **Sales**: units with this orientation aim to turn available products into cash, often using aggressive sales techniques – useful if a concert has unsold seats a few days before the show or the customer for a large order goes out of business.

The product, production and sales often work well – there is no reason to regard one as more superior to another: it depends on circumstances. Marketing professionals advocate creating a favourable context for their skills by creating a marketing orientation (Morgan et al. 2009).

Marketing

Marketing orientation refers to an organisational culture that encourages people to behave in ways that offer high value goods and services to customers.

Most firms have marketing staff, but a **marketing orientation** refers to a situation where the ideas and priorities of marketing are deeply embedded throughout the organisation. This means, amongst other things, that staff who are not in direct contact with customers still understand their needs, and give time and effort to satisfy them – supported by robust procedures and systems.

Key ideas — Theodore Levitt and marketing myopia

Levitt (1960) sets out with great clarity the case for a customer orientation. Beginning with the example of great industries that had suffered dramatic declines in demand, he claimed this was not because their market was saturated, but because their senior managers suffered from 'marketing myopia'. That is, they defined their businesses too narrowly: railway businesses saw themselves as providing railways, not transportation; Hollywood film companies saw themselves as producing films, not providing entertainment. In each case this prevented them from quickly seizing opportunities to enter new markets – road and air transport, or TV production, respectively.

Levitt gives examples of companies that were indeed product focused, but who prospered: not because of their product focus, but because they *also* had a strong customer-orientation. They constantly looked for opportunities to apply their acknowledged technical expertise to satisfy new customers. He concludes by proposing that managers must view the entire corporation as a customer-satisfying organism – not as producing products, but as satisfying customers:

> **It must put this into every nook and cranny of the organisation, continuously, and with the flair that excites and stimulates the people in it (p.56).**

Source: Levitt (1960).

A marketing orientation depends on encouraging appropriate behaviour in relation to:

- **customers**: understanding and anticipating their needs and demands
- **competitors**: identifying and anticipating their marketing plans
- **coordination**: ensuring functions work together to meet customer needs to add value.

A **customer-centred organisation** is focused upon, and structured around, identifying and satisfying the demands of its consumers.

It seems plausible that such **customer-centred organisations** will perform well, and Kumar et al. (2011) drawing on a panel of 261 managers between 1997 and 2005, confirmed this. They did better in both the short and long term, with early adopters gaining more than late.

Activity 9.2 Gathering examples

Select an organisation (or unit) with which you are familiar, or about which you can find out.

- Which of the four orientations in Table 9.1 most closely describes it?
- What information suggested that choice?
- If it has a marketing orientation, what examples can you give of the way people work?
- Compare what you have found with other students, and identify any common themes.

Developing a marketing orientation

While a marketing orientation seems to work well in certain contexts, it is hard to achieve. Staff need to share a common commitment to work together in the interests of customers and senior managers need to work with them to design and implement the systems and processes to support this: Gebhardt et al. (2007) give a comprehensive empirical analysis.

CWS More on a marketing orientation

9.3 The external context of marketing

Marketers spend time and money identifying trends and events in the **marketing environment** that influence consumers – see Figure 9.2, based on Figure 3.1.

The **marketing environment** consists of the actors and forces outside marketing that affect the marketing manager's ability to develop and maintain successful relationships with its target consumers.

Activity 9.3 Identifying the marketing environment

Use Figure 9.2 to identify, for each of these organisations, those parts of their contexts that have most impact on their marketing activities: Ryanair, IKEA, innocent drinks. How have they responded to these influences?

Micro-environment

Each organisation has a unique competitive (micro) environment:

- **The company**: marketing staff depend on other units for services, and all are potential sources of marketing ideas. There may be more of them if there is a strong market orientation.
- **Suppliers**: these provide many of the resources the company needs, so the quality of their work affects what it delivers to the organisation.
- **Competitors**: companies track what competitors offer, and try to distinguish themselves in a way that customers value. If competing physical products become harder to distinguish, some companies try to build closer relationships with customers based on service or experience.
- **Customers**: the definition listed six broad types: this chapter focuses on individual and household consumers, especially on the factors influencing what they buy.



Figure 9.2 The marketing environment

- **Substitutes**: e-cigarettes offer customers an alternative way of meeting the need they have traditionally met from cigarettes; watching football on a mobile device is a substitute for TV.
- **Potential entrants**: uber operates in many large, often capital, cities. Taxi owners in other large cities wait anxiously for news on where it will open next.

Macro-environment

The macro-environment is similar for all players in an industry (consumer protection laws affect all businesses more or less equally), but marketing can spot opportunities created by each PESTEL factor – see Table 9.2.

Technological innovations are significant for marketers. People are spending more time on internet, mobile services and video games than on traditional media (print, radio and scheduled TV), changing how companies communicate with customers. Kumar (2018) observed:

> Newer technologies such as ... virtual reality and facial recognition are increasingly reshaping how companies interact with their customers and stakeholders. With social networks being a core element in a company's customer-focused efforts, technical developments now encourage and sustain active customer participation online, both with the companies and among other customers. In addition, related software applications can now track

Table 9.2 Examples of the link between PESTEL factors and marketing

PESTEL factors	Marketing example
Political: child protection regulations, such as banning sale of alcopops to children	Marketers need to alter ingredients and ensure staff follow the rules to avoid bad publicity
Economic: growth in China, Russia and India creates great wealth for some of their citizens	Makers of luxury goods do well in this market – China is Rolls-Royce Motors' largest market
Social: demographics – many well-off elderly people want easy-to-maintain dwellings	McCarthy and Stone create a business selling and managing blocks of retirement homes
Technological: computing power enables new means of communicating at little cost	Wide use of social media transforms the way marketers communicate their message
Environmental: effects of greenhouse gas emissions encourages use of cleaner energy	Suppliers of wind and solar energy systems see new opportunities
Legal: government alters legislation to permit pubs to be open longer	Some pubs vary the offer over the day, to cater for varying customer demands

> social data, design company messages, initiate actions, deliver responses, and track the outcome, all in real time. This ability has enabled companies to offer relevant content and personalized messages to specific customers at each point along a customer's journey. [The ability to combine data across various social media platforms also allows companies to create value for their customers] (Kumar, 2018, p.2).

9.4 Marketing tasks – understanding customers and markets

If practitioners understand what current and potential **customers** value, they can develop products that ensure **customer satisfaction**, and perhaps be willing to pay more. Premier Inn, a budget hotel chain, analysed thousands of Trip Advisor reports on its own and competitor hotels to identify the factors that drive satisfaction, return visits and revenue. The results changed the way it motivates, trains and rewards staff leading, it claims, to more return visits (*Marketing Week*, 12 November 2018, accessed 14 November 2018). Organisations fail when staff do what they prefer, not what service-users expect. Kotler et al. (2008) describe marketing as:

Customers are individuals, households, organisations, institutions, resellers and governments that purchase products from other organisations.

Customer satisfaction is the extent to which a customer perceives that a product matches their expectations.

> the homework which managers undertake to assess needs, measure their extent and intensity and determine whether a profitable opportunity exists. Marketing continues throughout the product's life, trying to find new customers and keep current customers by improving product appeal and performance, learning from product sales results and managing repeat performance (pp.6–7).

Peter Drucker (1985):

> Because the purpose of business is to create and keep customers, it has only two central functions – marketing and innovation. The basic function of marketing is to attract and retain customers at a profit. The more staff understand what customers want, the more likely they will satisfy them.

Managers in any organisation can use marketing. Local government services such as libraries, museums or concert halls routinely survey users about their satisfaction with an event or experience, and to assess likely demand for new ones. Mining companies such as Rio Tinto Zinc, claim part of their skill is in matching ores to the right buyers. Iron ore

has many variations in mineral content and purity, so by blending output from various mines the company tries to maximise the value of the ore. Speaking to investors, Sam Walsh, chief executive said: 'Our marketing teams work very closely with our operations, so that [how we manage the mines] is fully aligned to the market' (*Financial Times*, 2 December 2014).

Staff and volunteers in charities can be uncomfortable with the idea that they are in marketing. Yet donors, local authorities, opinion formers, the media, all have the choice of whether or not to support a charity ... They make up the markets within which the charity operates. Without knowledge and understanding of those markets, the charity will fail to meet the needs of those who benefit from it.

Key ideas **Habit or novelty?**

Developments in neuroscience suggest that our brains try to match what we are seeing now, with what we have seen before – so the less energy required to recognise something, the better. The more consistent an object remains, the less work the brain needs to do to recognise it. Research has shown that over time the brain needs less information and uses less power to recognise a familiar object than to recognise something new.

Why, then, do some marketers spend time and money creating novelty? Creating new packaging for a familiar product may have the opposite effect from that intended: the way our brain works may cause us to overlook the new design as we search for what we are in the habit of seeing.

Source: Based on a 2017 article by Scott Berinato in *Harvard Business Review*, vol. 95, no. 1, p.60.

Customer needs, wants and demands

Needs are states of felt deprivation, reflecting biological and social influences.

Wants are the form that human needs take as they are shaped by local culture and individual personality.

Demands are human wants backed by the ability to buy.

Psychologists have developed theories of human **needs** – states of felt deprivation – that people try to satisfy (see Chapter 15).

Wants are the form that human needs take, shaped by personality and culture. Everyone needs food, but satisfies the need in many ways – enabling the food industry to prosper by offering many varieties of basic products. More people want coffee 'on the go', which attracts new entrants: 'Wherever you go, specialist chains, fast-food operators, pubs, we're all offering coffee because customers want it' (chief executive of a fast-food operator, private communication).

People have limited resources, so needs and wants only become relevant to a supplier when the person can pay – when a want becomes a **demand**. Given their needs, wants and resources, people demand products to satisfy them. The better an enterprise understands these through customer research, the easier it will be to create an attractive market offering.

Understanding consumer behaviour

Figure 9.3 shows the internal and external factors that marketers believe shape purchase decisions. Psychological theories help to identify internal factors, while perception, attitudes and demography shape others.

Major external factors are the 'reference groups' to whom people feel an affinity (a group of MU supporters). As IKEA (Chapter 6) opened stores overseas, it took care to observe

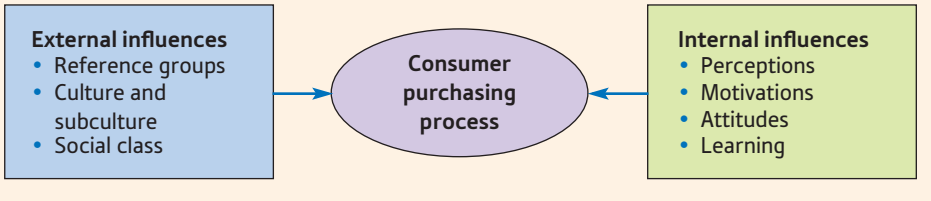


Figure 9.3 Influences on buyer behaviour

Table 9.3 Influences on buyer behaviour

Influence	Description	How marketers use this influence
Internal		
Motivation	Internal forces that shape purchasing decisions to satisfy need	Design products to meet needs. Insurers remind people of dangers against which a policy will protect
Perception	How people collect and interpret information	Design promotional material so that the images, colours and words attract the attention of intended consumers
Attitudes	Opinions and points of view that people have of other people and institutions	Design products to conform. Increasing stress on environmental benefits of products and services
Learning	How people learn affects what they know about a product, and hence their purchasing decisions	Associate product with unique colours or images (Coke with red and white)
External		
Reference groups	Other people with whom the consumer identifies	Marketers establish the reference groups of their consumers, and allude to them in promotions – e.g. sponsoring athletes in return for product endorsement
Culture	The culture to which a consumer belongs affects their values and behaviour	Subcultures associated with music or cars influence buying behaviour – which marketers use in positioning products for those markets
Social class	People identify with a class based on income, education or locality	Purchase decisions reaffirm class affinities or aspirations. Marketers design promotional material to suit

local cultures and buying habits. As societies become more ethnically diverse, consumer products companies introduce products adapted to these tastes. Table 9.3 illustrates this.

Activity 9.4 What influenced you to buy?

Identify a significant purchase you have made – either a physical product or a service.

- Which one or two, if any, of the factors in Table 9.3 most affected your decision?
- Can you identify any influences that are not in the list?
- Compare your lists with others on your course, and identify factors that appear most frequently.
- Do the results appear to support or contradict this theory?

We make routine purchases without considering these factors, but for bigger items marketers are keen to influence our choice – and rely on information to do so.

Case study Manchester United FC – the case continues www.manutd.com

A football game is not a tangible product. A regular and significant intangible purchase by a Manchester United football fan is the cost of a ticket to see a home game at Old Trafford, or a pay-per-view TV package. There is no guarantee of satisfaction and no exchange or refund. No promotional advertising is needed and demand is 'inelastic' – prices can increase without sales falling proportionately.

An important question for a marketing manager is 'how does a fan reach the decision to buy this experience and how is value measured?' The buyer behaviour framework in Table 9.3 can help: domestic UK fans are typically lifelong, acquiring perceptions of and loyalty to the Club at school or in the home. Influencers would include peers and older pupils. Although football was formerly male-dominated, young females are an increasing part of the market. Most fans travel in groups of two or more, so this is an attribute that can be managed in raising awareness and favourability. Publicity photos can depict fans celebrating or commiserating together and the whole emphasis of attending a football match can be positioned away from 'did we win?' to 'did we have a good time?'. This approach is one of MU's declared marketing strategies.

Case questions 9.2

- What customer demands was Manchester United seeking to satisfy at the time of the case study?
- What other demands does the business have to satisfy?
- What marketing tools are mentioned in the case?
- What contextual factors have helped MU to become a successful brand?

Marketing information systems

A **marketing information system** is the systematic process for the collection, analysis and distribution of marketing information.

Practitioners use **marketing information systems** to collect, analyse and distribute information about customers and environments – see Figure 9.4 and Table 9.4. Some also try to build close relationships with customers as shown on the website.

CWS Customer relationship management

Companies use data to understand what influences customers' behaviour: airlines accumulate information about passenger preferences over many years and use it for promotions – and sometimes to enhance the flight experience. Social media provides much potentially valuable data, as users express and share their 'likes' about products (see 'Key ideas' feature

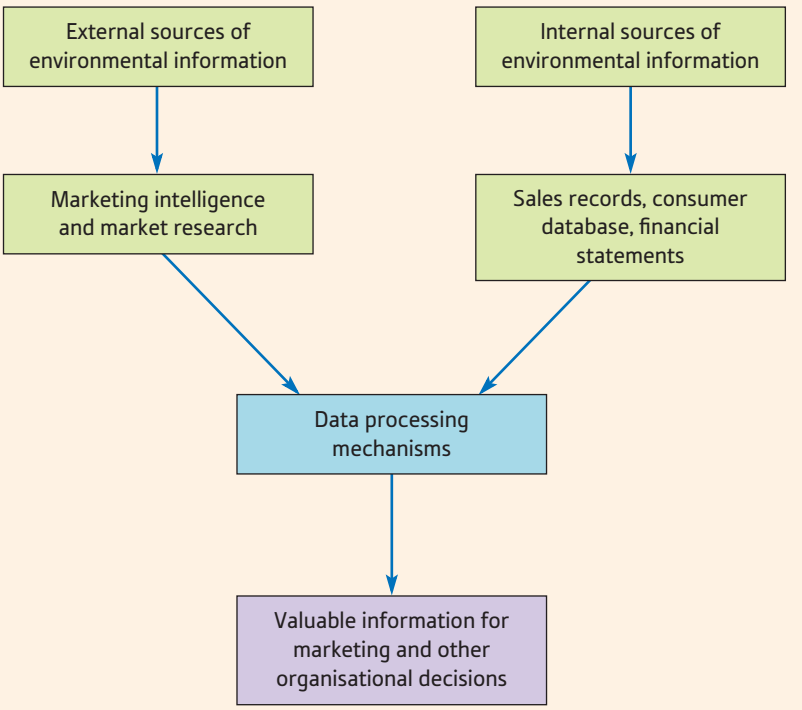


Figure 9.4
A marketing information system

Table 9.4 Sources of marketing information

Source	Description and examples
Internal records	Records of sales, costs, customer transactions, demographics, buyer behaviour, customer satisfaction, reports from the sales force
Marketing intelligence	Data on competitors, potential new entrants and substitutes. What social trends are affecting demand? Electronic sources and social media tracking systems usually provide this
Market research	1 Defining the problem and research objectives (how many people with X income, living in place Y are aware of product Z?) 2 Developing hypotheses (is awareness higher or lower in area B where we advertised than in C?) 3 Developing the plan to collect data to refute or confirm hypotheses 4 Implementing it – collecting and analysing data 5 Interpreting and reporting the findings

that follows). Consumer products companies spend heavily to find ways to access this data and target users with relevant promotions.

Key ideas **Marketing information from social tags**

Nam et al. (2017) show how they developed a (very complex) system which marketers can use to capture valuable information about major brands from user-generated social tags. They claim that:

> **The advent of user-generated content has revolutionised the art and science of market research by making available a significant amount of online data that reflect consumers' opinions, attitudes, and preferences for products, services and brands ... Marketing practitioners have [previously] obtained brand perceptions ... by mining online discussions and posts about brands (p.88).**

They go on to explain that their work has focused on user-generated social tags associated with brands, and propose a way to analyse the brand associations that these tags express. Mining social tags provides marketing researchers with unique opportunities to understand brand associations that are directly and explicitly mentioned by individual users/consumers. For example, it could allow marketers to identify and describe the variety of perceptions that users with different characteristics have of a brand.

Source: Nam et al. (2018).

Table 9.3 showed the factors that influence individual purchasing decisions. To the extent that several individuals share these influences, marketers identify distinct segments within a population, rather than seeing a market as homogenous.

9.5 Choosing segments, targets and the market offer

Market segmentation is the process of dividing markets comprising the heterogeneous needs of many consumers into segments comprising the homogeneous needs of smaller groups.

Customers respond positively to offerings that meet (from design to promotion and advertising) their needs. Organisations use **market segmentation** to satisfy these diverse needs. Full-service airlines offer first, business, economy or budget flights: while the basic service

(a journey from A to B) is the same for all, the total offering is not: those in first have superior service at all stages. Universities offer degrees by full-time, part-time and distance learning study. Mobile phone companies offer basic devices, those with many features, and others for people wanting a luxury accessory.

Key ideas — Segments of the wine market

Kotler and Keller (2014) illustrate behavioural segmentation with an example from the wine industry. One company identified six benefit segments in the wine market:

- **Enthusiasts** (12 per cent of the market) – high income, more female than male.
- **Image seekers** (20 per cent) – more male than female, average age 35. Use wine as an identity badge and are willing to pay for the right bottle for their image.
- **Savvy shoppers** (15 per cent) – enjoy shopping and believe they don't have to spend a lot to get a good bottle. Happy to use the bargain bin.
- **Traditionalists** (16 per cent) – buy brands they have heard of, and from long-established vineyards. Average age 50, two-thirds are female.
- **Satisfied sippers** (14 per cent) – not knowing much about wine, tend to buy the same brands.
- **Overwhelmed** (23 per cent) – find buying wine confusing.

Source: Kotler and Keller (2014), p.249.

Segmenting depends on identifying variables that distinguish consumers with similar needs:

- **Demography**: the easiest way to segment a consumer market is by demography. Magazine companies use gender and age to ensure that within their portfolio they have titles suitable for females, males and those of different ages. Councils use data on age and family structures to predict service demand.
- **Geography**: this segments markets by country or region, enabling multinational to 'think global but act local'. While maintaining uniform global standards of service and a common promotional theme, they vary the product to suit local tastes.
- **Socioeconomic**: uses variables such as income, social class and lifestyle. Lifestyle segmentation means identifying groups who share similar values about how they wish to live. English whisky distillers (there were 21 in 2018), unlike those in Scotland, are not required to age whisky in oak, meaning 'we are free to innovate - that's what attracts the younger whisky drinker', said Chis Jaume, co-founder of Cooper King Distillery (www.cooperkingdistillery.com) near York (*Financial Times*, 8/9 September 2018, p.17).
- **Behavioural**: marketers can also divide buyers into groups on the basis of their attitude towards, or use of, a product. The Key Ideas feature above gives an example from the wine business.

Marie Claire uses age, gender, education, lifestyle and social class to attract a readership of educated, independently minded women between the ages of 25 and 35, in income brackets ABC1. Pubs aim for particular segments – sophisticated city centre, food-led, urban community, country – to meet the distinct needs of each. Contemporary artist Damien Hirst (www.damienhirst.com) identified a group of wealthy art buyers who bought not only for artistic interest but also for fun, status or investment. He designs for that segment.

Management in practice

How millennials watch football www.copa90.com

Copa90 is a London-based media company that focuses on football fan culture. Discussing how they planned to deliver the 2018 World Cup to their users, Tom Thirlwall, chief executive:

> **few millennials will follow every kick of the ball – that is very much a declining habit: groups sitting in front of the TV in the lounge.**
>
> **In the smartphone era, younger people seldom watch anything for more than a few minutes in a row. If a goal is scored in Russia, they will quickly find the clip somewhere, either on a legal site or a pirated one. Watching live matches will be just a fraction of millennials' engagement with this World Cup. They will also banter about games with friends on social media, bet online and catch up with highlights from earlier games on YouTube.**

Turning away from the pitch has earned Copa90 150 million views a month. The company sent 40 reporters to Russia, but they will be telling fans' stories rather than covering matches. Mr Thirlwall:

> **[They will be] telling stories outside the 90 minutes that make the 90 minutes matter more.**

FT Source: *Financial Times*, 13 June 2018, p.9.

Having segmented a market using these variables, marketers have to decide which to select as their **target market**, usually based on the criteria that it:

- contains demands they can satisfy
- is large enough to provide a financial return
- is likely to grow.

A **target market** is the segment of the market selected by the organisation as the focus of its activities.

Case questions 9.3

- Use the frameworks in this section to identify segments in the MU market.
- Visit the website to find specific examples of products the company offers to each segment.
- List your segments and examples, and exchange what you have found with other students.

The market offer – products, services and experiences

Information about customers' wants and demands helps companies to develop a **market offer** – a combination of products, services and experiences. While the features of a physical product are part of the value, service and experience also affect this: how staff treat the customer, their ability to answer questions, the quality of after-sales. The experience also matters – both the thing itself (good to use?), and how others react (does it boost your image?). Marketers look beyond the product's attributes, aiming to create brands for which people are willing to pay more.

A **market offer** is the combination of products, services, information or experiences that an enterprise offers to a market to satisfy a need or want.

9.6 Using the marketing mix

Marketing managers select the tools to satisfy the customers in their target market – everything they can do to influence demand. A widely-used technique to group these factors is the **marketing mix** – the 'four Ps' of product, price, promotion and place.

The **marketing mix** is the set of marketing tools – product, price, promotion and place – that an organisation uses to satisfy consumers' needs.

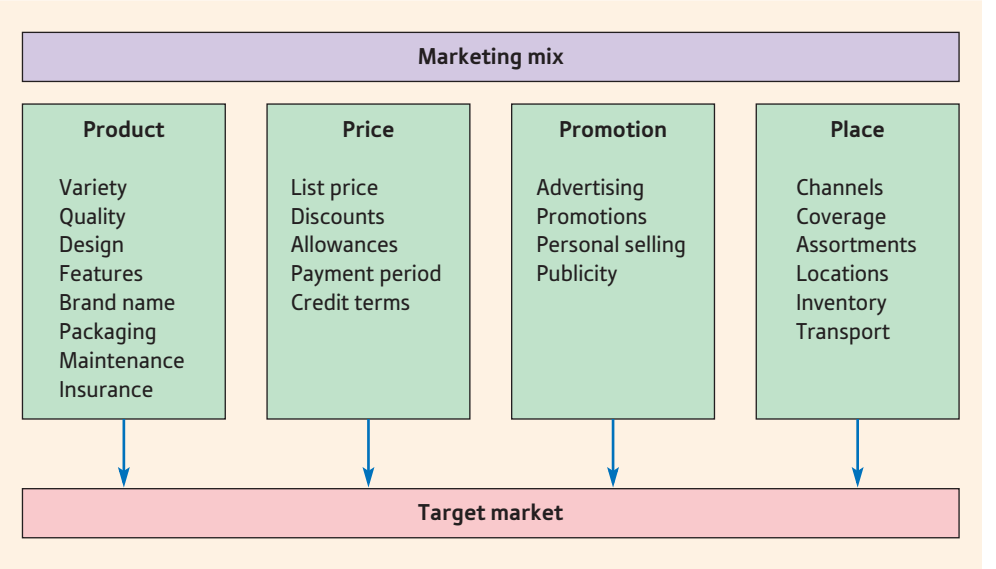


Figure 9.5 The four Ps in the marketing mix

Kotler and Keller (2014) propose a more complex model to reflect the circumstances of modern marketing, in which the 'four Ps' become people, processes, programmes and performance. The 'programmes' factor incorporates all the elements of the traditional marketing mix: as part of an introductory text, this chapter presents those elements in Figure 9.5.

Key ideas — Marketing mix – strengths and limitations

The marketing mix shows four 'levers' which marketing managers can control. The mix *positions* products in a way that makes them attractive to the target consumers. A product's position reflects what consumers think of it, in comparison with competitors – classy and desirable, cheap and affordable, pricey but reliable, and so on. Marketers aim to position their products *within the minds of their target consumers* as better able to satisfy their needs than competing products. To position products effectively, the marketing manager develops a coordinated, coherent marketing mix.

The 'four Ps' are an over-simplification, and it is easy to add other dimensions (see Kotler and Keller (2014). This section offers a usable framework showing how marketers can try to meet customer needs.

Product

Product refers to the range of goods and services that the company offers the target market. Some are physical products, others intangible services: most are a mixture of the two since the full experience of a product includes the services of delivery, advice and after-sales service. Some products achieve the status of a **brand** – 'a product or service whose [features] differentiate it in some way from other products or services designed to meet the same need' (Kotler et al. 2014, p.263). Some customers identify strongly with the brand for functional (what it does) or emotional (what it represents) reasons. When people identify strongly with a brand, the company can charge more than for a functionally identical product – compare the prices for branded and generic aspirin.

A **brand** is a product or service whose [features] differentiate it in some way from other products or services designed to meet the same need (Kotler et al. 2014, p.263).

Management in practice **Swatch** **www.swatch.com**

The development and introduction of Swatch is a classic example of marketing techniques being used by a traditional industry to launch a new product. Faced with competition from low-cost producers, SMH, an established Swiss watchmaker (whose brands include Longines and Omega), urgently needed a new product line. Its engineers developed a radical new product – the Swatch – which combined high quality with an affordable price. The company worked with advertising agencies in the United States on product positioning and advertising strategy. In addition to the name 'Swatch', a snappy contraction of 'Swiss' and 'watch', this research generated the idea of positioning it not as a watch (that tells the time) but as a 'fashion accessory that happens to tell the time'. Swatch would be a second or third watch used in different situations without replacing the traditional 'status symbol' watch.

Swatch is now the world's largest watch company and continues to reposition itself through new products (such as Snowpass). It has been appointed official timekeeper of the Olympic Games until 2020.

Sources: Based on 'Swatch', Case No. 589-005-1, INSEAD-Cedep, Fontainebleau; and company website.

Services present particular challenges because they are perishable, intangible, heterogeneous and inseparable.

Perishable

Perishable services cannot be held in stock to sell later. Empty seats on a flight, unoccupied rooms in a hotel, or a vacant slot in a dentist's schedule represent permanently lost sales.

Intangible

Intangible services cannot usually be viewed, touched or tried before their purchase – so the customer cannot be sure what they are buying when they purchase a holiday or concert.

Heterogeneous and inseparable

Services present two particular marketing challenges, as they are:

- *heterogeneous* – their personal nature means the customer experiences a slightly different product each time, even though they have had essentially the same meal as last time and
- *inseparable* – the customer interacts with the producer during delivery: it is consumed as it is produced (medical appointment). Their respective personalities mean each visit is unique.

Price

Price is the value placed upon the goods, services and ideas exchanged between organisations and consumers. Money price is the commonest measure, including discounts, trade-in value and payment period.

In selecting a price the marketing manager considers how consumers see the product. Jonathan Warburton, Chairman of Warburtons (www.warburtons.co.uk) recalls that when he joined the family firm his job was to visit small supermarkets to check the bread was there and properly displayed. He realised his bread could be priced at a premium, and tested this by raising the price in one shop: sales rose.

> The premium made people stand back and judge it differently [to] the two [brands] that were alongside it. If we aren't worth [it] they wouldn't buy us again.
>
> The company still uses this philosophy (from an article in the *Financial Times*, 16 January 2012, p.14)

Dynamic pricing was initially used by hotels and airlines, which face the problem that unsold capacity has no value, so they vary price to encourage demand when necessary. Some suppliers of clothing, mobile phones and consumer electronics do the same to dispose of unsold fashionable stock.

Promotion

Sometimes called 'marketing communication', this element tells customers about the product's merits to encourage a sale. New technologies offer many new and often very accurate ways to reach a target market, the goal always being to send the right ad to the right person at the right time. Common promotional methods are:

- **Advertising**: has traditionally been used to transmit the same message to a large audience. This was impersonal, as there was no direct communication between advertiser and potential consumer. Social media data enables advertisers to send highly personalised messages to potential customers about a known preference with, perhaps, a friend's recommendation, and a nearby store, or a website, where they can buy.
- **Sales promotions**: encourage those considering a product to take the next step and buy it.
- **Personal selling**: provides first-hand information to bring a sale – cars and kitchens.
- **Public relations** (**PR**): aims to build a positive image of the company in the media.

Management in practice — Traditional advertising and social messages

Marketers are keen to understand the relative effectiveness of traditional advertising, firm to consumer messages on social media, and consumer to consumer messages on Twitter and other web forums. de Vries et al. (2017) provide evidence from a European telecom firm.

Traditional advertising is the familiar mix of TV, radio, print and outdoor images. Many firms have established a social media presence by operating pages on social networking sites such as Facebook – they post messages on these pages to interact with consumers (F2C). Consumers also post messages about products on forums or Twitter – and these are assumed to affect the attitudes of other consumers (C2C). The research was designed to assess the relative effects of these variables on (a) brand building (e.g. customer awareness) and (b) customer acquisition (number of new customers).

The researchers obtained weekly data on the variables over 120 weeks between 2011 and 2013. This included data from Nielsen (a global marketing information company – www.nielsen.com) on traditional advertising; the company's Facebook page on F2C messages; and their social listening tool on C2C messages. Over the same period, they used data from an external survey firm to measure brand building; and contractual data from the firm to measure customer acquisition.

Analysis of the data led the authors to conclude:

> **Traditional advertising is the most effective way to influence consumers' awareness, [willingness to consider] and customer acquisition. Firm to consumer social messages and the impressions generated are also effective in stimulating [willingness to consider] and acquisition beyond traditional advertising. Consumer to consumer social messages are effective in creating preferences and acquisition (p.12).**

Amongst several implications of their work, the authors note that traditional advertising is still an effective medium, and that closely orchestrating the links between it and F2C might improve customer acquisition.

Source: de Vries et al. (2017).

Online communities enable users of a product to share experiences. Many form independently, but some companies sponsor them as a way to build relationships – especially by encouraging 'user-generated content', such as product reviews.

Place

This refers to how products are distributed to the final consumer. Those in luxury goods or fashion allow only carefully controlled distributors to sell their products, hoping this ensures a consistent quality and image. Many companies debate how to combine online distribution with traditional channels – partly influenced by their understanding of why people buy the product.

In developing a marketing mix that will place products competitively within the minds of consumers, marketing managers aim for coherence. In positioning a supermarket chain as, for example, value for money, they ensure that each part of the mix supports and reinforces this image. This means familiar product features, relatively low prices, and promotion messages that stress the value for money.

Case questions 9.4

Visit the website and identify two markets the company appears to target.

- For each market, analyse how the company has used the market mix to construct its market offering
- List your markets and examples of the four Ps, and exchange what you have found with other students
- Do your results support or contradict this theory?

Case study

Manchester United FC – the case continues www.manutd.com

One of the challenges facing Manchester United is the best marketing structure through which to manage the huge operation. At corporate level, the Glazer family owns football-related and non-football-related businesses and is involved with various joint ventures in TV, financial services and mobile phones. Although most public interest focuses on the club's manager, the chief executive is a significant link with the owners, as the person in that role is responsible for negotiating transfer fees and players' salaries. Since 2013 Ed Woodward, a trusted adviser to the Glazer family, has held that position. Promotional campaigns for individual products have to be sensitive to the image of sister MU products. Hoarding adverts of a noisy football crowd having a good time will be exciting to other potential fans but could be off-putting for someone who has to produce their MU credit card at local stores.

Preserving the perceived value of the brand is also important: the replica jersey product manager will not want supermarkets to sell them at a discount. This raises important questions of channel management and relationship with companies whose strategy might be more cost focused than differentiated. In 2009 MU signed a deal worth £80 million over four years with Aon, an American financial services group to be their principal sponsor: this was the largest-ever football sponsorship deal. In 2013 they signed sponsorship deals with Aeroflot to be their official carrier, and in 2015 a ten-year kit deal with sportswear group Adidas.

FT Source: *Financial Times*, 16 January 2013, 21 February 2013, 12 February 2016.

Activity 9.5 Revising your definition

- Having completed this chapter, how would you define marketing?
- Compare this definition with the one that you were asked to make in Activity 9.1 and comment on any changes.

CWS The product life cycle

9.7 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 9.5 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 9.5 'Clear thinking' examples from the Chapter Case study and a theory

	From the Chapter Case study– creating a global MU brand	Theory – a question about 'marketing orientation' (Section 9.2)
Check assumptions (task and process)	The company has had a significant success in creating an international brand – what can we learn from that? Assumptions probably include: **Task** • Consumers across the world will value being associated with an attractive brand • This loyalty will be sustained even if pitch performance is poor **Process** • Social media brings fans into direct contact with each other, and will be a valuable additional way of building and maintaining loyalty to the brand How valid are these assumptions? Is there any evidence of slowing interest? How valid is the assumption that pitch performance has little influence on brand loyalty?	Outline the idea briefly: • Focus on identifying and satisfying customer needs that permeates all aspects of the organisation, not just the customer-facing ones • Give examples of research that has tested the approach, or companies that appear to use it Assumptions include, for example, that: **Task** • placing marketing at the centre is more profitable than the alternatives • other functions are willing to accept marketing's leadership • other functions are able to be as customer conscious in their culture as marketing • it will benefit customers and sustainability targets **Process** • close coordination of cultures and ways of working can be achieved and sustained Are these assumptions valid: • in all contexts? • are there limitations?

	From the Chapter Case study– creating a global MU brand	Theory – a question about 'marketing orientation' (Section 9.2)
Recognise contexts	(Social context) Growing world interest in the game generally supports MU position Countries vary in their interest in football – do they also vary in which UK teams they favour? Does MU aim to be a unified global brand, or one that varies product to suit local cultures? Does the evidence from COPA90 (p.229) have implications for how MU relates to fans?	(Social context) Susceptible customers who can ill afford things they are persuaded to buy? (Natural context) May a product or production focus bring more benefits in terms of sustainability? Excessive marketing focus may encourage dubious marketing practices. There is a history of this, especially in financial services
Imagine alternatives	Any implications in COPA90 evidence?	Each of the other orientations can help balance the potential excesses of a marketing orientation, especially if implemented without checks and balances
Acknowledge limitations	Does the 'global brand' image add to loyalty of local supporters, or are they sometimes overlooked?	Might the benefits of understanding customers be outweighed by unethical practices that damage individuals and/or environment? Is it ethical to use technology (e.g. 'Management in practice' feature on p.232) to identify customer needs, followed by dubiously intrusive practices?

what variables they assumed would help them achieve them) and about process (how they tried to gain the support of stakeholders). These are examples only – not a comprehensive analysis. You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The third column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *Explain what is meant by the term 'marketing orientation', and why it is believed to enhance an organisation's performance. What, if any, are the limitations of the idea?*

Skill

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of identifying customer needs.

Develop a skill: identifying customer needs

Being able to understand customers' needs is vital to many aspects of management, and this exercise helps you begin to develop that skill.

- **Assessment.** Assess how aware you are of what people are seeking from familiar consumer products, such as wine, magazines or films – do you instinctively see differences between people when they buy something and how they judge it, or do you think all customers are the same?

- **Learning.** Section 9.5 introduced theories of segmenting markets. Read that section again, paying particular attention to the 'Key ideas' feature on page 228 which gives an example. Summarise the principles of market segments. Why do marketers do this?
- **Analysis.** Considering the example from the wine trade in the 'Key ideas' feature, identify three people you know, who would each be representative of one or other of the segments. What observations led you to position them there?
- **Practice.** Identify three print wine advertisements. Decide which of the six segments of the wine market they are trying to attract.

  Then find three online wine advertisements. Decide which of the six segments of the wine market they are trying to attract.

  What customer needs are the marketers trying to satisfy in each case? Are there any differences between the needs the two media were trying to meet?

  Compare your conclusions with someone on your course, and summarise what you have learned about identifying customer needs.
- **Application.** Decide on another opportunity to practise this skill within the next week.

Summary

1 **Define marketing and explain how it can add value**
- Marketing is the activity of creating value for customers to receive value (resources) from them in return. All organisations depend on external inputs, and need resources to do that.

2 **Outline the marketing context and be able to evaluate examples of practice and theory**

a. **internal – marketing orientation**
- This is contrasted with product, production and sales orientations, which are suitable in certain circumstances.
- A marketing orientation implies that the organisation focuses all activities on meeting consumer needs and is organised with that in mind. It is especially useful in very competitive markets, where customers have a wide choice of suppliers.
- Adopting a marketing orientation makes the customer the centre of attention and is different from product, production and sales philosophies. It becomes a guiding orientation for the whole organisation.

b. **external – competitive and general environments**
- competitive environment includes suppliers, competitors, customers, substitutes and potential entrants.
- general environment includes the PESTEL factors. Technology has many effects on consumer behaviour.

3 **Describe these tasks of marketing and be able to evaluate examples of practice and theory**

a. **understanding customers and markets, and the sources of marketing information**
- Understanding customers' needs, wants and demands is the foundation of marketing, as only then can suppliers satisfy them. They also aim to understand what makes them buy.
- A marketing information system uses internal and external data, and market research about actual and potential customers.

b. **segmenting markets and targeting customer groups**
- Understanding customer needs enables a company to segment the market according to groups with distinct needs.
- Targeting is when the company decides which segments of the market it will aim to serve.

c. **constructing a marketing mix**
   - Product, price, promotion and place. There are many other formulations, but a simple one such as this serves as a useful reminder of the tasks involved in shaping an offering.

4 **Think clearly to evaluate these management practices and theories, and as you begin to develop your skills of identifying customers' needs**
   - Identifying customers' needs is a widely-useful management skill, and the chapter has provided an opportunity to develop this.
   - The skill of identifying customers' needs assumes a reasonable confidence that the organisation will be able to meet them with the resources it has, and that other aspects of the internal context will support that. Customers cannot always express an opinion – when a product does not yet exist – so an alternative approach is to present the product to customers and gather data about their reactions.

Test your understanding

1 Why do charities and local authorities need to devote resources to marketing?
2 Does the marketing orientation have advantages over product, production or sales philosophies?
3 In what way is an organisation's micro-environment different from its macro-environment? How do these environments affect marketing activities?
4 Explain why understanding what customers want is a valuable investment.
5 Outline sources of marketing information and illustrate each with an example.
6 What are the main stages in conducting a market research project?
7 What are the advantages of market segmentation and what variables do marketers use?
8 Illustrate each element in the marketing mix with an original example.

Read more

Schor, J.B. (2004) *Born to Buy: The Commercialized Child and the New Consumer Culture*, Schribner, New York.

A revealing account of the ploys that some marketers use to sell products to children – turning them, she argues, into miniature consumption machines.

Ogilvy, D. (2012) *Confessions of an Advertising Man*, Southbank Publishing, London.

For anyone planning to work in marketing or advertising, this new edition of the classic work by the man who ran a vast advertising agency, is an essential book.

Berinato, S. (2017) 'When habit beats novelty', *Harvard Business Review*, vol. 95, no. 1, p.60.

Only *a page*, but poses an interesting question about a common marketing practice.

Nam, H., Joshi, Y.V. and Kannan, P.K. (2017) 'Harvesting brand information from social tags', *Journal of Marketing*, vol. 81, no. 4, pp.88–108.

Ingenious study into a major source of marketing information.

Antorini, Y.M., Muniz, A.M. and Askildsen, T. (2012) 'Collaboration with customer communities: Lessons from the Lego Group', *MIT Sloan Management Review*, vol. 53, no. 3, pp.73–9.

Clear account of how Lego and their fans cooperate creatively in a customer community.

Go online

These websites have appeared in the chapter:

www.manutd.com
www.swatch.com
www.damienhirst.com
www.warburtons.co.uk
www.cooperkingdistillery.co.uk
www.copa90.com
www.nielsen.com

Visit two of the sites in the list (or that of another organisation in which you have an interest).

- What markets are they in? How have they segmented the market?
- What information can you find about their position in their respective markets, and what marketing challenges they face?
- Gather information from media websites (such as www.FT.com) that relate to the organisations you have chosen. What stories can you find that relate to the marketing decisions they have made, and the outcomes?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



PART 3 CASE

VIRGIN GROUP

www.virgin.com

The company

Virgin Group is a venture capital organisation known all over the world, whose brand aims to offer value for money, quality, innovation and fun. Founded by Richard Branson, it has created hundreds of companies in many sectors of the economy, though senior management is said to pay close attention to only about 20 of these. They are distinguished by being part of the Virgin brand.

Branson opened his first record shop in 1971 followed by a recording business in 1973. Virgin Atlantic Airways began operating in 1984, quickly followed by Virgin Holidays and a joint venture offering financial services. By 2018, it employed 69,000 people in 35 countries, and had an annual revenue of £16.6 billion. Josh Bayliss was chief executive, overseeing activities in five industries:

- Travel and leisure
- Telecom and media
- Financial services
- Health and wellness
- Music and entertainment

The original record business was launched shortly after the UK Government abolished retail price maintenance, a practice that had limited competition and kept prices high. Richard Branson saw this as an opportunity to start a mail order business offering popular records for about 15 per cent less than shop prices. A postal strike encouraged him to open a retail outlet which was an immediate success, and the start of Virgin Retail. He consolidated these interests into the Megastore concept, a joint venture with another retailer, selling home entertainment products – music, videos and books – in large stores in major cities across the world.

In the early 1980s, the airline business was tightly regulated, with routes, landing rights, prices and service levels established and maintained by intergovernmental arrangements to protect inefficient state-owned, national 'flag carriers'. In 1984, these regulations changed, allowing people to create new airlines to compete with the established ones. After three months of intense activity, Branson and his business partner had gained permission to fly, arranged to lease an aircraft and recruited staff. Virgin Atlantic was a London-New York airline that offered 'first-class tickets at business-class prices':



© David Paul Morris/Bloomberg/Getty Images

innovations included limousine pickup for first class passengers and seat-back video entertainment systems for economy passengers.

In 1999, Virgin invested in telecommunications by launching Virgin Mobile in the UK. In 2006, this merged with a cable-television company and was rebranded as Virgin Media, in which Virgin has only a minority stake. It is important to the group because of the number of customers it reaches. Almost all Virgin businesses are joint ventures with other companies, using finance raised privately.

Managing to add value

Using the Virgin brand

Branson believed that the Virgin name, known for its consumer-friendly image and good service, would translate well across a range of businesses – 'Virgin isn't a company, it's a brand', commented one senior manager in the company. Market research demonstrated the impact of quirky advertising and publicity stunts: 96 per cent of UK consumers recognised the brand, and 95 per cent correctly identified Richard Branson as the company's founder. Respondents associated the Virgin name with fun, innovation, success and trust, and identified it with a range of businesses. This is unusual, as most strong consumer brands are associated with a single product or industry (such as Coke in beverages). Stephen Murphy (a former CEO):

> **Virgin defies the usual 'rules' of brand limits. The brand has been successfully applied to businesses**

as diverse as music, airlines, trains, financial services, fitness centres, mobile telephony and the Internet. [The reason is that] the Virgin brand has some core features that are in all our companies – we try to do things differently, have fun, innovate, provide value for money, and provide great customer service. Every product we create emphasizes or de-emphasizes certain elements. We do not have to have equal elements in everything that we do. For example, in banking, consumers are looking mainly for value for money because they think they have been ripped off all along, then customer service, and finally a little bit of fun. They would probably not want too much innovation: people are conservative when it comes to money. In the media business, customers would mainly want fun and innovation (quoted in Pisano and Corsi, 2012, p.8).

A director of the company:

The Virgin brand helps recruitment ... as the company is constantly rated as a good place to work. We attract great people, because talented entrepreneurial teams want to work with our brand. Also, the people we attract understand what our brand is about and agree with its values. This creates a virtuous circle (quoted in Pisano and Corsi, 2012, p.8).

The brand also helps to raise capital as it makes the company attractive to partners: they provide the expertise and capital for a joint venture in their area of business (such as insurance or share trading), while Virgin provides the brand image. The early Virgin style of informality and openness remains – ties are rarely worn, denim jeans are common, and everybody is on first-name terms.

Business unit autonomy

As the business grew, Branson worked at the centre, supported by a small business development group, a press office, and advisers on strategy and finance. Having a centre did not mean a centralised operation. Each operating unit was expected to stand alone and to have little contact with head office or other units. Business should be 'shaped around people', Branson believes, citing his experience of subdividing the record company as it grew. Each new record label was given to up-and-coming managers, creating in-house entrepreneurs who were highly motivated to build a business with which they identified.

The company continues to be a network of operating companies, linked primarily by the Virgin trademark. Virgin Management Ltd (VML) 'manages' the companies, but only in the sense of providing advice and support in conjunction with the Sector teams (such as those for Travel or Finance). VML manages Virgin's assets around the world. The company describes the style as a collaborative and supportive relationship between the centre and the businesses. A director:

Considering all the markets and businesses where we operate, we prefer to run our companies by empowering their management teams and those on the ground. We are a shareholder who adds value, because we are the owners of the Virgin brand and because we reflect the group's long-time experience in different sectors and business models (quoted in Pisano and Corsi, 2012, p.9).

This strategy is expressed operationally in the 'Virgin Charter' – an agreement between Virgin Management Ltd (the holding company) and the subsidiaries. It defines the role of the centre and the subsidiaries in such matters as taxation, legal affairs, intellectual property and real estate.

Central new venture decisions

The company receives many proposals for new ventures, and deciding which of these to invest in has a critical effect on performance: poor choices drain money and distract management attention from profitable ventures – and so destroy value.

In the early years, Branson financed new ventures by borrowing, but current policy is to raise capital either by selling an existing business, or by creating joint ventures – in which another investor puts money into the business in return for shares. A few have raised capital by listing the company on a stock market, and selling shares to investors.

Deciding whether to invest in a new venture combines subjective and objective methods – with the emphasis on the latter. Mr Murphy:

Richard is brilliant and very instinctive. Yet now consumers and attitudes move so quickly that we have to be more analytical. We need to combine intuition and qualitative analysis with the real quantitative analysis that says, 'This is your demographic, this is your profile, and this is where you go next' (quoted in Pisano and Corsi, 2012, p.11).

The company's management teams try to identify growth areas, basing their investment decisions on financial returns (measured by return on investment, payback time, and capital required) *and* on a more subjective 'fit with brand' criterion. The staff who make these analyses typically review a potential investment from the customer's perspective, asking how Virgin could improve their experience:

- Is this an opportunity for restructuring the market and creating competitive advantage?

- What are competitors doing?
- Is the customer confused or badly served?
- Is this an opportunity for the Virgin brand?
- Can we add value?
- Will it interact with our other businesses?

New ventures are often steered by managers seconded from other parts of the business, who bring the distinctive management style, skills and experience. Managers in the companies are empowered to run the businesses without VML interfering, but are expected to help one another to overcome problems.

Richard Branson believes that creating discrete legal entities gives people a sense of involvement with, and loyalty to, their unit, as does having the option to buy shares in their business: Virgin has produced many millionaires. Branson does not want his best people to leave the company to start a venture outside; he prefers to make millionaires within.

Virgin.com

During one company meeting, participants realised that, more by chance than planning, Virgin was in businesses 'that were ideally suited to e-commerce and in which growth is expected to occur – travel, money, publishing, music, entertainment'. To exploit this potential, the participants decided to streamline several online services (which the businesses had developed autonomously) into a single Virgin website: Virgin.com.

By putting all Virgin's business on one site Branson hoped to cross-promote the group's offerings. The site groups these under headings such as online shopping, money, media, leisure and pleasure, travel and tourism, and health. Throughout the group, the company claims that it aims to deliver a quality service by empowering employees, and by facilitating and monitoring customer feedback to continually improve the customer's experience though innovation.

The case outlines recent developments in three of the companies – Virgin Atlantic, Virgin Rail and Virgin Money.

Virgin Atlantic

This was one of Branson's first and most high-profile ventures, launched in 1984 against strong opposition from British Airways. Virgin Atlantic grew successfully (financed in part by selling the profitable record business to EMI) and, by 1990, although still a relatively small player, it competed with major carriers on the main routes from London, winning awards for innovation and service. Singapore Airlines held 49 per cent of the venture, selling this to the US carrier Delta Airlines in 2013.

Delta Air Lines (a US business) owns 49 per cent of Virgin Atlantic, and the two operate the transatlantic routes as a joint venture, each offering four daily flights between London Heathrow and New York JFK. The significance of this is that Virgin's main competitor on that route is British Airways which, in a joint venture with American Airlines, offers 12 flights each day. Business travellers in particular prefer a service with frequent flights, and the BA joint venture had damaged Virgin's position. Financial performance suffered in 2017 when all of the company's fleet of 787 Dreamliners had to be grounded for a time to fix problems with their Rolls Royce engines, and Craig Kreeger, CEO since 2013, expected the losses to continue into 2018.

In September 2018, Virgin Atlantic launched a joint marketing campaign with Virgin Holidays. This is a departure from the Virgin tradition of business autonomy, but apparently many customers believe they are the same brand. The two have pooled their advertising budgets, and appointed an advertising agency to develop complementary but distinctive marketing strategies for the both companies (*Campaign*, 13 September 2018).

Virgin Rail

The main operation of Virgin's rail business is the UK's West Coast main line which it operates under a franchise from the government. It does so in a 51–49 per cent joint venture with Stagecoach which has an extensive bus, and some rail, operations.

Virgin has operated the line since it was privatised in 1997, and during that time has doubled the number of passengers to 28m a year. It has earned a good financial return, with an estimated annual operating margin of 6.6 per cent over the term. It also has high customer approval ratings.

In 2012, the franchise was due to end, and in the initial competition Virgin lost the bid for a new 15-year franchise to rival FirstGroup. Sir Richard Branson mounted a fierce attack on the decision which he believed must have been due to an error in assessing the rival bids. A few weeks after awarding the work to FirstGroup, the government announced that the process had indeed been flawed and would be run again. In the meantime, Virgin would continue to run the services until at least 2017 and it still does so.

Virgin Money

Virgin had, for several years, offered financial services online, and in 2011 entered the branch banking business when it bought Northern Rock bank, based in Newcastle. This had expanded aggressively by offering competitively priced mortgages, using money borrowed in the international markets. After the 2008 financial crisis, it ran out of money and was taken over by the UK Government.

Virgin bought the bank with funds provided by US billionaire Wilbur Ross, who invested just over £1 billion. The 75 Northern Rock branches that Virgin bought were all in the North East of England, and Virgin made it clear that it would not extend the branch business. Jayne-Anne Gadhia, Chief Executive of Virgin Money:

> **We want to grow sensibly: we want to service our customers well and couldn't do that if we had hundreds of branches. We plan to create a major new competitor in UK retail banking. The two businesses complement each other well and together will create a strong bank with over 4m customers.**

In 2018, Virgin accepted an offer from rival clydesdale bank CYBG, based in Glasgow, to buy Virgin Money. This merger was expected to complete late in 2019.

Aspects of Virgin's context

A diversified business operates in many contexts.

- **Virgin Atlantic** is faced by three strong joint ventures on its main routes, and in early 2013 was considering whether to join the Air France-KLM alliance, which in turn is part of the SkyTeam joint venture led by the Franco-Dutch group and Delta. In 2013, Delta Air Lines bought Singapore Airlines stake in Virgin, and signed a code-sharing agreement with Virgin, which would enable the latter to offer more US destinations. Virgin also acquired the right to fly between Heathrow and Aberdeen/Edinburgh, which it saw as valuable feeder routes for the North Atlantic services.
- **Virgin Rail** faces severe competition in the award of franchise to run a line, and several train companies have more franchises than Virgin. It competes for passengers with air and coach services, and the service it provides depends partly on the quality of the infrastructure Network Rail provides. Its record on the West Coast main line has been mixed, with strong passenger support, despite punctuality problems. The line has been profitable for Virgin, but retaining the franchise depends on retaining the support of its partner Stagecoach.
- **Virgin Money** took advantage of the collapse of Northern Rock to acquire a small branch network, and to benefit from high levels of customer dissatisfaction with the large retail banks.

Current management dilemmas

Protecting the brand

At corporate level, the company has many opportunities to expand, but is well aware of the need to protect the Virgin brand which is a distinctive strategic asset. The dilemma is that it is hard to decide when a company is ready to develop a successful business 'in the Virgin way'. For example when it bought some health clubs it delayed rebranding them as 'Virgin' until the senior team were convinced that they were ready to take on the name. Joining the SkyTeam Alliance carries similar risks: if passengers have a bad experience with another airline in the alliance, will this diminish their respect for the brand? A more personal dilemma is that the brand has a youthful image, and Branson himself points out that 'having a frontman approaching retirement age could become a problem' (*Financial Times*, 15 October 2012, p.12).

Deciding direction

On which areas of business should the company focus? Are some areas within the current portfolio more likely to enhance the brand than others, and therefore be candidates for favourable treatment? Are there any new areas that could be candidates for significant investment? Should they do fewer new start-ups, and instead focus on gym, banking and health sectors?

Deciding scale

The company is now investing in fewer, larger investments, and has become quicker to pull out of unsuccessful investments. Gaurav Batra, corporate development and strategy director at VML:

> **From 1995 to 2000 we launched 34 new companies; today we do about 5 investments per year. Start-ups are time-consuming and do not [help much to build the group rapidly] (Pisano and Corsi, 2012, p.12).**
>
> **Now it is mainly buying existing companies and working quickly to develop strategy leadership and the brand effect to turn round failing companies quickly. Gordon McCallum, CEO of VML:**
>
> **The question we are asking ourselves is: In the next ten years, would we be better placed to create two $5 billion or another ten $1 billion businesses? I would do fewer start-ups unless they have a very clear route to scale and market power ... and [would instead] focus on our gym, banking and health sectors (Pisano and Corsi 2012, p.13).**

Sources: Based on material from Pisano, G.P. and Corsi, E. (2012), *Virgin Group: Finding New Avenues for Growth*, Harvard Business School Case 9-612-070; INSEAD Case 400-002-1, 'The House that Branson Built: Virgin's entry into the new millennium'; *Financial Times*, 15 December 2008, 18 November 2011, 30 August 2012, 15 October, 2012, 18 February 2013, 25 June 2013, 4 September 2014, 14 November 2014, 29 July 2015; company website.

Part case questions

(a) Relating to Chapters 6 to 9

- Are the decisions mentioned in the Case programmed or non-programmed? Refer to the material on Virgin Rail, and identify an example of the 'dependency' of decisions (Sections 6.3 and 6.4.)
- Conduct a SWOT analysis of one of the Virgin brands featured here (Section 7.4.)
- Having read the case, what sense do you have about the likely features of current strategic planning processes at Virgin Group (the VML level)? (Refer to Sections 8.3 and 8.4.)
- On balance, does the Virgin story support the rational or the adaptive view of strategy?
- Conduct a five forces analysis of one of the Virgin companies featured here (Section 8.5.)
- Which generic strategies has Virgin Group followed? (Sections 8.7 and 8.8.)
- Why does Virgin use joint ventures with other companies to realise their strategy? (Section 8.8.)
- To what extent has Virgin implemented a marketing orientation? (Refer to Section 9.2.)
- Where do Richard Branson's publicity stunts fit into the company's marketing strategy?

(b) Relating to the company

- Visit Virgin's website and comment on how it is now using this to support the businesses.
- What links the Virgin businesses and what is the role of the centre in relation to them?
- Access the websites of *Economist*, *Financial Times* or BBC News (Business pages) and make notes about how, if at all, the dilemmas identified in the case are still current, and how the company has dealt with them.
- What new issues appear to be facing the company that were not mentioned in the Case?
- For any one of those issues it faces, how do you think it should deal with it? Build your answer by referring to one or more features of the company's history outlined in the Case.



PART 4

ORGANISING

Introduction

Part 4 examines how management creates the structure within which people work. Alongside planning the direction of the business, managers consider how they will achieve the direction they have chosen. One component is the form of the organisation – in terms of structure, human resource management, information systems and the linked topics of entrepreneurship, creativity and innovation.

Chapter 10 describes the main elements of organisation structure and the contrasting forms we can observe. Chapter 11 deals with one aspect of that structure, namely its policies on human resource management. These are intended to ensure that employees work towards organisational objectives.

Chapter 12 focuses on how managers can use technology to support their business, specifically information technology and e-business, which have significant implications for organisations and their management. Chapter 13 presents theories of entrepreneurship, creativity and innovation – practices that are essential for managers to add value to their resources.

The Part Case is Royal Bank of Scotland, which has gone from being a highly regarded and innovative bank to one that came close to failure. Now owned mostly by the UK Government, its managers are trying to rebuild its reputation.



CHAPTER 10

STRUCTURE

Aim

To introduce the tasks and contexts of structure, and how structure can add value.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the below in your words and:

1. Outline the potential links between strategy, structure and performance
2. Give examples of the tasks of dividing work vertically and horizontally and evaluate alternatives
3. Give examples of the tasks of coordinating work, and evaluate alternatives
4. Compare mechanistic and organic structures
5. Explain contingency theory (which relate structure to context and performance), and use it to evaluate a unit's structure
6. Explain and illustrate the features of a learning organisation
7. Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of coordinating work

Key terms

This chapter introduces these terms:

organisation structure
organisation chart
formal structure
informal structure
vertical hierarchy
horizontal specialisation
formal authority
responsibility
delegation
span of control
centralisation and decentralisation
formalisation
functional, divisional, matrix and network structures
outsourcing
collaborative network
mechanistic structure
organic structure
contingency theories
determinist
structural choice

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

Contingency theories

Learning organisations

Case study

GlaxoSmithKline (GSK) www.gsk.com

GSK is one the world's largest pharmaceutical companies with interests in pharmaceuticals, vaccines and consumer healthcare. Sales in the 2018 financial year were £30.8 billion: £17.3billion in pharmaceuticals (medicines to treat serious and chronic diseases), £5.9 billion (up 14 per cent) in vaccines, and £7.7 billion (–1 per cent) in consumer healthcare (over-the-counter products such as Panadol pain relief and Sensodyne toothpaste).

In 2015, (then) CEO Sir Andrew Witty announced that GSK would reduce its dependence on pharmaceuticals and focus more on vaccines and consumer healthcare. He believed the shift towards these markets with steady growth would be more profitable, and that:

> **it will not be about 600m people in Europe and America – [it will] be about those plus the 6bn in the rest of the world.**

Pharmaceutical companies depend on developing new drugs that they can sell profitably. The industry discovers, develops and sells new products – whose patent prevents another company from selling an equivalent for ten years. During this period the company has a monopoly – enabling it to make high profits if the drug sells well. When the patent expires, other companies can copy the formula and sell 'generic' versions cheaply.

Companies like GSK find it difficult to maintain the flow of new drugs. Diseases that are easy to treat have adequate drugs, and finding new ones is very expensive. Regulators set very high standards for the evidence they require before they will approve a new drug. It takes about 12 years from discovering a new formula to the point at which (if approved) it begins to earn an income. During that time the company is investing money with no return.

There is constant debate in the industry on whether drug companies should own other businesses as an insurance against the unpredictability of pharmaceuticals. GSK has favoured the diversified business model – but investors regularly advocate breaking the company up, so that each type of business would run independently.

In the 1960s, GSK employed fewer than 1000 scientists, who worked in a functional structure – chemists, pharmacologists, clinical development, and so on. There were few management layers, few projects, and most scientists worked on a single campus.



© Shaun Daley/Alamy Stock Photo

Communication, coordination and the exchange of ideas was easy.

As the number of employees grew rapidly it became clear that the traditional way of organising the business was unsatisfactory. Investors questioned the high cost and low productivity of research. Scientists now worked on many sites across the world, so communication was difficult and slow – the opposite of that required in a research community.

GSK relates medicine prices to a country's wealth and ability to pay, which has led to significant price reductions. In 2018, the Access to Medicine Index (founded by Bill and Melinda Gates) which measures the philanthropic work of drugs companies, and their responsiveness to the needs of emerging markets, again ranked GSK in first place out of 20 companies surveyed in its annual review.

Sources: *Company Annual Report 2018*; www.accesstomedicineindex.org.

Case questions 10.1

- Visit the company website and the sections on 'Careers' and 'Investors'. What can you learn from these about GSK as a place to work, and about recent major developments in the business?
- What type of working environment is likely to encourage scientific creativity?
- What type of working environment is likely to ensure that staff perform the safety testing and clinical trials required by regulators accurately, consistently and reliably?

10.1 Introduction

Managers at GlaxoSmithKline (GSK) aim to create a context that encourages apparently contradictory behaviours. The Pharmaceuticals Division in particular (the largest source of revenue) needs a steady flow of effective new products. This depends on encouraging, and paying for, sustained scientific imagination and creativity over many years, in the hope that research teams succeed. Products that pass rigorous clinical trials to satisfy national and international regulators that they are safe and effective, and that seem commercially viable, then go into a precisely specified production process. The company needs high creativity (in research) and strict order (in trials and production).

The owner-manager of a new business decides what tasks to do and coordinates them. If the enterprise grows, the entrepreneur passes work to newly recruited staff, though the division will be flexible and informal as communication is direct and easy. Informal communication becomes less reliable as a business grows, so people begin to introduce some structure – clarifying who does what, and how to share information quickly and accurately. One reason for the success of Virgin Group (a tiny business in 1971) is the relationship between the central management group and the many companies with which we are familiar.

Those in charge of failing companies often change the structure in the (sometimes forlorn) hope that a new one will work better. Others follow a policy of frequent small changes. The (then) chairman of L'Oréal, the world's biggest beauty company, referred to its

> culture of permanent mini-restructuring. I don't think there has ever been a major restructuring in the whole of L'Oréal's corporate history ... but there have been hundreds of little ones. What we do is try to live a life of permanent small change to avoid the major disasters (*Financial Times*, 3 March 2008).

Chapter 2 introduced the idea of management theories, including how best to create a structure for commercial or public organisations. Managers are constantly experimenting and adjusting this – as they find what works, and as conditions change.

This chapter illustrates the main structural tasks of dividing and coordinating work, and the choices managers have in each. As always, they do so within their internal and external contexts: one theory is that if they align their structural choices (dividing and coordinating) with the requirements of these contexts, they will add more value than if they do not. The chapter will introduce evidence on this (contingencies) theory, and also a counterview that emphasises managerial choice (see Figure 10.1). It also offers an opportunity to begin developing the skill of coordinating work.

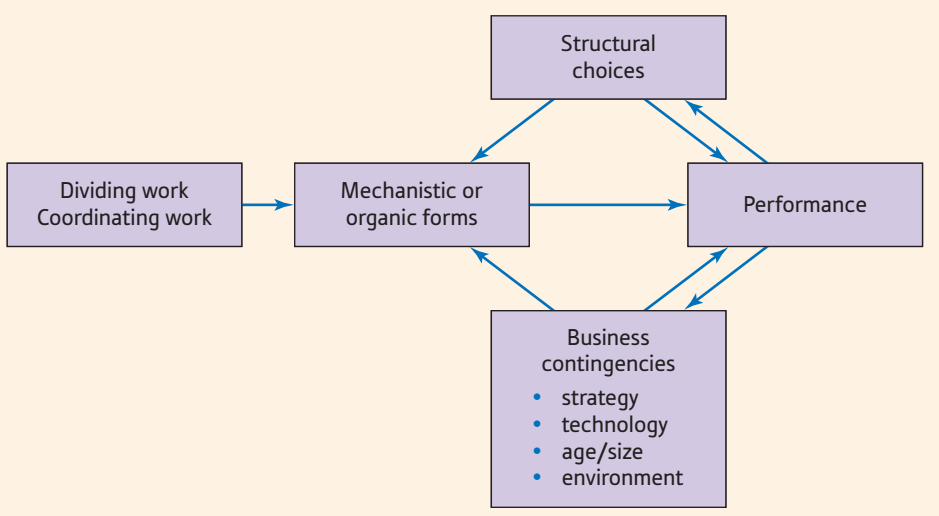


Figure 10.1 Alternative structures and performance

10.2 Structure, strategy and performance

Alfred Chandler (1962) traced the evolution of the USA's largest industrial firms, showing how growth and diversification placed too many demands on centralised structures. As the diversity of products and geographies grew, issues arose which those at the (increasingly remote) centre, without local knowledge, could not handle. His historical analysis of du Pont, General Motors, Standard Oil and Sears, Roebuck showed that they had responded by creating decentralised, multi-divisional structures (the 'M-form') – which many companies (like GSK) use today. It allowed managers at corporate headquarters to provide overall strategic guidance and control, and divisional managers to implement the detail (strategy shaped structure).

Chandler also shows that structure influenced strategy. A new legal requirement to break Standard Oil into regional companies encouraged one of these – Standard Oil (New Jersey) to expand into foreign markets to increase profits (structure shaped strategy). Chandler's aim was to study the interaction of strategy and structure as conditions changed. In successive cases he traced how strategies to launch new products or enter new regions strained current structures, and how managers, through trial and error, developed variants of the decentralised divisional form.

Table 10.1 gives examples of visible corporate changes. While senior managers debate these, managers at other levels work on similar issues in their units:

- Should we divide a task into three and give each to one employee, or have them work as a team, responsible for the whole task?
- Should team A do this task, or team B?
- Should that employee report to supervisor A or supervisor B?

Whether the issue is at a vast business like Unilever or a small company like Multi-show Events (below) the questions are the same – where to commit resources, and how to divide and coordinate the roles of people using them?

Andrews and Boyne (2012) are cautious about changing structures. While the long-term benefits may be worth the short-term disruption, they are not always realised. People value stable working practices and familiar relations with other units – changing a structure

Table 10.1 Examples of strategic and organisational decisions

Example	Strategic issue	Organisational issue
Prudential 2018, insurance group, www.prudential.com	Founded in the UK in 1848, 80 per cent of the business is in growing Asian, and US, markets. The UK market is mature, with low growth and expensive regulation. Investors believe this depresses the share price	Split the group in two, one focused on UK, the other on USA and Asia. Both will be based in the UK, but regulated in their local markets
Unilever 2017, consumer products, www.unilever.com	Like similar companies, growth has been slow for several years. It has focused on mass markets, and has not been good at spotting and building niche markets	Since 2015, has been buying small companies with fast-growing, fashionable products with exposure to local markets. It hopes to build these to restore growth
Pizza Hut 2019, restaurant chain www.pizzahut.co.uk	The Italian-American themed restaurant chain has 17,000 outlets around the world, but sales have been falling relative to competitors, who have adapted to changing tastes. Believes future is in delivery and carry out	Sit-down restaurants still work in some markets, but need to sit alongside the delivery carry-out business. Aims to shift towards takeaway-centric outlets, shutting restaurants and opening delivery stores nearby

endangers these. Their study of change in English local government found the performance of re-structured authorities declined when compared with those who had not re-structured – noting that:

> whether the long-run gains compensate for this remains to be tested in the years ahead (p.309).

Key ideas **From old structures to new?**

A growing awareness of challenging external forces – globalisation and the internet – led some commentators to assume that traditional, bureaucratic organisations would not respond sufficiently quickly. They predicted (Ashkenas et al. 2002 is an example) that to respond flexibly to customer needs companies would make radical structural changes, creating 'post-bureaucratic' organisations. These would have unclear boundaries (able to work more closely with other firms); a small range of 'core' activities (other firms would perform the rest); and flatter hierarchies (quicker decisions). Many thought staff would have more liberal and emancipated working conditions.

Farrell and Morris (2013) tested empirically the accuracy of these predictions, by gathering evidence from 45 UK organisations (public and private, medium and large). They asked about the recent organisational changes, and their effects on middle managers.

The authors found there had indeed been substantial changes – many had begun to work more collaboratively, discontinue non-core activities, cut staff and reduce management levels. They also found that these changes were usually driven by a desire to cut costs, to improve flexibility or customer responsiveness. Finally, middle managers' work had frequently become more insecure, stressful, and demanding – a sharp contrast with predictions about the benefits of post-bureaucratic organisations.

Source: Farrell and Morris (2013).

The following sections deal with three aspects of the tasks of structure – the tools, dividing work and coordinating work. Section 10.6 distinguishes between mechanistic and organic forms, and how these may link with strategy.

10.3 Tasks of structure – the tools

Organisation structure 'The structure of an organisation [is] the sum total of the ways in which it divides its labour into distinct tasks and then achieves coordination among them' (Mintzberg, 1979).

Organisation structure describes how people divide and coordinate work. It gives someone taking a job a reasonably clear idea of what they should do – the marketing assistant should deal with marketing, not finance. The topic relates closely to culture (Chapter 3) and human resource management (Chapter 11), since the more coherence there is between these the more they will support strategy and so add value.

Designing an organisation chart

An **organisation chart** shows the main departments and senior positions in an organisation and the reporting relations between them.

Formal structure consists of guidelines, documents or procedures setting out how the organisation's activities are divided and coordinated.

The **organisation chart** shows departments and job titles, with lines linking senior executives to the departments or people for whose work they are responsible. It shows who people report to, and clarifies four features of the **formal structure**:

- **tasks:** the major activities of the organisation
- **subdivisions:** which departments are responsible for which tasks
- **levels:** the position of each post within the hierarchy
- **lines of authority:** these link the boxes to show people who they report to.

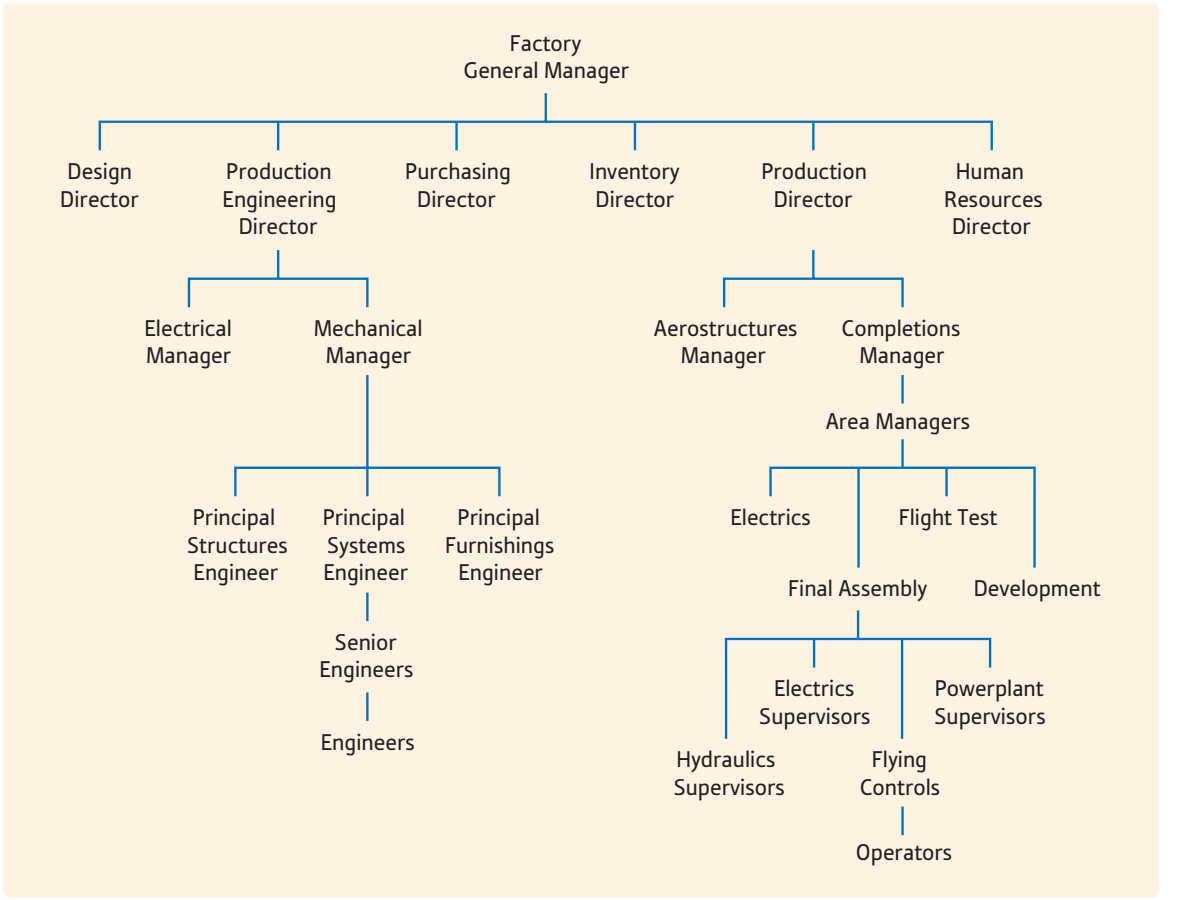


Figure 10.2 The structure within an aircraft factory

Organisation charts give a transient summary of tasks and who is responsible for them. Figure 10.2 shows that for an aircraft factory, which was then operated by a defence contractor. There are six departments – design, production engineering, purchasing, inventory, production and human resources. It also shows the chain of command within the factory and the tasks of each department (only some are shown). It includes direct staff such as operators and engineers, and the lines of authority. It does *not* show the **informal structure** – the many patterns of work and communication that are part of organisational life.

Informal structure is the undocumented relationships between members of the organisation that emerge as people adapt systems to new conditions and satisfy personal and group needs.

Dividing work – specialisation

Within the formal structure, managers divide work into smaller tasks for people or departments. They become more expert in these than they could be if they worked on several, and are more likely to suggest improvements. Too much specialisation leads to the negative effects on motivation described in Chapter 15.

Management in practice — Multi-show events

Multi-show Events employed 11 people providing entertainment and promotional services to large businesses. When Brian Simpson created the business there were two staff – and no structure. He reflected on the process of growth and structure:

While the company was small, thinking about a structure never occurred to me. It became a consideration as sales grew and the complexity of what we offered increased. There were also more people around and I believed that I should introduce a structure so that responsibilities would be clear. It seemed natural to split sales and marketing from the actual delivery and production of events as these were two distinct areas. I felt that by creating 'specialised' departments we could give a better service to clients as each area could focus on their own roles. [Figure 10.3 shows the structure.]

We had to redesign the office layout and introduce a more formal communication process to ensure all relevant information is passed on – I think this structure will see us through the next stage of business growth and development.

Source: Private communication.

Vertical hierarchy refers to the amount of authority held by positions at different levels.

Horizontal specialisation is the degree to which tasks are divided amongst separate people or departments.

Figure 10.2 shows specialisation – design, production and so on. It shows a **vertical hierarchy** in which those at each level have distinct amounts of authority, and a **horizontal specialisation**. Within production engineering some specialise in electrical problems and others in mechanical: within the latter, people focus on sets, systems or furnishings. Though Multi-show Events was still a small company, they too had created a structure to show who was responsible for each task.

Activity 10.1 Draw a structure

Select a job you (or someone you know) is familiar with (pub, call centre, shop, student society), and draw a chart showing the structure of your area such as:

- your position
- the person(s) to whom you reported
- who else reported to them
- the person(s) to whom they reported.

Creating a chain of command

The lines of authority show the links between people – who they report to and who reports to them. It shows who they can ask to do work, who they can ask for help – and who expects work from them. Figure 10.2 shows that the production director can give instructions to the aero-structures manager, but not to the electrical manager in production engineering. Figure 10.3 shows the lines of authority in Multi-show Events. In both, people have countless informal contacts which make the system live, and help them to cope with the unexpected.

Formal authority is the right that a person in a specified role has to make decisions, allocate resources or give instructions.

In allocating **formal authority**, managers give people the right to make decisions, allocate resources or give instructions. Organisation charts usually (though not always) show positions in the form of a hierarchy with positions towards the top of the hierarchy having more authority than those lower down. Formal authority is based on the position, not the person. The production engineering director at the aircraft factory has formal authority over a defined range of matters – and anyone else in that job would also have it.

Subordinates comply with instructions because they accept the person has the formal (sometimes called legitimate) authority to make them. An operator in the hydraulics area of final assembly would accept an instruction from the hydraulics foreman, but probably not from the powerplant foreman (they may help as a personal favour, but that is different from accepting formal authority). If managers give instructions beyond their area of formal authority, they meet resistance.

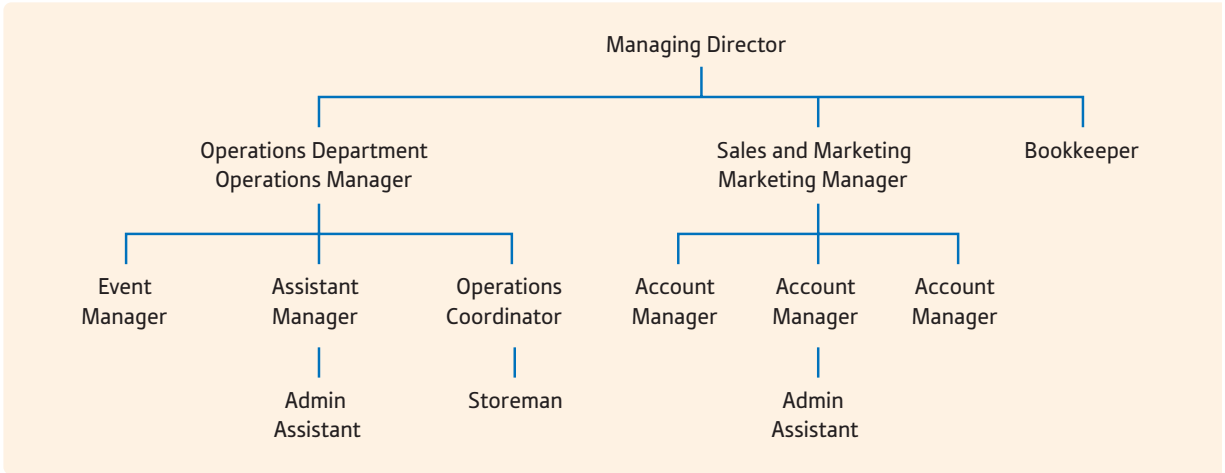


Figure 10.3 The organisation structure at Multi-show Events

Responsibility is a person's duty to meet the expectations associated with a task. The production director and the hydraulics foreman are responsible for the tasks that go with those positions. To fulfil those responsibilities they require formal authority to manage resources.

Responsibility refers to a person's duty to meet the expectations others have of them in their role.

Accountability means that people with formal authority over an area are required to report on their work to those above them in the chain of command. The principal systems engineer is accountable to the mechanical manager for the way he or she has used resources: have they achieved what was expected as measured by the cost, quantity, quality or timeliness of the work?

Delegation occurs when people transfer responsibility and authority for part of their work to people below them in the hierarchy. The production director is responsible for all work in that area, and can only do this by delegating. They must account for the results, but pass the necessary authority to commit resources and do the work to subordinates – and this continues down the hierarchy. The person delegating the work is still responsible for what happens – this can be a contentious area when staff make mistakes. Delegating to subordinates should enable quicker and better-informed decisions by people familiar with the issue, and may also develop their initiative and sense of responsibility. Take care to ensure subordinates are able to do the work to the standards you expect. Some managers are reluctant to delegate, fearing it will reduce their power.

Delegation occurs when one person gives another the authority to undertake specific activities or decisions.

Deciding a span of control

The **span of control** is the number of subordinates reporting to a supervisor. If managers supervise staff closely there is a narrow span of control – the top half of Figure 10.4. If they allow staff more responsibility the supervisor has less to do, so can manage more staff. The span of control becomes wider, and the structure flatter – the lower half of Figure 10.4.

A **span of control** is the number of subordinates reporting directly to the person above them in the hierarchy.

Key ideas — Joan Woodward's research

Joan Woodward's study of 100 firms in Essex found great variety between them in the number of subordinates that managers supervised (Woodward, 1965). The number reporting directly to the chief executive ranged from 2 to 18, with the median span of control being 6. The average span of control of the first line supervisors varied from 10 to 90, with a median of 37. Woodward explained the variation by the technological system used (more on companion website).

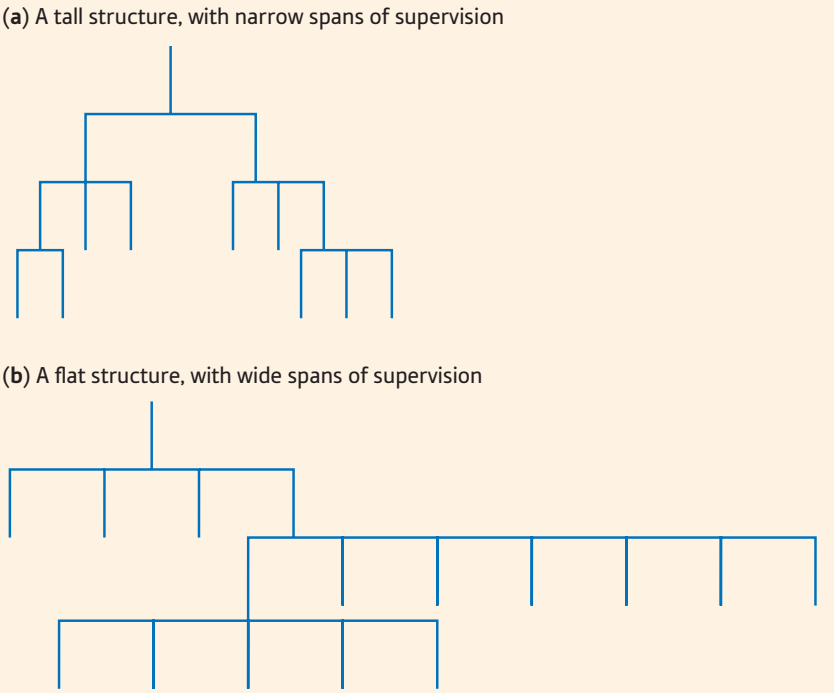


Figure 10.4 Tall and flat structures

Creating a hierarchy – levels of authority and responsibility

As an organisation grows managers divide work vertically. They cannot do everything themselves, so they delegate some tasks to others – usually in a hierarchy with those at the top having more authority than those lower down. Further growth brings complexity, but it is usually possible to see three levels – corporate, divisional and operating – such as at Royal Bank of Scotland (RBS):

- **Corporate:** the most senior group, the Group Board has overall responsibility for controlling the company to ensure its long-term success and for delivering value to shareholders. It approves strategy, monitors performance, and maintains external links with regulators and governments.
- **Divisional:** responsible for implementing policy and allocating budgets and other resources. RBS is (in 2019) organised around three types of customer – Personal and Business Banking (essentially the retail business); Commercial and International (financial services to UK and international corporations); and Private (services to wealthy individuals and enterprises). Divisional managers are responsible for meeting targets set by the board. They represent the division's interests to the board and monitor performance in the operating units.
- **Operating:** responsible for delivering services and related technical work. Within the three main divisions there are teams responsible for ensuring that systems and facilities work properly.

The vertical hierarchy establishes what decisions people at each level can make. This theme is especially relevant in multinationals, which experience constant tension between global consistency and local responsiveness.

Centralisation is when a relatively large number of decisions are taken by management at the top of the organisation.

Centralisation is when those at the top make most decisions, with managers at divisional level ensuring those at operating level follow the policy.

Decentralisation is when people in divisions or operating units make many of the business decisions. Branch managers in a chain of retail travel agents had considerable freedom over pricing and promotional activities, but were required to follow very tight financial reporting routines. KPMG, the auditing and consulting firm, announced that the European division would decentralise more decisions to national offices.

Decentralisation is when a relatively large number of decisions are taken lower down the organisation in the operating units.

Management in practice

A decentralised structure at Roche www.roche.com

Roche, based in Switzerland, is one of the world's most successful and profitable pharmaceutical companies. The board appointed a new chief executive – Severin Schwan (a graduate in business and law) who, at the age of 40, has spent his career in the company. The group has a decentralised structure which analysts believe has been a major factor in its success, by encouraging each subsidiary to focus their research on specific diseases, while collaborating on marketing. Mr Schwan says teamwork is essential in this knowledge-based business:

> **When I toured our labs, I grasped the potential and the enthusiasm of our people. We have to capitalize on that. If you tell your people all the time what to do, don't be surprised if they don't come up with new ideas. Innovative people need air to breathe. Our culture of working together at Roche is based on mutual trust and teamwork. An informal friendly manner supports this: at the same time this must not lead to negligence or shoddy compromises – goals must be achieved and, at times, tough decisions have to be implemented.'**

FT Source: *Financial Times*, 4 August 2008, p.14.

Many organisations display a mix of both. Kering (the owner of many luxury brands, including Gucci) offers its subsidiaries 'freedom within a framework'). The company's 14 brands employ more than 3,300 people in China, but only 100 direct Kering employees. Kering monitors Chinese retailing trends closely, and shares this information with the brands – but the local brand management teams decide if or how to use it. The centre develops strategy, and assists with, for example, property transactions – but brand managers implement the strategy in China (*Financial Times*, 13 June 2013, p.14).

The issue emerged in the Volkswagen scandal (Chapter 5), in that the chief executive of Volkswagen in the United States (where the illegal practices were discovered) had not been part of the group in Germany which developed the technology in question, and knew nothing of it until the story broke. This tension between centralising and decentralising is common, with the balance at any time reflecting managers' relative power and their views on the advantages of one direction or the other – see Table 10.2.

Deciding how much formality

Formalisation is when managers use written or electronic documents to direct and control employees. These include rules, procedures, instruction manuals, job descriptions – anything that shows what people must do. Operators in call centres use scripts to guide their conversation with customers, ensuring they deal with them consistently and legally.

Formalisation is the practice of using written or electronic documents to direct and control employees.

Table 10.2 Advantages and disadvantages of centralisation

Factor	Advantages	Disadvantages
Response to change	Thorough debate of issues	Slower response to local conditions
Use of expertise	Concentration of expertise at the centre makes it easier to develop new services and promote best practice methods	Less likely to take account of local knowledge or innovative people
Cost	Economies of scale in purchasing and using common IT systems	Local suppliers may give better value than remote corporate ones
Policy implications	Possibly less risk of local managers acting illegally	Possibly more risk of local managers acting Illegally
Staff commitment	Backing of centre ensures wide support	Local staff motivated by more responsibility
Consistency	Provides consistent image to the public – less variation in service standards	Local staff discouraged from taking responsibility – can blame centre

There is always tension between flexibility and control. People who want to respond to customer needs or local conditions value informal arrangements. Laws intended to protect customers from unsuitable selling methods lead to formal systems, recording procedures, and less staff discretion.

Activity 10.2 reflect on structures

Select an organisation with which you are familiar, or which you can find out about. Gather information about aspects of the structure, such as:

- Does the organisation chart look tall or flat?
- What evidence is there of high or low levels of formality?
- Which decisions are centralised, and which are decentralised?

Share your information with colleagues on your course, to increase your awareness of the alternative ways in which people have designed structures.

10.4 Dividing work internally – functions, divisions and matrices

Work specialisation divides the larger tasks of an organisation (develop new pharmaceuticals) into smaller tasks for designated units (functional, divisional or matrix), within which further specialisation divides those tasks into jobs for individuals. Another approach shares the work amongst networks of collaborating, but independent, organisations – see Figure 10.5.

Specialisation by function

A **functional structure** is when tasks are grouped into departments based on similar skills and expertise.

When managers divide staff according to profession or function (finance, marketing) they create a **functional structure**: there are six in the aircraft factory chart. Figure 10.6 shows a hospital chart, with a functional structure at senior level.

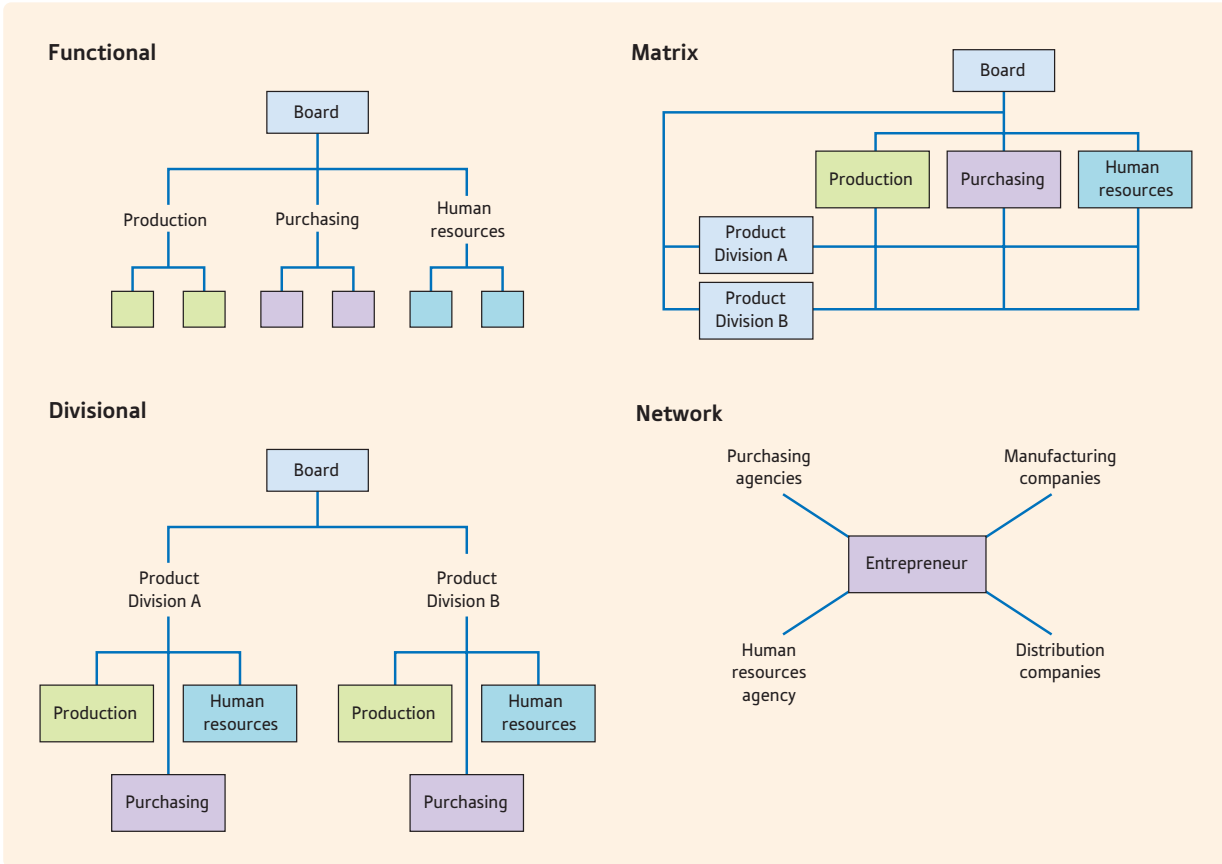


Figure 10.5 Four types of structure

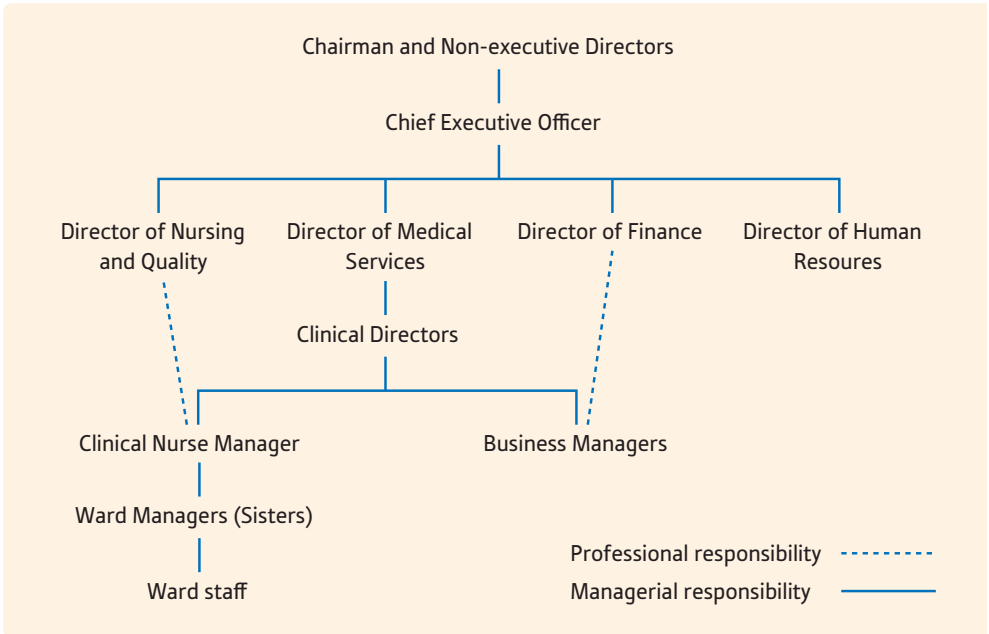


Figure 10.6 Partial structure in a hospital

The functional approach can be efficient as people with common expertise work together, and follow a professional career path. It can lead to conflict if functions have

different perceptions of organisational goals. Le Meunier-FitzHugh and Piercy (2008) show how staff in sales and marketing experienced this – the former stressing immediate sales, the latter long-term customer relations. Functional staff face conflicts when product managers compete for access to resources (such as IT).

Specialisation by divisions

A **divisional structure** is when tasks are grouped in relation to their outputs, such as products or the needs of different types of customer.

Managers create a **divisional structure** when they arrange the organisation around products, services or customers, giving the head of each unit authority to design, make and deliver the product. Functions within the division are likely to cooperate as they depend on satisfying the same customers.

Product or customer

Divisional structures enable staff to focus on a distinct group of customers – Shell UK has a Trading division (Trading and Supply) and another (Retail North Cluster) which manages the retail businesses in the UK, Denmark and Norway. Hospitals can use the 'named-nurse' system, in which one nurse is responsible for identified patients. That nurse is the patient's contact with the system, managing the delivery of services to the patient from (functional) departments. Figure 10.7 contrasts 'task' and 'named-nurse' approaches.

Geographic divisions

Managers in companies with many service outlets – Waitrose or Weatherspoon's – can group them by geography. This allows branch staff to identify local needs, and makes it easier for divisional managers to monitor performance – see Table 10.3.

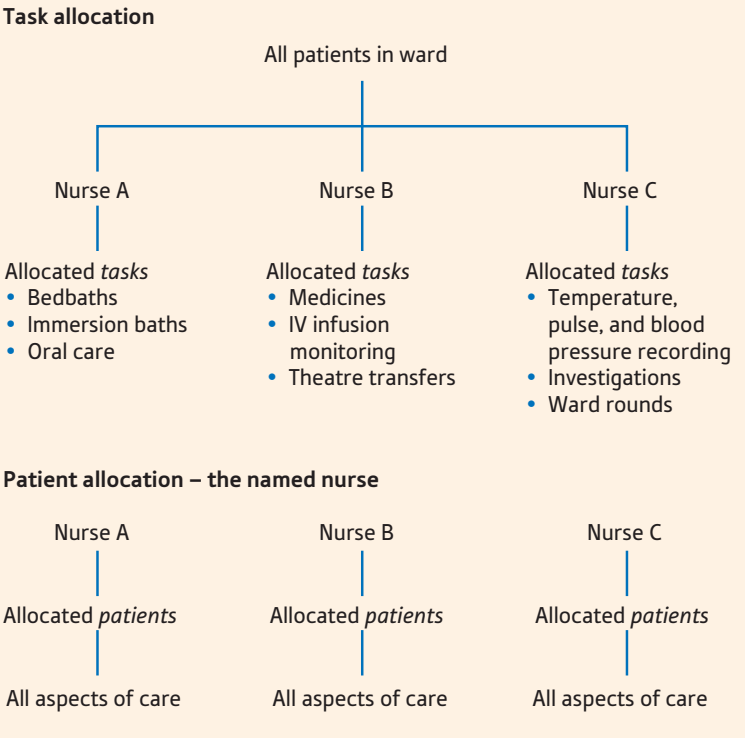


Figure 10.7 Task and named-nurse structures

Table 10.3 Advantages and disadvantages of functional and divisional structures

Structure	Advantages	Disadvantages
Functional	Clear career paths and professional development	Isolation from wider interests damages promotion prospects
	Specialisation leads to high standards and efficiency	Conflict over priorities
	Common professional interests support good internal relations	Lack of wider awareness damages external relations
Divisional	Functional staff focus on product and customer needs	Isolation from wider professional and technical developments
	Dedicated facilities meet customer needs quickly	Costs of duplicate resources
	Common customer focus enables good internal relations	Potential conflict with other divisions over priorities
		Focus on divisional, not corporate, needs

Matrix structure

A **matrix structure** is when those doing a task report both to a functional and a project or divisional boss.

A **matrix structure** combines functional and divisional structures: function on one axis and products, projects or customers on the other. Functional staff work on one or more projects as required. They report to two bosses – a functional head and the head of the current project(s). They usually work in teams – the matrix form in Figure 10.5 implies that a team made up of people from production, purchasing and human resources respectively could work on Product A, another on Product B, and so on. This method sometimes works in organisations that depend on a flow of new products: managers delegate significant responsibility and authority to an identifiable team, which is then accountable for results (the Chapter 17 Case (Cisco), is an example, as is the Part 1 Case (Apple).

Others cite situations where matrix structures have not worked, with no clear vision, responsibility, or sense of ownership. When the UK Government merged the Inland Revenue and the Customs service to create HM Revenue and Customs, it chose a matrix structure. This was widely criticised for its complexity, with many suggesting that a traditional hierarchical structure was more suitable for a transaction-processing business like HMRC, which needs clear lines of communication.

Activity 10.3 Choosing between approaches

Go to the website of a company that interests you, and gather information about its structure.

- Decide whether it has a functional or a divisional structure – and if the latter, is that based on products or geography?
- If it has international operations, how are they shown in the structure?
- Compare your research with colleagues on your course, and prepare a short presentation summarising your conclusions.

Case study

GlaxoSmithKline (GSK) - the case continues www.gsk.com

In the early 2000s, senior management at GSK believed that part of their problem with research was the way they organised it. R&D had become large and bureaucratic, which damaged the creative atmosphere in which scientists work best. The company had lost the clear accountability, transparency and personal enthusiasm essential for drug discovery.

The then chief executive (Jean-Paul Garnier) concluded that the functional structure was obsolete, while a matrix structure would become too complex. He therefore replaced it with 'Centres of Excellence for Drug Discovery' (CEDDs). Each is focussed on a family of related diseases (such as Alzheimer's or obesity), has a CEO with the authority to initiate and end projects, and employs several hundred scientists. There are only two or three management layers between the CEO and the 'bench' scientists.

The intention was to make decisions more quickly and restore freedom of action to the scientists conducting the research. It also changed the incentive system, to ensure that those who made the discoveries share in the financial rewards. By 2008 it had 12 CEDDs, and the results were promising. When it introduced this divisional structure in 2005 GSK had two products in 'late stage development': by 2015 it had over 30.

In 2010 it announced a further change: a group of 14 scientists would move into a separate company specialising in pain relief. They will take with them the rights to several patents, in exchange for GSK holding an 18 per cent stake in the company. This will enable GSK to reduce overhead costs, while benefiting from the new company's profits. They expect that the scientists will be more highly motivated in their own company than as a small group within a large one.

Early in 2018 new CEO Emma Walmsley said in an FT interview that she would no longer allow R&D to drift into 'hobbyland', developing drugs with no obvious commercial potential. The company had a reputation for producing fewer highly successful drugs than its rivals. A competitor analysis showed that GKN did well on the number of drugs that received regulatory approval, but much less so in terms of the value the medicines created for the company.

FT Sources: Garnier (2008); *GSK Annual Report, 2015,* p.6; *Financial Times*, 22 July 2018, p.13.

Case questions 10.2

- List the structural types the company has used, taking examples from both parts of the case.
- List the assumptions that seem to have guided the way they have reorganised R&D.
- Which contextual factors appear to be influencing the company?

10.5 Dividing work externally – outsourcing and networks

Creating a structure includes deciding which tasks in the value chain the organisation will do itself, and which it will secure from others – the 'make or buy' decision.

Outsourcing

Outsourcing refers to the practice of delegating selected value chain activities to an external provider.

Outsourcing happens when managers delegate activities in the value chain to external providers – to cut costs or to access expertise. The remaining organisation concentrates on activities such as marketing and integrating the supply chain. Companies routinely outsource transport, distribution and information processing. Franchising (see Section 4.2) is a form

of outsourcing. New companies, like innocent drinks (Chapter 2 Case study) outsourced manufacturing as this saved capital. Many UK public services are outsourced to private companies. Private provision of foster care to children is growing quickly as local authorities reduce costs. The annual cost (in 2014) of placing a child in foster care with a family was about £27,000, compared with £130,000 for placing them in a children's home. The private sector provides about half of all foster care (*Financial Times*, 7 January 2014, p.20).

One disadvantage of outsourcing is that the company depends on others working to their required standard. When the oil rig on BP's well in the Gulf of Mexico exploded in 2010, the fact that BP neither owned the rig nor employed the contractors did not absolve it of responsibility for the disaster. A company withdrawing from an area of work will also lose the skills in that area, which they may come to need.

Collaborative networks

A **collaborative network** (sometimes called a 'virtual organisation') forms when organisations remain independent but agree to work together in defined areas of work. There is no hierarchical relationship between the players – they work together because they share common goals in some aspects of their business, and hope to gain by contributing their respective skills. The approach is common in high technology sectors with a large research component – see 'Management in practice' below.

A **collaborative network** is when tasks required by one company are performed by other companies with expertise in those areas.

Management in practice — Alliances between bio-tech companies

Entrepreneurial start-ups typically have alliances in two directions – upstream with universities and other leading scientific organisations (to support 'invention success'), and downstream with large commercial businesses (to support 'commercial success'). The latter have the resources to develop a promising product into a saleable one, produce it in large quantities, and promote it in more markets than the start-up could achieve alone.

A study of 603 ventures in the biotechnology sector showed that upstream partnerships had a beneficial effect on invention success, but no effect on commercial success. If a start-up is able to build downstream alliances as well, they may do better. Building upstream *and* downstream alliances had a positive effect on both invention success and commercial success.

Source: Dutta and Hora (2017).

Miles et al. (2010) review the structural forms outlined in these two sections and draw on their research into collaborative communities to identify their properties:

Shared interests	Shared resources or common goals
Collaborative values	Willing to share knowledge and contribute to the success of fellow community members, and to seek fairness in contributions and rewards
Community-oriented leadership	Focus on facilitating sustainability, collaboration and promoting collaborative values and practices
Infrastructure to support member collaboration	Systems, processes, and norms that support both direct and pooled collaboration amongst members
Expandable resources	Knowledge and resource pools that all members contribute to and draw from

Mixed forms

Large organisations typically combine functional, product and geographical structures within the same company – see for example BP (Part 2 Case) or RBS (Part 4 Case).

The counterpart of dividing work is to coordinate it, or there will be confusion and poor performance.

Case study

GlaxoSmithKline (GSK) - the case continues www.gsk.com

A structural innovation has been to work more closely with external partners. GSK no longer depends on its own research for new drugs: by 2020 half of the drug discovery projects may be undertaken by external partners. The company's research director estimated that between one-quarter and one-third of GSK's research already involved working with external partners and the CEDDs would play a growing role by managing a portfolio of research run by such companies:

> **In the future we are going to have many more external projects.**

Consumer Healthcare is run as a single unit and support functions such as property and IT are centralised. Pharmaceuticals and Vaccines are organised geographically by large regions – for example European Pharmaceuticals and Vaccines, Japanese P&V and so on.

In 2018, GSK paid £3.6 billion to buy Novartis' share of their joint venture in consumer healthcare. Those close to the company believe the reason for the deal by the chief executive, Emma Walmsley, is that GSK will be able to invest the profits from the enlarged consumer division to fund R&D in the pharmaceutical division. Later that year she reached an agreement with Pfizer to combine their consumer healthcare divisions into a single joint-venture company – with GSK owning 68 per cent. It will be the world's largest such company, with annual sales of almost £10 billion. In about three years that unit will be demerged to work as an independent company. GSK also spent $5.1 billion to buy Tesaro, a us biotech company which owns several drugs used to treat ovarian cancer and other tumours.

FT Sources: *Financial Times*, 23 March 2018, p.17; *The Guardian*, 20 December 2018, p.46.

Case questions 10.3

- What are the implications for control of these latest developments in the way the company organises research?
- What might be the effects for individual scientists of outsourcing much of its R&D?

10.6 Coordinating work

Those responsible for the divided tasks need to coordinate them. These interdependent individuals coordinate work when they act *as if* they can predict each other's actions. Trouble arises when they cannot do so, and act independently. Coordination can be between individuals working in the same room, who are geographically distant, and/or who work for separate organisations.

Direct supervision

A manager can ensure coordination by directly supervising his or her staff to check they are working as expected. The number of people whom anyone can supervise effectively reflects the idea of the span of control – that beyond some (variable) point direct supervision is no longer sufficient. Geographical separation affects this, though information technology appears to reduce its significance.

Hierarchy

Hierarchies are intended to enable coordination and cooperation between people at each level, and in separate units, by encouraging people to pass information in both directions. This does not always happen. Psychologists have observed that people are reluctant to pass information up the hierarchy, and attribute this to staff feeling they have little control over events – so they avoid engaging with those at higher levels. Equally they may feel 'evaluation apprehension' in the sense that they their superiors will criticise them, or their information. An empirical study by Reitzig and Maciejovsky (2015), who analysed thousands of innovation suggestions made by staff in a European multinational, and conducted two experiments, found that staff's willingness to pass ideas up to superiors fall dramatically when they believed they would have little control over the outcome.

Hierarchies are also expected to help people resolve matters quickly. If an issue arises between staff or departments, they can put the arguments to their common boss in the hierarchy, making it the boss's responsibility to reach a solution. At the aircraft factory (Figure 10.2), if the engineer responsible for structures had a disagreement with the systems engineer, they could ask the mechanical manager to adjudicate. If that failed they could escalate the problem to the production engineering director – but this takes time. In rapidly changing circumstances (or they work in different organisations) the hierarchy cannot cope, which delays decisions.

Standardising inputs and outputs

If the buyer of a component specifies exactly what they required, and the supplier meets that, coordination is easy. If staff receive the same training they will need less direct supervision, as their manager can be confident they will work consistently. New staff at Pret A Manger (see page 40) complete a precise training course before they begin work, which is constantly reinforced.

Rules and procedures

Another method is to prepare rules or procedures, like that in the 'Management in practice' feature that follows. Organisations have procedures for approving capital expenditure, specifying the questions a bid should answer, how people should prepare a case, and to whom they should submit it. Referring to the GSK's purchase from Novartis (see Chapter Case study, p.262), management had put forward another proposal at about the same time to acquire a rival business: the GSK Board ruled that this did not meet the company's rules on capital allocation, so management dropped the idea. Software developers face the challenge of coordinating designers working on parts of a project, often in different organisations, so they use strict change control procedures to ensure that sub-projects fit together.

Management in practice — Safety procedures in a power station

The following instructions govern the steps that staff must follow when they inspect control equipment in a nuclear power station:

1 Before commencing work you must read and understand the relevant Permit-to-Work and/or other safety documents as appropriate.
2 Obtain keys for relevant cubicles.
3 Visually inspect the interior of each bay for dirt, water and evidence of condensation.
4 Visually inspect the cabling, glands, terminal blocks and components for damage.
5 Visually check for loose connections at all terminals.
6 Lock all cubicles and return the keys.
7 Clear the safety document and return it to the supervisor/senior Authorised person.

Borry et al. (2018) considered whether, in public organisations, where rules are central to their task of administering policies fairly, people were more likely to follow rules with two attributes – that they were written (formalised) and applied consistently (by others). Researchers gave participants one of four conditions about a rule that employees with four unexcused absences in a pay period must be suspended. The conditions were that the rule was:

1 written and consistently applied (by supervisors)
2 unwritten and consistently applied
3 written and inconsistently applied
4 unwritten and inconsistently applied.

Figure 10.8 shows that 97 per cent of respondents would comply with a rule that was written and consistently applied, while only 34 per cent would comply if the rule was unwritten and inconsistently applied. That increased to 66 per cent for unwritten and consistent condition, and to 81 per cent if the written rule was inconsistently applied. Written rules give legitimacy to an action, especially if it is applied consistently: even if others apply it inconsistently most respondents would comply with it.

Information systems

Information systems help to ensure that people who need to work in a consistent way have common information, so that they can coordinate their activities. Computer systems and

Key ideas — Coordinating sales and marketing

Large organisations typically create separate sales and marketing departments, which must then coordinate their work to ensure cooperation, customer satisfaction and profitability. Homburg et al. (2008) concluded (from a survey of German firms in financial services, consumer goods and chemicals) that the best performance was in firms where managers had:

- developed strong structural links between the two functions, especially by using teams, and requiring staff to plan projects jointly; and
- ensured that staff in both functions had high market knowledge – by rotating them between functions to learn about customers and competitors.

Source: Homburg et al. (2008).

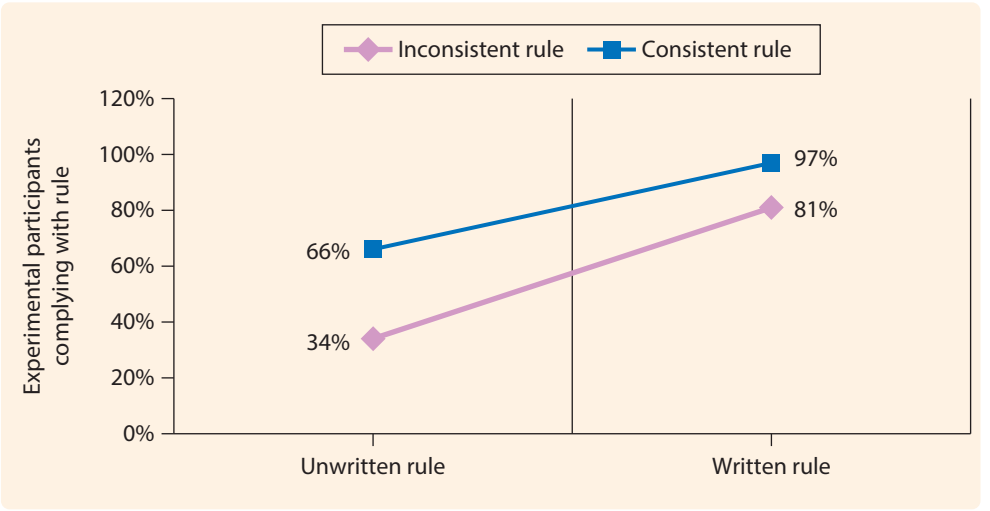


Figure 10.8 Rule formalisation, consistency and rule following

Source: Based on Borry et al. (2018), p.376.

internet applications enable different parts of an organisation, as well as suppliers and customers, to work from common information, helping coordination.

Most companies purchase goods and services electronically, ensuring that orders and payments to suppliers flow automatically to match current demand. This coordinates a laborious task where mistakes were common.

Direct personal contact

The most human form of coordination is when people talk to each other. Mintzberg (1979) found that people use this method in both the simplest and the most complex situations. There is so much uncertainty in the latter that information systems cannot cope – only direct contact can do this, by enabling people to making personal commitments to each other – see 'Management in practice' below.

Management in practice — Coordinating a social service

The organisation cares for the elderly. Someone who had worked there for several years:

Within the centre there was a manager, 2 deputies, an assistant manager, 5 senior care officers (SCOs) and 30 officers. Each SCO is responsible for 6 care officers, allowing daily contact between supervisor and subordinates. While this defines job roles quite tightly, it provides a good communication structure. Feedback is common as there are frequent meetings of the separate groups, and individual appraisals by the SCOs. Staff value this opportunity for praise and comments on how they are doing.

Contact is also common between SCO and care officers during meetings to assess clients' needs – for whom the care officers are directly responsible. Frequent social functions in the department also enhance relations and satisfy social needs. Senior management place controls on the behaviour of care officers, often from legislation or the Health and Safety Executive.

Source: Private communication.

Activity 10.4 Observing coordination

Think of an activity in which you and others have worked together in a coordinated way: it could be in paid or voluntary work, or a social activity. Record your answers to these questions:

- To what extent did someone coordinate the work by direct supervision?
- Was it clear who was in charge, and how they could help coordination?
- Was everyone briefed about the task, and what they were expected to do?
- Were there any written or unwritten rules to follow during the task?
- How was information exchanged between those doing the task?
- What personal contact was possible during the task?

Compare your conclusions with colleagues on your course, and agree some good coordination practices.

Managers make successive decisions about dividing and coordinating work: these build a structure which, in varying degrees, corresponds to a mechanistic or organic form.

10.7 Mechanistic and organic forms

A **mechanistic structure** means there is a high degree of task specialisation, people's responsibility and authority are closely defined and decision making is centralised.

An **organic structure** is one where people are expected to work together and to use their initiative to solve problems; job descriptions and rules are few and imprecise.

Some organisations have a clear vertical hierarchy – they define responsibilities clearly, take decisions at the centre, delegate defined tasks and require frequent reports. This enables those at the centre to know what is happening and whether staff are working correctly. The organisation presents a uniform image and customers receive consistent treatment. Communication is mainly vertical, as the centre passes instructions down and staff pass queries up. Burns and Stalker (1961) called this a **mechanistic structure**.

Others define tasks broadly and flexibly, use cross-functional teams, and base authority on expertise rather than position. Management relies on people nearest the action to find the best solution. Communication is mainly horizontal amongst those familiar with the task. There may not be an organisation chart, as the division of work is fluid. Burns and Stalker (1961) called this an **organic structure**. Table 10.4 compares them.

Why do managers favour one form of structure rather than another? One (though disputed) view is that it depends on how they interpret contingencies – the situation in which the business works:

> the essence of the contingency paradigm is that organizational effectiveness results from fitting characteristics of the organization, such as its structure, to contingencies that reflect the situation of the organization (Donaldson, 2001, p.1).

Successful organisations appear to be those in which managers maintain a good fit between contingent (contextual) factors and the structure within which people work (Figure 10.1 showed these – strategy, technology, age/size and environment).

Lawrence and Lorsch (1967) introduced an important development of contingency theory, as they noted that organisations have not one but several environments – the R&D

Management in practice — An organic structure at Pixar www.pixar.com

The company's string of successful movies depends not only on its creative employees, but on how it manages them. Ed Catmull (co-founder of Pixar, and president of Pixar and Disney Animation Studios) has described the 'collective creativity', and how the senior team fosters this. He believes Pixar is unique in the way people at all levels support each other. He describes the daily reviews:

> **The practice of working together as peers is core to our culture ... One example is our daily reviews, or 'dailies', a process for giving and getting constant feedback in a positive way ... People show work in an incomplete state to the whole animation crew, and although the director makes decisions, everyone is encouraged to comment. There are several benefits. First, once people get over the embarrassment of showing work in progress, they become more creative. Second, directors ... can communicate important points to the entire crew. Third, people ... inspire each other to raise their game. Finally, there are no surprises at the end. People's desire to make sure their work is 'good' before they show it [can mean] that their finished version is not what the director wants. The 'dailies' avoid such wasted efforts.**

Source: Catmull (2008), p.70.

department faces very different expectations from, say, production or finance: some units will have a mechanistic structure and others an organic one. The management challenge is to coordinate these units which will have distinctly different perspectives.

The next subsection outlines how strategy can affect structure: the companion website contains material on the other contingencies.

CWS More material on contingency theories

Strategy

Chapter 8 outlined Porter's view that firms adopt one of three generic strategies – cost leadership, differentiation or focus. Those using a cost leadership strategy increase efficiency

Table 10.4 Characteristics of mechanistic and organic structures

Mechanistic	Organic
Work on specialised tasks	Contribute experience to common tasks
Hierarchical structure of control	**Network structure** of contacts
Knowledge located at top of hierarchy	Knowledge widely spread
Vertical communication	Horizontal communication
Loyalty and obedience valued	Commitment to goals valued

Source: Based on Burns and Stalker (1961).

A **network structure** is when tasks required by one company are performed by other companies with expertise in those areas.

to keep costs low. A mechanistic structure can support this with defined tasks in an efficient functional structure. A clear hierarchy ensures people work to plan and vertical communication keeps the centre informed.

Those using a differentiation strategy focus on innovation and new products. An organic structure can support this, by enabling ideas to flow easily between people able to contribute, regardless of their function – Pixar is an example.

Figure 10.9 expresses the idea that strategies require appropriate structures. The more the strategy corresponds to cost leadership, the more likely it is that managers will create a functional structure. If the balance is towards differentiation, they are more likely to create a divisional, team or network structure.

Contingencies or managerial choice?

Contingency theories propose that the performance of an organisation depends on having a structure that is appropriate to its environment.

Contingency theories propose that the most effective structure will depend (be contingent) on the context:

> The organization is seen as existing in an environment that shapes its strategy, technology, size and innovation rate. These contingent factors in turn determine the required structure; that is, the structure that the organization needs to adopt if it is to operate effectively. (Donaldson, 1996, p.2)

Determinism is the view that the business environment determines an organisation's structure.

Effective management involves formulating a strategy and a structure to support that – by encouraging appropriate behaviour. The emphasis is **determinist** (the form is determined by the environment) and functionalist (the form is intended to support effectiveness). Management's role is to make adjustments to the structure as conditions change – such as by increasing formality as the company grows.

Structural choice emphasises the scope that management has to decide the form of structure, irrespective of environmental conditions.

John Child (2005) disagreed, suggesting that contingency theorists ignore the degree of **structural choice** that managers have. Decisions about structure are not only rational, but also political. The values and interests of powerful groups can influence structure even if this reduces performance to some degree.

Another consideration is that the direction of causality is not necessarily from strategy to structure. It is also possible that an organisation with a given structure finds it easier to embark on a particular strategy.

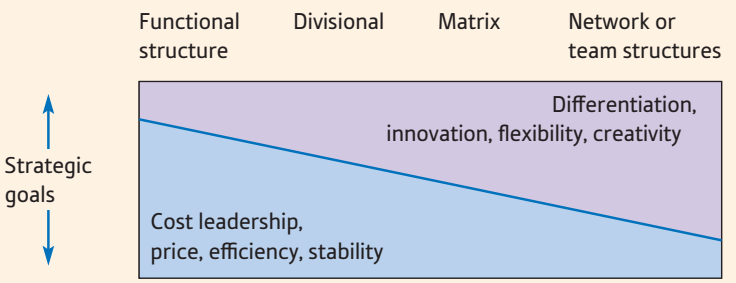


Figure 10.9 Relationship between strategies and structural types

10.8 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 10.5 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and

what variables they assumed would help achieve them) and about process (how they tried to gain the support of stakeholders). *These are examples only – not a comprehensive analysis*. You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *Explain the meaning of an organic structure, and the situations in which it is believed to be useful. What are its limitations?*

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 10.5 'Clear thinking' examples from the Chapter Case study and a theory

Clear thinking elements	From the Chapter Case study– CEDD: a structure for scientists	Theory – a question about organic structures (Section 10.7)
Check assumptions	(About objectives) • To encourage scientific imagination or to make performance visible? (About the CEED organisation) • GSK finds and monitor examples of practice elsewhere – how other large pharmas do it? • What made them think this would meet their objectives?	**Introduction** • Outline the meaning and nature • Probably contrast this with the mechanistic form to give context to your answer Assumptions to consider could include: **Task** • Tasks to be done are new, experimental with little knowledge to call on • Staff will use their knowledge and imagination to deal with whatever needs to be done • Staff have the mindset such that they are willing to do that **Process** • People will communicate with each other irrespective of function or level • Are these valid in a particular setting? Is it wise to assume they will always hold true?
Recognise contexts	(Competitive context) • Does the evidence that small companies discover more drugs imply a fundamental change to GSK's role? (Social contexts) • Do scientists prefer working in small companies? • What attracts scientists to work for 'big pharmas' like GSK?	(Business contexts) • Organic believed to work best in fluid, changing contexts • Some contexts probably require mechanistic forms; can the two co-exist in one organisation? (Legal context) • Is increasing regulation (safety, consumer protection, environmental) reducing the scope for the autonomy expected in organic forms?

(continued)

Table 10.5 (*continued*)

Clear thinking elements	From the Chapter Case study– CEDD: a structure for scientists	Theory – a question about organic structures (Section 10.7)
Imagine alternatives	Accelerating use of buying stakes in spin-out companies? Accelerating use of joint ventures with smaller companies?	Varying degrees of 'organic' structure gives flexibility – mixed forms possible if conditions suit: not necessary to be uniform across organisation
Acknowledge limitations	Control over devolved businesses will be more difficult than when people were part of GSK – a price worth paying?	Some staff uncomfortable with the additional responsibilities people in organic structures take on

Skill

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of coordinating work.

Develop a skill: coordinating work

Being able to coordinate work amongst those engaged in a common task is an essential skill, and this exercise should help you develop that.

- **Assessment.** Assess how you typically coordinate the work of people you depend on to complete a task – in your studies, or in social activities (moving smoothly to a new flat requires a lot of coordination, and may suggest other tasks to use here). Do you, for example, assume it will all work out, and leave it to chance? Or do you watch over each stage of the process very closely?
- **Learning.** Read again Sections 10.1 and 10.6 and summarise the main ideas presented there. Why is coordinating fundamental to managing?
- **Analysis.** Review your work on Activity 10.4. What evidence does that provide about the effects of using, or not using, each method of coordination? How did the context seem to shape the method used?
- **Practice.** Identify (on your own or with colleagues) a task that you need to coordinate several people or enterprises (as before, related to any aspect of life) in the next week or so. Decide which coordination method from Section 10.6 you will use (also recall Activity 10.4), and plan the task accordingly.
  - Follow your plan and record the outcomes. How did your coordination plan work?
  - Try to compare your work with that of others to see what else you can learn.
- **Application.** Decide on another opportunity to practise this skill within the next week.

Summary

1 Outline the potential links between strategy, structure and performance

- The structure signals what people are expected to do, encourages actions that support strategy, and so enhances performance. A structure may also enable a strategy to emerge, which a different structure would have hindered.

2 **Give examples of the tasks of dividing work vertically and horizontally, and evaluate alternative methods**

- Managers divide work to enable individuals and groups to specialise on part of the whole, and so become more skilled. Task division needs to be accompanied by suitable coordination.
- Centralisation brings consistency and efficiency, but also the danger of being slow and out of touch with local conditions. People in decentralised units can respond quickly but risk acting inconsistently.
- Functional forms allow people to specialise and develop expertise and are efficient; but they may be inward looking and prone to conflicting demands.
- Divisional forms allow focus on particular markets of customer groups, but can duplicate facilities.
- Matrix forms try to balance the benefits of functional and divisional forms, but can lead to conflicts over resources.
- Networks enable companies to draw upon a wide range of expertise, but involve additional management and coordination costs.

3 **Give examples of the tasks of coordinating work, and evaluate alternatives**

- Coordination can be achieved by direct supervision and personal contact, hierarchy, standardising inputs and outputs, rules, and information systems.

4 **Compare mechanistic and organic structures**

- Mechanistic – people perform specialised tasks, hierarchical structure of control, knowledge located at top of hierarchy, vertical communication, loyalty and obedience are valued.
- Organic – people contribute experience to common tasks, network structure of contacts, knowledge widely spread, horizontal communication, commitment to task goals is valued.

5 **Explain contingency theories (which relate structure to context and performance), and use this to evaluate a unit's structure**

- Strategy, environment, technology, age/size and political contingencies (child) are believed to indicate the most suitable form, and the manager's role is to interpret these in relation to their circumstances.

6 **Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of coordinating work**

- Using the coordination methods outlined in the chapter depends on skill, and the chapter provides an opportunity to understand how to begin to develop the skill of coordinating work.

Test your understanding

1 What did Chandler conclude about the relationship between strategy, structure and performance?

2 Draw the organisation chart of a company or unit that you know. Compare it with the structures shown in Figure 10.2, writing down points of similarity and difference.

3 List the advantages and disadvantages of centralising organisational functions.

4 Several forms of coordination are described. Select two that you have seen in operation and describe how they work – and how well they work.

5 Explain the difference between a mechanistic and an organic form of organisation.

6 Explain the term 'contingency approach' and give an example of each of the factors that influence the choice between mechanistic and organic structures

7 What is the main criticism of the contingency approaches to organisation structure?

Read more

Woodward, J. (1965) *Industrial Organization: Theory and practice*, Oxford University Press, Oxford. Second edition 1980.

Burns, T. and Stalker, G.M. (1961) *The Management of Innovation*, Tavistock, London.

Lawrence, P. and Lorsch, J.W. (1967) *Organization and Environment*, Harvard Business School Press, Boston, MA.

These influential books give accessible accounts of the research process, and it would add to your understanding to read at least one of them in the original.

Borry, E.L., DeHart-Davis, L., Kaufmann, W., Merritt, C.C., Mohr, Z. and Tummers, L. (2018) 'Formalization and consistency heighten organizational rule following: Experimental and survey evidence', *Public Administration*, vol. 96, no. 2, pp.368–85.

Shows how public employees are more likely to follow rules that are written (formalised) than if they are not.

Go online

These websites have appeared in the chapter:

www.gsk.com
www.roche.com
www.rbs.com
www.pizzahut.co.uk
www.prudential.com
www.pixar.com

Visit two of the business sites in the list, and navigate to the pages dealing with corporate news, investor relations or 'our company'.

- What organisational structure issues can you identify that managers in the company are likely to be dealing with? Can you find any information about their likely culture from the website?
- What kind of environment are they likely to be working in, and how may that affect their structure and culture?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



CHAPTER 11

HUMAN RESOURCE MANAGEMENT

Aim

To introduce the topic of human resource management and its role in adding value.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Understand the context of HRM and how it may affect practice and performance
2. Explain a theory linking HRM and strategy
3. Summarise evidence about what HR managers do
4. Describe these tasks of HRM, and be able to summarise evidence about them:
   a. Recruitment and selection
   b. Reward management
   c. Equality and diversity
5. Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of preparing for an interview

Key terms

This chapter introduces these terms:

human resource management
job satisfaction
work engagement
external fit
internal fit
job analysis
competencies
validity
personality tests
assessment centres
performance-related pay
diversity

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

Flexible working and high-performance work systems

Equal opportunities and diversity

Case study BMW www.bmwgroup.com

In 2018, BMW, whose headquarters are in Munich, was (with Daimler) one of the world's two leading premium automobile companies. BMW employed about 135,000 people on the BMW, Mini and Rolls-Royce brands. It has 24 production facilities in 13 countries, and sales offices in over 140. Management has chosen to focus on three premium segments of the international car market, with each of its brands being the market leader in its segment. The BMW corporate Strategy Number *one* expresses the vision to be the leading provider of premium products and services for individual mobility. It is facing challenges from the introduction of electric cars, the prospect of autonomous technology, and the growth of car-sharing schemes.

In 2018, it delivered 2.5 million automobiles to customers, about 1 per cent more than in the previous year: this included 361,000 Minis and 4,100 Rolls-Royce motors (the latter being 22 per cent more than the previous year). Western Europe is its main market, accounting for about 60 per cent of all BMW cars sold. China is a growing market for these luxury cars, so BMW is investing in manufacturing facilities there: in 2018, it announced a joint venture with Chinese company Great Wall Motors to make electric versions of the Mini. It also increased its stake in a joint venture with Brilliance China Automotive Holdings to build a new plant in north eastern China. The company manufactures motorcycles and has a joint venture with Rolls-Royce to produce aircraft jet engines.

BMW's business strategy includes providing purchasers with a wide variety of choices about how their car is equipped. The variety of possible combinations is so great that exactly the same car is produced only about once every nine months. The company also emphasises the quality of the product. This combination of variety and quality is a challenge to achieve in a product as complex as the modern car. It requires both advanced technology in manufacturing, and employees who are highly skilled and flexible. Recognising this, the company places great stress on recruiting only the highest-quality workers, with technical and team working skills. The strategy is supported by its approach to HRM which derives from, and is highly consistent with, the company's 'six inner values': communication, ethical behaviour



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to its staff, achievement and remuneration, independence, self-fulfilment and the pursuit of new goals. This underlying philosophy guides the design of new BMW plants (an open design that makes all operations easy to see, and so helps communication) and the process of introducing new or reformed HRM practices. The company consults widely about these, sharing information on proposals and trying to ensure that successive changes are consistent with each other and build on established policies.

> **The company provides virtually unprecedented job security. And that is part of the reason why, for many Germans, getting a job at BMW is the ultimate accomplishment. The company's human resource department receives more than two hundred thousand applicants annually (Lawler, 2008, p.18).**

Sources: Lawler (2008); company website; *Financial Times*, 18 July 2018, p.14, 26 September 2018, p.18; *The Guardian*, 13 October 2018, p.53.

Case questions 11.1

- What issues concerning the management of people are likely to be raised in a group such as BMW that has rapidly expanded production and distribution facilities?
- How is increased overseas production likely to affect HRM policies?

11.1 Introduction

Activity 11.1 Defining HRM

Before reading on, note down how you would define human resource management. What topics and issues do you think it deals with, and how does it relate to management as a whole? Save your notes and compare them with the topics covered in the chapter as you work.

BMW is a large and successful business in a growing area of the world economy – automobile production. It faces competitive problems stemming from high employment costs in Germany, and strong competitors in its chosen market sectors. Management is attempting to retain the company's position by diversifying the product range and the number of countries in which it manufactures. The company believes that HRM strategy and practices should support their business strategy by providing well-trained and flexible employees.

Human resource management refers to all those activities associated with the management of work and people in organisations.

Such activities are part of a broader change taking place in many companies where managers develop practices designed to influence employee attitudes and behaviours in ways that will support their strategy. These practices are commonly referred to as **human resource management (HRM)**, which covers four areas (Beer et al. (1984):

- employee influence (employee involvement in decision making)
- work systems (work design, supervisory style)
- human resource flow (recruitment, selection and training)
- reward management (pay and other benefits).

The context of HRM

The term 'human resource management' is relatively new, gaining prominence in companies and business schools in the early 1980s. Before then managers institutionalised their relationship with staff by creating personnel departments. Partly influenced by the human relations model (Chapter 2), they believed they could ensure a committed staff by dealing with grievances and welfare. Growing trade union power led organisations to appoint industrial relations officers to negotiate pay and working conditions.

Personnel departments typically had limited power, and found it difficult to show that they enhanced organisational performance. Senior management saw them as reactive, self-contained and obsessed with procedures, grievances, discipline and trade unions. They worked to minimise costs and avoid disruption – and had little influence on strategy.

Changes in the business world led some observers to propose that issues concerned with managing people should have a higher profile, and especially that line managers should take a larger role. Guest (1987) attributed this to:

- the emergence of globally integrated markets in which competition is severe and where innovation, flexibility and quality are more important than price
- the economic success during the 1980s of countries that tried to manage employees constructively, such as Japan and West Germany
- a popular book by Peters and Waterman (1982) which showed that high performance organisations also had a strong commitment to HRM
- more educated employees
- fewer employees joining trade unions.

Early advocates of HRM proposed that the themes would be integration, planning, a long-run orientation and a link to strategy – believing that together these would improve performance. This reflected the resource-based view of strategy which emphasises the importance of firm-specific resources and competences which are difficult to imitate. Chapter 10 outlined the potential connections between strategy and structure: a similar link may exist between strategy and HRM. Changes in the social world also affect HRM – such as greater diversity of society. Efforts to achieve greater equality depend in part on what happens in the workplace, so companies also pay attention to issues of equality and diversity.

The chapter begins with evidence on the link between HRM and performance, and on what HR managers do. It then presents current practices in human resource flow, reward management and equality and diversity. A prominent HR practice is the selection interview, and preparing for such an event is the focus of the skill development feature.

11.2 HRM and performance – the empirical evidence

Those advocating HRM aim for a 'win-win' situation for employees and employer: the employees do work that is intrinsically satisfying and financially rewarding, while the organisation is more profitable and secure. Many scholars have tested empirically the extent to which HRM practices affect performance, and Jiang et al. (2012) systematically analysed 116 such studies. They organised their analysis using the model shown in Figure 11.1. This draws on Applebaum's (2000) Ability-Motivation-Opportunity model, which stipulates three dimensions for High Performance Work Systems (HPWS) – ability (e.g. staff training), motivation (e.g. performance appraisal) and opportunity (e.g. team working). Jiang at al. (2012) predicted that these groups of HRM practices (AMO) will affect operational and financial outcomes.

They would not do so directly, but through these mediating variables:

- Human capital (knowledge, skill and abilities of employees)
- Employee motivation (direction, intensity and duration of their effort)
- Voluntary turnover (proportion of employees who quit in a period).

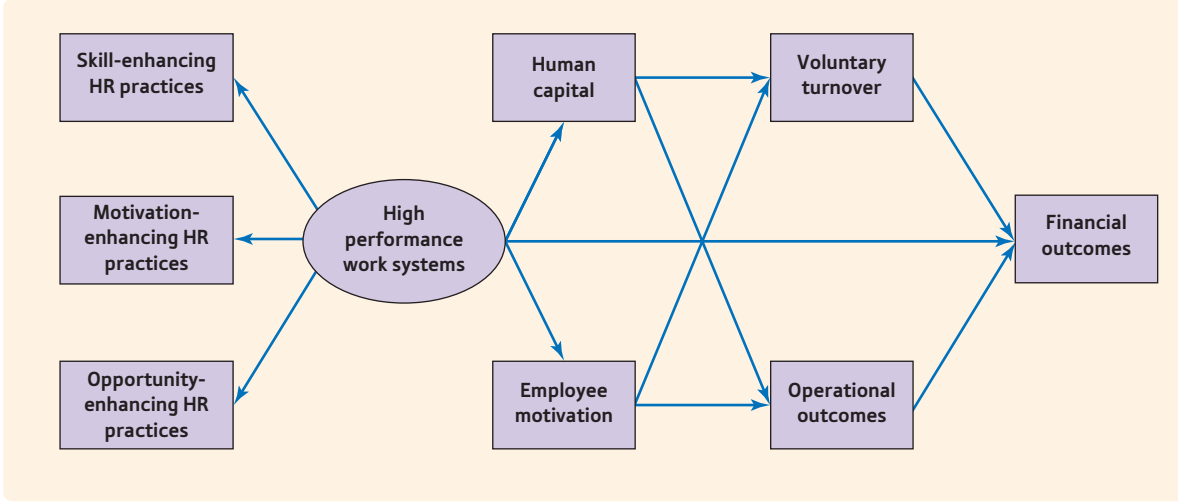


Figure 11.1 Model of the effects of HPWS on organisational outcomes

Source: Jiang et al. (2012).

Table 11.1 Examples of practices and measures used in Figure 11.1 variables

Variable	Examples of practices and measures
Skill-enhancing practices	Selective recruitment, training, education
Motivation-enhancing practices	Performance – related pay, job security, appraisals, career development, performance management
Opportunity-enhancing	Empowerment to use skills, job design, team work, decentralisation, involvement
Human capital	Technical, operational and management skills, educational levels, customer knowledge
Motivation	Motivation, cooperation, helping, organisational citizenship behaviour
Voluntary turnover	Proportion of employees who leave in a period, quit rate
Operational outcomes	Productivity, innovation, customer satisfaction
Financial outcomes	Sales growth, return on assets, overall financial performance

Table 11.1 lists the variables and gives examples of the practices within them.

The analysis by Jiang et al. (2012) concluded that, as expected, certain HRM practices positively affected operational and financial outcomes. The evidence confirmed that skill-enhancing HR practices had a positive effect on human capital (skills), and that motivation-enhancing HR practices had a positive effect on motivation. Both then had positive effects on operational outcomes and hence on financial performance. HRM practices also reduced voluntary turnover, which then enhanced operational and financial performance. Riley at al. (2017) found that firms that excelled in their training also delivered a positive financial performance – especially if they also invested in complementary assets such as R&D and equipment ('internal fit' – see below).

Job satisfaction refers to the positive emotional state arising from one's assessment of one's wok experience.

Work engagement is the positive and rewarding work-related state of mind that inspires individuals to undertake their jobs in ways favourable to the organisation's success.

Ogbonnaya and Valizade (2018) used secondary data from the UK National Health Service to assess how HPWS affected employee outcomes of **job satisfaction** (the positive emotional state arising from one's assessment of one's work experience) and **work engagement** (the positive and rewarding work-related state of mind that inspires individuals to undertake their jobs in ways that support the organisation's success). They also assess whether those factors in turn contributed to their organisation's performance, as measured by absence and patient satisfaction. They concluded that HPWS were indeed positively and directly related to employee satisfaction and work engagement. They also found that job satisfaction might have an effect on patient satisfaction, although that link did not seem to follow from high scores for work engagement, for reasons that were unclear.

A common theme is that organisations only obtain worthwhile benefits if they take a strategic orientation towards HRM, aiming for a high degree of external and internal fit.

Case question 11.2

What HRM policies (as listed in Table 11.1) would you expect BMW to use to support the company's 'six inner values' listed in the case study?

Activity 11.2 Assessing the changes needed

Senior managers in an organisation have decided to pursue a strategy that includes enhancing the quality of its products. It will do this partly by introducing team working to production areas that have traditionally been focused on individual work.
Use Table 11.1 to identify three areas of HRM policy that would probably support this strategy, and why.

External fit

Chapter 10 showed that organisations develop a structure that they believe will help them to deliver their strategy: HRM practices provide some of the tools for this. Figure 11.2 shows this relationship, aiming for a close **external fit** between a firm's business strategy, organisation structure and HRM strategy – and between those and the external environments. For example, Chapter 8 distinguished low cost and differentiation strategies, which require compatible employee attitudes and behaviours. A low-cost strategy may be best served by paying low wages to a casual labour force. A differentiation strategy aiming

External fit is when there is a close and consistent relationship between an organisation's competitive strategy and its HRM strategy.

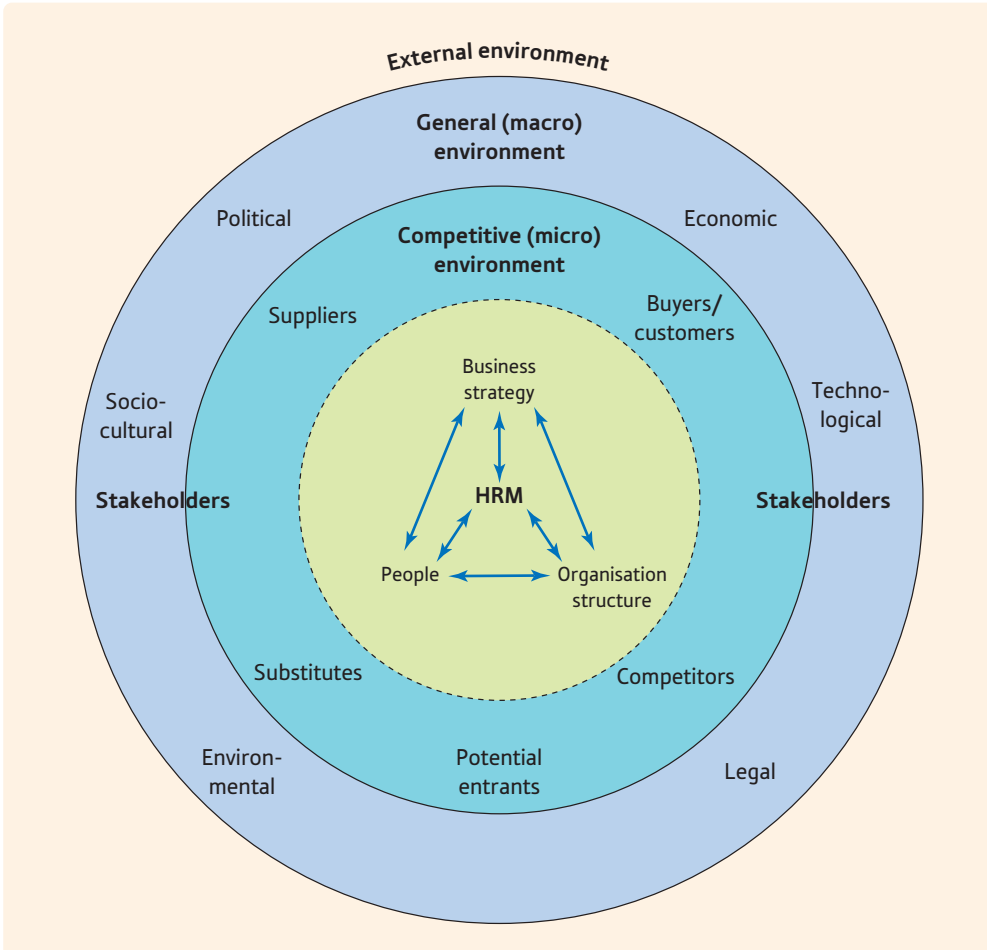


Figure 11.2 Fit between HRM, people, strategy, structure and environment

for flexible responses to customer needs may be best served by imaginative training, team working and shop-floor problem solving.

Key ideas — Human capital and firm performance

Crook et al. (2011) studied the relationship between aspects of human capital and firm performance – defining human capital as the explicit and tacit knowledge, skills and abilities embodied in people. They point out that while scholars and practitioners have long assumed that investing in these resources will improve performance, research is equivocal about the relationship. They systematically reviewed the results of 66 empirical studies of the link between human capital and firm performance. They concluded that, as expected, human capital investment has a strong positive effect on firm performance, especially when the human capital concerned is unique to the employing firm (the person is unlikely to take their skills elsewhere). The relationship is also strong when the performance measure used is an operational one such as quality, rather than more distant ones as company profits.

Source: Crook et al. (2011).

Case questions 11.3

- Visit the BMW website and see how the company presents itself and the cars. What image does it convey – what words would you use to describe them?
- To deliver that image, what kind of behaviour would you expect of employees?
- What HRM practices may encourage/discourage that behaviour?

Activity 11.3 — Comparing HRM policies

List the major differences in HRM policies that you would expect to observe between two organisations, one pursuing a low-cost strategy and the other a quality enhancement strategy. (Use Table 11.1 and related text to assist you.)

Internal fit

Internal fit is when the various components of the HRM strategy support each other and consistently encourage certain attitudes and behaviour.

Organisations are also expected to benefit if their HRM policies achieve **internal fit** in the sense that individual practices complement and reinforce each other. An organisation that encourages team working can support this through a payment system that rewards contributions to the team. Managers will weaken team working if they reward only individual performance, as this will discourage cooperation.

Purcell and Hutchinson (2007) traced the link between HRM practices and performance, paying particular attention to the role of first-line managers. They did so as employee perceptions of, and reaction to, HRM practices will be shaped by their relationship with their manager, and how they implement intended HRM practices. Figure 11.3 shows the proposed relationships.

Intended practices are those designed to contribute to strategy. Actual practices are those that first line managers implement, perhaps adapting them marginally to suit local conditions and expectations. These are the practices that employees see and consider, judge their likely usefulness and fairness – and then form attitudes that shape their behaviour. This includes commitment, task behaviour, discretionary behaviour and other variables such as attendance – which in turn affect financial or economic outcomes.

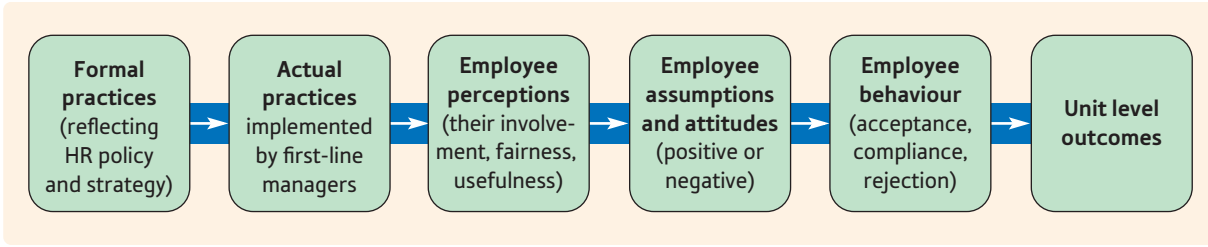


Figure 11.3 The people management-performance causal chain

Source: Based on Purcell and Hutchinson (2007), p.7.

The team studied 12 organisations known to be leading users of HRM practices. They conducted up to 40 interviews in each organisation (public and private sector) with senior managers, first line managers and employees, and repeated this a year later. The results showed that employees' perceptions of their first line manager, and their satisfaction with HRM policies, enhanced their commitment, task performance and other variables – all with positive implications for unit performance. Good first line managers were able to adapt HRM policies to fit local circumstances.

Critical views of HRM

The view of HRM presented here reflects an assumption that HRM policies can benefit employees as well as employer, since both want the long-term success of the organisation. Others recognise the legitimacy of different views – between trade unions, between managerial functions, and between managers and trade unions. From this viewpoint it is legitimate for trade unions to disagree with aspects of an HRM policy, even if managers present it as benefitting everyone.

A distinction within HRM itself is between 'hard' and 'soft' approaches (Legge, 2005), in which the former takes a business-led perspective, while the latter sees people as valuable assets whose motivation, involvement and development should have priority over the interests of shareholders.

11.3 What do HR managers do?

Identifying HR roles

Given the range of HR tasks, who does them, and how? This depends on how general managers balance their responsibilities and those of the HR specialists – see 'Key ideas' below.

Key ideas — Michael Beer on the general manager's perspective

Michael Beer and his colleagues set out the roles of general managers and of HR specialists, pointing out that many decisions taken by general managers are HRM decisions, even if they do not realise it:

> **HRM involves all management decisions and actions that affect the nature of the relationship between the organization and its employees – its human resources. General managers make important decisions daily that affect this relationship, but that are not immediately thought of as HRM decisions: introducing**

new technology into the office place in a particular way, or approving a new plant with a certain arrangement of production operations, each involves important HRM decisions. In the long run both the decisions themselves and the manner in which those decisions are implemented have a profound impact on employees: how involved they will be in their work, how much they trust management, and how much they will grow and develop new competencies on the job (pp.1–2).

They then advocate their view of the respective roles:

First, the general manager accepts more responsibility for ensuring the alignment of competitive strategy, personnel policies, and other policies impacting on people. Second, the personnel staff has the mission of [ensuring that] personnel activities are developed and implemented in ways that make them more mutually reinforcing. That is what we mean by the general manager's perspective (pp.2–3).

Source: Beer et al. (1984).

Several scholars have analysed the HR role, and most now use the framework which Dave Ulrich proposed – shown in Figure 11.4 (see also Ulrich and Brockbank (2005)).

The horizontal axis reflects the competing demands of future focus (strategic) and present focus (operational). The vertical axis reflects the competing demands of a focus on people or on process. The Figure implies four roles that HRM practitioners may perform in varying degrees, and perhaps at different stages of their careers:

- **Strategic partner:** a focus on aligning HR strategies and plans with business strategy.
- **Administrative expert:** the traditional HR role of designing and delivering HR processes (recruitment, pay) efficiently.
- **Change agent:** helping the organisation build a capacity for change, and identifying new behaviours that will help sustain competitiveness.
- **Employee champion:** dealing with day-to-day problems, concerns and needs of individual employees.

Galang and Osman (2016) used this framework to assess the extent to which a sample of about 800 HRM practitioners in 5 countries (Australia, Canada, USA, Philippines and

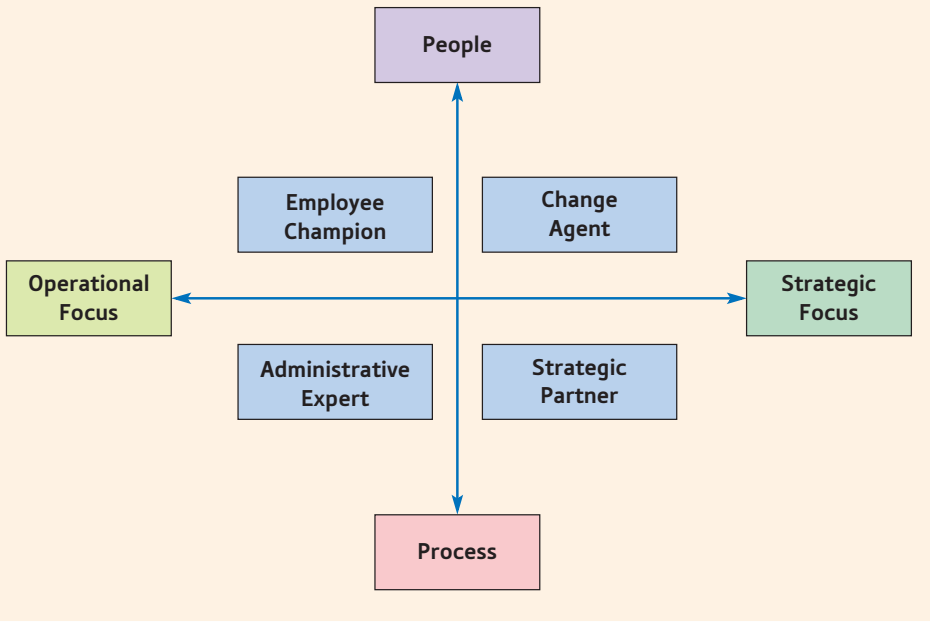


Figure 11.4 HR roles framework

Sources: Conner and Ulrich (1996); Ulrich and Brockbank (2005).

Malaysia) exercised these roles. They found that in four countries practitioners typically exercised each of them to at least a moderate level (over 3.0 on a five-point scale), though the score in Australia was slightly below 3.0.

Truss and Gill (2009) show how HR managers build the resources they need to do their job, by combining structural arrangements with good working relationships. 'Structural arrangements' include:

- providing opportunities to meet with colleagues
- holding regular meetings of the whole department to discuss policy
- agreeing personal targets that link staff and departmental objectives
- seconding staff to line departments
- taking account of line managers' objectives in deploying HR resources
- creating communication mechanisms to link with line managers.

'Building working relationships' included:

- sharing positive experiences with line managers
- ensuring line managers had good contacts with HR practitioners
- ensuring HR staff understand organisational needs.

In organisations where HR staff had invested time and effort on these relationships, line managers perceived HR was making an effective contribution to organisational performance. Part of that contribution is through human resource planning.

Activity 11.4 What do HRM practitioners do?

Arrange to talk to someone who works in HRM about their work.

- Use the categories in Figure 11.4 to help analyse what they do, and which of the four categories they spend most time on.
- Use the research by Truss and Gill to analyse how they manage their working relationships with line managers.
- Compare what you have found with others on your course, and summarise your results.

11.4 Human resource planning

Human resource planning is the process through which employers anticipate and meet their needs for staff. It requires estimating the number and type of people the business is likely to require over successive periods, and ensuring they are available.

Forecasting

Large organisations may use complex forecasting techniques to identify their staff requirements – and governments do the same to estimate the likely demand for professional staff who require long training, such as teachers or doctors. Bechet and Maki (1987) describe the methods. Planners use models that typically start with the organisational strategy or with demographic changes that affect demand for services. They forecast the number of staff required to meet those demands and their likely availability – staff in post at the start, together with likely inflows, outflows and internal movements during the planning period. The 'Management in practice' feature shows how McDonald's forecasts short-term demand for staff in the restaurants.

Management in practice — Forecasting staff at McDonald's www.mcdonalds.co.uk

McDonald's has suffered from the perception that it only offers 'McJobs' – unstimulating jobs with low prospects – and since 2006 has embarked on a campaign to improve its reputation as an employer. It claims to have less labour turnover than competitors, and that when it needs to recruit to entry level 'crew member' positions in the restaurants it can usually select from a large number of unsolicited applicants. Its policy is to promote from within, and it claims that more than half the Executive team stared in the restaurants.

There are seasonal peaks in the demand for labour, and the company has implemented a sophisticated human resource planning software system that enables restaurant managers – who are responsible for recruitment – to plan their staff needs with precision. The software uses data such as past and projected sales figures and labour turnover statistics to forecast the required level of recruitment.

Source: *IRS Employment Review 853*, 18 August 2006, pp.42–4.

A limitation of long-term forecasting is the uncertainty of the social and economic environment. Forecasting demand for nurses (and so for nursing education) struggles to take account of long-term changes in:

- population demographics
- how that changing population uses healthcare
- how units providing care use nurses.

Since policy-makers cannot rely on long-term forecasts of demand, they may be wiser to increase flexibility of supply, making it easier to adapt to whatever changes happen.

11.5 Job analysis

Job analysis is the process of determining the characteristics of an area of work according to a prescribed set of dimensions.

Job analysis identifies the main constituents of a role, including skills and level of responsibility. It typically leads to a written job description that guides selection, training and performance appraisal. Issues to consider in job analysis include:

- How to collect the data? Possibilities include interviewing current job holders, observing people doing the job, and distributing questionnaires.
- Who should collect this data? Should it be those in the job, the supervisor or an internal or external specialist?
- How should the job information be structured and laid out?

The process aims to describe the purpose of a job, its major duties and activities, the conditions under which it is performed and the necessary knowledge, skills and abilities. Jobs are broken into *elements* which are rated on dimensions such as extent of use, importance, amount of time involved and frequency.

The results of the analysis is a job description, which will usually include:

- job title
- job purpose
- job dimensions (e.g. responsibilities for managing budgets or staff)
- organisation chart (who reports to you and who you report to)
- role of department
- key result areas
- assignment and review (who allocates and monitors work)
- communication and working relationships (internal and external)
- most challenging part of the job.

Rather than thinking about jobs as a set of tasks, HRM practitioners now aim to identify and develop the **competencies** an individual requires to do the job (Kalb et al. 2006). This reflects the need for organisations to be flexible and responsive, from which it follows that they often require employees with broad competencies rather than narrow skills for prescribed tasks.

Competencies (in HRM) refer to an individual's knowledge, skills, ability and other personal characteristics required to do a job well.

Team working and job analysis

Team working has implications for job analysis, as the work done by each person may be fluid, especially if managers encourage members to develop a range of skills. As teams work, members develop new skills so analysis of an individual job soon dates.

Case study — BMW – the case continues www.bmwgroup.com

Most production staff work in self-managing groups of between 8 and 15 members with a high degree of autonomy and clearly defined tasks. Members of the group decide upon each individual's responsibility and how they will move between jobs, as well as making suggestions and decisions about product improvement. Applicants for jobs are screened for their ability to work in a team environment and cooperate with others. Those who are interviewed go through elaborate tests designed to screen out individuals who are not team players.

Each group elects a spokesperson to coordinate activities and to represent them, though they have no power to give orders or impose discipline. Supervisors remain the group's immediate superior in technical and disciplinary matters, working in an advisory/facilitating role. The supervisor is responsible for proposing and agreeing objectives, presenting progress figures, supporting continuous improvements, and ensuring that group members improve their qualifications. Improved product quality and job satisfaction are the aims, leading in turn to greater productivity.

Staff are expected be flexible in terms of time, place and assignment. They can save or overdraw up to 300 hours a year, which enables the company to reduce or increase the labour supply by that amount (for each employee), to cope with temporary changes in demand. BMW offers those nearing retirement the chance to reduce working hours gradually – varying, by mutual consent, with economic conditions. BMW expects staff to be flexible and mobile, moving between plants as requirements change.

Source: Lawler (2008); company website.

Case questions 11.4

- How would the introduction of team working have helped to improve the external fit between HRM and broader strategy?
- To achieve internal fit, what other changes would BMW have needed to make?

Job analysis aims to produce a comprehensive and accurate job description, to inform recruitment and selection.

Activity 11.5 — Collect examples of job descriptions or competencies

Go to the website of an organisation that interests you, and navigate to the pages on careers or current vacancies.

- Try to find examples of job descriptions – compare them with the headings in the text. What factors do they omit, and what do they add?
- Try to find one that includes a statement of competencies required. What does that tell you about the requirements of the job?
- Compare what you find with others on your course, and summarise your results.

11.6 Recruitment and selection

The goal of recruitment is to produce a pool of applicants and selection is meant to choose those most likely to be suitable. The practices employers use may be of particular interest to those seeking jobs, such as that used by Amazon. Brad Stone (2013) records that, early in the company's life, the founder, Jeff Bezos, discussed the company's values with the human resources team – one of which was (and is) 'a high bar for talent'. This (and the other values) are reinforced by several practices throughout the company. To ensure 'a high bar for talent' the company has designated several people as 'bar raisers' – executives who have shown themselves to be intuitive recruiters of talent. One of these attends every interview, and can veto a candidate if they do not meet the company's goal of raising the company's overall hiring bar (Stone, 2013, pp.115–16).

Recruitment

Traditional options included word of mouth, careers fairs, advertisements and employment agencies: it is now largely done online. Recruiters can use Facebook to identify potential recruits based on their interests and personal profiles. Many view what candidates reveal on social media – see 'Management in practice' below.

Management in practice

Recruiters value social media

Brynne Herbert (30), chief executive of a technology company, comments on their use of social media in recruiting:

Do people know that potential employers scour social media presences before interviews? Indeed we do. We judge the quality of your LinkedIn profile and the intellectual quality of your tweets (do you share articles from the *Daily Mail* or from *Harvard Business Review*?)

In fact, when I interview candidates who do not have a social media presence, I find it bizarre. What are you doing that is so secretive it merits not having a LinkedIn profile or Twitter account?

When candidates approach me for jobs, I find it even stranger if they have not investigated my social media presence. How should I consider your level of interest in working for our company if you have not figured out that we sell talent mobility software and I support Queens Park Rangers football club?

FT Source: *Financial Times*, 29 January 2015.

Selection

HR practitioners use selection methods they hope will minimise:

- **false positive errors**: where the selection process predicts success in the job for an applicant, who is therefore hired, but who fails
- **false negative errors**: where an applicant who would have succeeded in the job is rejected because the process predicted failure.

The costs of the latter are not experienced by the organisation, so practitioners worry more about the former: selecting the wrong person can be an expensive mistake.

Zibarras and Woods (2010) show, from a study of almost 600 UK organisations, that informal methods (such as unstructured interviews) are slightly more common than formal ones (structured interviews). The CV is the most commonly used tool, followed by application forms, references and interviews. Berkelaar (2017) notes that cybervetting – where an organisation covertly gathers information from online sources to help their selection decisions – is becoming a taken-for-granted practice.

Studies of selection usually focus on the **validity** of the process, in the sense of its ability to predict future performance. Figure 11.5 shows estimates of the relative accuracy of selection methods, based on the relation between predicted and actual job performance (with zero for chance prediction and 1.0 for perfect prediction).

Validity occurs when there is a statistically significant relationship between a predictor (such as a selection test score) and measures of on-the-job performance.

Interviews

The interview remains popular as it is cheap and can be used for most jobs, despite research showing it has low validity (Tran and Blackman, 2006). Thorsteinson (2018) found that the length of an interview was not related to validity (measured by training or job performance), and concluded that employers could safely reduce the length of interviews without losing validity.

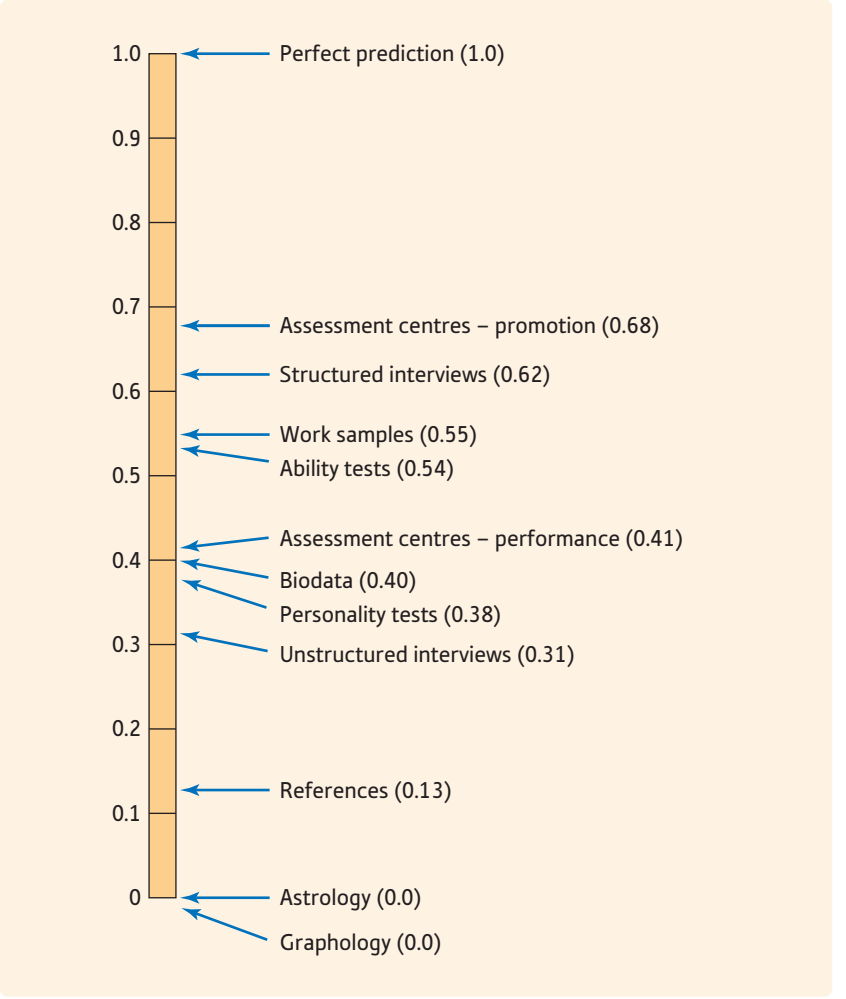


Figure 11.5 The predictive accuracy of selection methods

Source: Beardwell and Thompson (2014), p.162.

Management in practice — Selection for training at RMA Sandhurst

James Greaves, an officer seconded to to Sandhurst explained the selection process:

The Royal Military Academy Sandhurst takes people from all aspects of British life, and once they meet the minimum educational entrance requirements they enter a two-part selection process. The first lasts a day and a half and consists of psychometric and physical tests to identify individuals who have talents in four domains:

- **physical**
- **character and personality**
- **intellectual**
- **practical ability.**

We try to identify these as early as we can for selection for training. The critical one, and probably the most difficult to actually analyse is the character and personality issue.

We assess them physically, and they have an assault course to go over, you have to run about 600 metres, and during the classroom we look for the ability to perform under pressure, so in a very time-short environment we would look for written assessment and also the ability to stand and think quickly on your feet in front of not only your own peer group (those you're being assessed against) but also a member of the directing staff: he or she sits at the back and asks the questions to see if the individual has what it takes to be trained to become an army officer.

Source: Interview with James Greaves.

Familiar interviewing hazards are:

- vague or unfocused questions
- giving too much weight to information obtained early
- comparing applicants with an idealised stereotype
- deciding too quickly.

Activity 11.6 — Interviewing interviewees

- Arrange to talk to some friends or colleagues who have recently been interviewed for jobs.
- Ask them to describe the process and to identify aspects of the experience that they particularly liked or disliked.
- Ideally you should talk to at least one person who was offered the job and to one who was not.
- As background work for this exercise, compile a checklist of the key features of 'good practice' interviews to help inform the way you ask questions. A useful reference is Rebecca Corfield's (2009) *Successful Interview Skills*.

Aware of these difficulties, and of the need for many employees to be flexible, collaborative and innovative, organisations are themselves using innovative selection processes, in addition to the interview – see 'Management in practice' that follows.

Management in practice — Recruiting for TGI Fridays www.tgifridays.co.uk

Jacqui McManus, director of culture and people development at the nationwide restaurant chain TGI Fridays, is clear that every aspect of its recruitment activity is a means to an end.

> **We are not looking for average people who want to work in hospitality. We are looking for extraordinary people who have a huge appetite to care, connect with and entertain our guests. This doesn't always come across in a traditional interview – we want to see applicants be themselves and let their personalities shine.**

As an example, at a recruitment event in 2015 at the National Space Centre in Leicester, 300 candidates competed for 80 front of house, kitchen and bar positions at a new TGI Fridays venue. Hiring managers knew what they were after: the 'Fridays feeling' – and to that end the candidates would spend two gruelling days of menu-based impersonations, dance routines and improvised presentations to show their 'gift of the gab'.

> **We don't see what we do as 'zany'. We need the applicants to be relaxed and feel safe with us – it's only then that we are able see their potential. Each activity has a unique purpose: some are looking to identify a creative streak, others are around identifying team players.**

Source: *People Management*, May 2015, pp.28–9.

Key ideas — Preparing for an interview

Trought (2017) gives useful guidance on preparing for an interview:

> **What will they ask you? The job selection criteria and the job description will provide you with hints and tips you need to prepare for possible interview questions. A good framework to use is STAR: situation, task, action, result. This encourages you to provide specific examples to demonstrate your skills relevant to the selection criteria. List the skills you want to talk about, and against each note these points:**
>
> - **Situation: think of a situation when you have demonstrated the skill. Try to use examples from your course and also from your extra-curricular activities.**
> - **Task: what was your aim?**
> - **Action: what was your role? What did you do or say?**
> - **Result: what was the outcome?**
>
> **Here are some other possible questions for which you can prepare answers.**
>
> - **Why do you want to work for (this company)?**
> - **What do you think you can offer?**
> - **What are your strengths and weaknesses?**

Source: Trought (2017), pp.115–16.

Personality tests

Some organisations supplement the interview with more structured methods – especially **personality tests**. These provide a relatively objective measure of the dimensions of someone's personality, and are usually administered online.

A **personality test** is a sample of attributes obtained under standardised conditions that applies specific scoring rules to obtain quantitative information for those attributes that the test is designed to measure.

They too have limitations, and psychologists advise that:

- they should only be used and interpreted by qualified and approved experts
- an individual's personality may vary with circumstances
- good performers in the same job may have different personalities.

They will still probably be more accurate than a manager's subjective perception of an applicant – but the Zibarras and Woods' (2010) survey cited earlier showed that less than one in five UK organisations used them. Wolf and Jenkins (2006) found that a common reason for testing is to justify a selection decision if someone challenges it.

Assessment centres

Assessment centres are multi-exercise processes designed to identify the recruitment and promotion potential of personnel.

Assessment centres use many systematic tests and several assessors to create a comprehensive picture of a candidate's abilities and potential – in areas such as competence, work ethic and emotional intelligence. They have higher validity than interviews, since using many tests and several assessors ensures more accurate predictions of performance. Chamorro-Premuzic (2015) describes their present popularity with companies, and advises applicants to seek opportunities (for example through a careers service) to practise the technique before taking the real thing.

In uncertain business conditions some organisations build a culture that relies on self-motivated, committed people – and try to ensure they select people with those attributes rather than specific skills for a current job. The Eden Project is an example (www.edenproject.com) – see also the 'Management in practice' feature below.

Management in practice — Hiring for Hiscox www.hiscox.co.uk

Kevin Kerridge, Head of Direct and Partnerships at Hiscox (an insurance business) talks about ensuring that recruits fit the company:

> **When people want to work for Hiscox they have to go through a very rigorous recruitment process and that starts with the HR team doing initial interviews, sifting CVs and doing aptitude tests. If they pass that then the managers who are recruiting for the positions get involved: candidates have at least one, probably two or three interviews with the teams and the managers they'll be working with.**
>
> **I like to really put people on the spot when they come and work for me so the most important thing is about that energy and drive and that willingness to make a difference. Not just a job but somewhere you live and breathe the culture of what you're trying to achieve. So I meet them, assess the energy and also set them a task, maybe a presentation on a challenge that I've got. I see the ideas and things that people come up with around those challenges. I think that's a good way of actually testing whether people fit here or not.**

Source: Interview with the director.

11.7 Reward management

Table 11.2 summarises some common types of reward system.

Reward management systems aim to align employer and employee objectives, by encouraging action in line with organisational goals. There has been a shift towards flexible and variable reward systems, including:

- from collectively bargained pay towards individual performance systems
- linking pay systems more directly to business strategy and organisational goals

Table 11.2 Reward management systems

Type of system	Basis of calculating reward
Time rate	Hours worked
Payment by results	Quantity of output
Skill-based pay	Knowledge and skill
Performance-related pay	Individual performance in relation to agreed objectives
Flexible benefits packages	Selection of benefits (for example, healthcare or company car) to suit individual's preferences and lifestyles

- emphasising non-pay items, such as life assurance and childcare vouchers
- introducing flexible pay components and individualised reward packages.

Developments in pay policies are also linked to changes in work organisation, and the BMW case illustrates both.

Case study

BMW – the case continues www.bmw.com

The company depends on high performers who are committed to their work and willing to perform well. The pay system is based on fairly rewarding an individual's performance and that of the team. BMW implements this philosophy of performance and reward consistently across all markets and all hierarchical levels. The performance-based element in pay increases with a person's level in the hierarchy. The components of salary are:

- **Fixed salary:** each employee receives a fixed pay of 12 monthly salaries, with no difference between male and female employees. This is assessed and adapted once a year.
- **Company bonus:** the company supplements the fixed pay with a share in company profit – which in some years has meant that the total pay of most employees amounted to 15 monthly salaries.
- **Individual bonus:** the company also rewards individual performance, the amount depending on an evaluation by their immediate boss.

Source: Company website.

Case questions 11.5

- What external factors may have prompted this review of the payment system at BMW?
- How would it affect the management of the appraisal system?
- What demands would it make on the management information system?

Performance-related pay

Performance-related pay aims to link a human resource flow activity (performance appraisal) with reward, which brings the risk of expecting the appraisal process to achieve too many objectives. Some organisations have used such arrangements for many years and report positive effects on both individual and organisational performance. At others, the results of performance-related pay have been less impressive. Either there has been little positive impact on organisational performance or the arrangements have been counterproductive for other reasons (Beer and Cannon, 2004). Lawson (2000) noted:

> the amount of work being undertaken in organisations to modify, change and improve individual performance pay schemes indicates a trend of unhappiness with them. In short, the record of performance-related pay arrangements has been highly variable (p.315).

Performance-related pay involves the explicit link of financial reward to performance and contributions to the achievement of organisational objectives.

Possible reasons include:

- introducing new pay arrangements without adequate discussion, consultation and explanation
- performance-related pay fits the circumstances of some firms better than others: it is unlikely to work where there is no trust between employees and managers
- the review of a person's performance rarely takes sufficient account of the context – such as the difficulty of the task the person was doing.

11.8 Equal opportunities and diversity

Much HR work is designed to discriminate between people – at selection, to secure the most suitable candidates, then through appraisal, reward and promotion policies to identify those most likely to meet the demands of more senior jobs.

The essence of equality is to ensure that practitioners conduct these judgemental processes – selecting some, but not others – fairly. Unfair discrimination results from people being treated on the basis of limited, and perhaps prejudiced, understanding of the groups to which they belong, rather than on their individual strengths and weaknesses.

CWS More on equal opportunities
More on flexible and high-performance work practices

Managing diversity

Diversity (at work) refers to differences between individuals at work on any attribute that may evoke a perception that the other person is different from self.

The central theme of diversity management is that of valuing everyone as individuals, going beyond what is legislated to look for what is positively valued: the focus is on valuing difference. The **diversity** approach focuses on individuals, rather than groups, aiming to improve opportunities for all, not only those in minority groups. Separate groups are not singled out for treatment.

Many diversity advocates envisage an economic and business case for valuing difference – that an organisation can benefit from diversity amongst employees. There is very limited empirical evidence for this, largely due to inconsistent methodologies and unsuitable samples (Joshi et al. 2011). Carstens and De Kock (2017) observe:

> the business case for diversity is [more often] justified through rhetoric ... than through empirical evidence (p.2109).

They suggest that earlier studies have focused too much on inputs (diversity interventions) and outcomes (business benefits) – what they call a 'state' approach, without any convincing theoretical reason for the link between the two. They offer instead a 'process' approach, which focuses on creating and sustaining the conditions for effective diversity management – setting the scene within which diversity can develop by means of focused diversity-related practices.

One of the reasons for the lack of empirical research on diversity processes is the absence of widely accepted measures of workforce diversity management. Carstens and De Kock worked with 157 practitioners from 61 companies to develop, define and test 11 measures of 'diversity management competencies'. Practitioners or researchers can use these to assess an institution's current position, and to identify areas of diversity management they may want to work on – Table 11.3 shows just three examples.

Table 11.3 Examples of diversity management competencies

Competency	Definition
Leading diversity	Shows diversity leadership in the market and society by voicing support for diversity and investing in initiatives that establish regular equal employment opportunity
Capitalising on diversity	Uses workforce diversity by capitalising on the range of knowledge, skills, abilities and perspectives of employees to create competitive advantage
Sustainable workforce transformation	Balances workforce transformation needs with operational business realities to ensure sustainable workforce transformation and bottom-line financial performance

Source: Carstens and De Kock (2017).

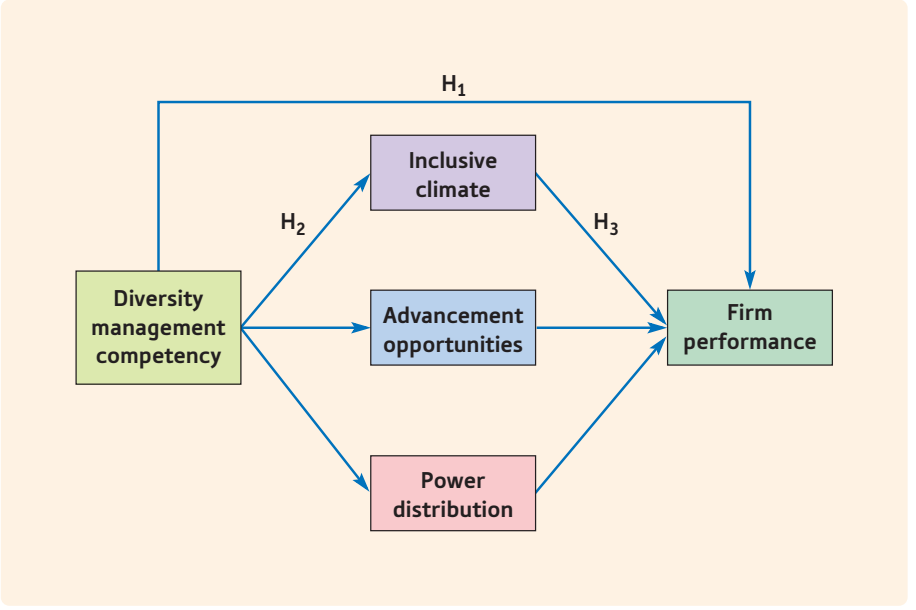


Figure 11.6 Diversity management, intermediate outcomes, and performance

Source: Carstens and De Kock (2017).

They also propose a theory relating diversity management to firm performance. Figure 11.6 shows that diversity management competence may affect firm performance directly, or through its effect on three intermediate variables, which would themselves have a positive effect on performance.

BMW is an example of a company that has followed this approach, with particular reference to enabling older workers to continue to contribute and add value.

Case study

BMW – the case continues www.bmwgroup.com

The BMW group is aware of demographic changes in the workforce where the birth rate in many Western countries has consistently been lower than the number of deaths, while life expectancy has continued to rise. This aging workforce affects nations' social security systems and businesses. BMW has

formed a project 'today for tomorrow' to help the group adapt to changing demographics, through five areas:

- Design of the working environment: ergonomically designed work stations in offices and manufacturing to help avoid physical strain.
- Health management and preventive healthcare: gyms and fitness courses at all plant locations.
- Needs-based retirement models: flexible retirement packages that allow individuals to retire early or continue after the age of 65.
- Qualifications and skills: the increasing importance of life-long learning.
- Communications: increase awareness of social and corporate changes amongst managers and associates.

Source: Company website.

Case questions 11.6

- What benefits might BMW gain from a higher proportion of older workers?
- What do you think are the problems associated with an older workforce?
- How might human resource practices change to deal with this?

Another example is Accenture (www.accenture.com) – the tax, audit and consultancy group that employs almost 400,000 people around the world. A senior HR person:

> We know from our recruitment process that to attract the greatest minds we have to attract from diverse talent pools. Diversity can generate better camaraderie and better outcomes. There's a big societal and moral reason, too, for wanting greater diversity at senior levels. We want a workforce that reflects the clients we serve and the communities we operate in.
>
> The company has consciously integrated this belief into every stage of the employee life-cycle. Every new joiner receives diversity training, and everyone who is promoted attends a day-long 'immersion training' on the topic. A mentoring programme has also been significantly expanded (from an article in *People Management*, April 2017, p.21).

11.9 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 11.4 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and what variables they assumed would help achieve them) and about process (how they tried to gain the support of stakeholders). *These are examples only – not a comprehensive analysis.* You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *What are the strengths and weaknesses of performance-related pay?*

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 11.4 'Clear thinking' questions about practice and theory

Clear thinking elements	From the Chapter Case study – BMW pay system	Theory – a question on performance-related pay
Check assumptions	(About objectives) • Linking pay to company goals fosters common interests (About design) • Feasible to measure contribution to goals • PRP element should be small part of salary, with a team element	**Introduction** Outline main ideas of PRP, recalling early piece-rate systems and modern salary-based and commission systems Assumptions to consider could include: **Task** • Linking pay to company goals fosters common interests • Feasible to measure individual or group contribution to goals • Staff will accept assessment as fair • It will not offer incentives for dysfunctional behaviour **Process** • Will involving staff in discussing system and measures help or hinder the system?
Recognise contexts	(External) • Secure, growing business • International business – how to cope with local cultures? (Internal) • High-quality information systems	**Socio-cultural** • In a competitive business context. PRP has encouraged excessive risk taking (bank lending before the 2008 crisis) **Equity-theory** • If targets are set too low, will this foster a sense of unfairness amongst others?
Imagine alternatives	Review balance between central and local control of pay systems Offer fixed salary only	Limit the amount of total pay that depends on performance? Focus on agreeing clear goals, rather than paying for meeting them?
Acknowledge limitations	None that is apparent from the information available	Too much emphasis on financial incentives (encourages behaviour that does long-term damage)? Some work will not be suitable for setting targets, so doing so could be counter-productive

Skill

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of preparing for an interview.

Develop a skill: preparing for an interview

A successful interview technique is essential to your career, and this exercise is about developing one aspect of that skill – presenting your skills. You may be asked to talk convincingly about your skills – and this will help you prepare for that.

- **Assessment.** Make an assessment of how well you perform in interviews. Do you leave feeling reasonably confident, or that you did not do as well as you might have? What do you think are your main strengths and weaknesses?
- **Learning.** Section 11.6 outlined the interview within the wider recruitment process. Read that section again, paying especial attention to the 'Key ideas' feature on page 289 which contains tips on preparing for the interview. How would you distinguish a good interviewee from a poor one? What is the good one likely to do?
- **Analysis.** Consider the possible implications for you of this evidence in Section 11.6. Identify some skills that you are likely to be asked about, or you would like to talk about, in your job interview, *and* in which you can demonstrate some ability. List them down the left hand column, and then make notes under each of the STAR columns in the template below.

Skill	Situation	Task	Action	Result

- **Practice.** Identify ways in which you may be able to practise presenting your record to an interviewer – ideally work with a colleague on your course who is doing the same thing, and present to each other. Practise presenting the skill, and reflect on the results so that you can learn from the experience.
- **Application.** When you have completed the practice, review what you did, and whether preparing had any effects. Reflect on what you can learn.

Decide on another opportunity to practise this skill within the next week.

Summary

1 Understand the context of HRM and how it may affect practice and performance

- The rise of HRM can be explained by issues such as more globally integrated markets, highly publicised 'companies of excellence', changing composition of the workforce and the decline of trade unions.

2 **Explain a theory linking HRM and strategy**

- The importance of achieving external fit by linking the wider business strategy and HRM strategy.
- Internal coherence amongst HRM policies is crucial.
- Developing high performance work systems that are designed to support strategy.

3 **Summarise evidence about what HR managers do**

- Ulrich's theory is that they perform the roles, in varying degrees, of strategic partner, change agent, administrative expert and employee champion.

4 **Describe these tasks of HRM, and be able to summarise evidence about them**

- **Recruitment and selection:** recruiters now pay a lot of attention to a person's presence on social media. Selectors especially seek to avoid false positive errors, and a table showed wide variety in the predictive accuracy of selection methods. Some firms invest heavily in imaginative ways of ensuring people they recruit have the personality for the job.
- **Reward management:** to gain more flexible working employers have introduced individually-determined pay systems and linked pay to organisational goals.
- **Equality and diversity:** the section on diversity introduced the process theory of diversity management competences. BMW shows how management employment practices can make the workplace more suitable for older workers.

5 **Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of preparing for an interview**

- The chapter has shown ways of anticipating interview questions, and has given the opportunity to practise developing the skill of presenting your skills in a convincing way.

Test your understanding

1 What are the possible benefits of an organisation adopting a deliberate HRM strategy?
2 What do the terms internal and external fit mean in an HRM context?
3 What evidence did the chapter include about the effects of HRM on performance?
4 Draw Uhlrich's model of HR roles, and write in the four roles it identifies.
5 How can the concept of organisational analysis support the recruitment process?
6 What are the main criticisms of personality testing?
7 What are the advantages and disadvantages of performance - related pay?
8 List the three diversity management competences identified by Carstens and De Kock.
9 What lessons can you draw from the way BMW has used the payment system to support other aspects of the HRM policy?

Read more

Beer, M., Spector, B., Lawrence, P.R., Quinn Mills, D. and Walton, R.E. (1984) *Managing Human Assets*, Macmillan, New York.

A short and very clear text that influenced the popularity of HRM ideas.

Legge, K. (2005) *Human Resource Management: Rhetorics and Realities* (anniversary edition), Macmillan, London.

A critical examination of HRM, emphasising the gap between the ideal and the practice.

Lawler, E. (2008) *Talent*, Jossey Bass, San Francisco, Ca.

How some managers ensure that policies and practices throughout the organisation help employees develop their abilities, including a chapter on HRM.

Riley, S., Michael, S.C. and Mahoney, S.J. (2017) 'Human capital matters: Market valuation of firm investment in training and the role of complementary assets', *Strategic Management Journal*, vol. 38, no. 9, pp.1895–914.

Empirical support for the idea that training is worth the investment.

Chamorro-Premuzic, T. (2015) 'Ace the Assessment', *Harvard Business Review*, vol. 93, no. 7/8, pp.118–21.

Ideas on how to do well in a performance assessment during your career.

Go online

These websites have appeared in the chapter:

www.bmw.com
www.tgifridays.co.uk
www.hiscox.com
www.mcdonalds.co.uk
www.accenture.com

Navigate to the pages dealing with 'about the company' or 'careers'.

- What do they tell you about working there?
- What do they say about the recruitment and selection process?
- What clues do they give about their appraisal and rewards policy?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



CHAPTER 12

INFORMATION SYSTEMS AND E-BUSINESS

Aim

To show how converging information systems can transform organisations if people manage them intelligently.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Explain how converging technologies change how people add value to resources
2. Distinguish between operational and management information systems (CW)
3. Illustrate how organisations use the internet and e-business to add value
4. Evaluate the potential to add value of customer relations and knowledge management systems
5. Understand the relationship between IS, organisation and strategy (CW)
6. Explain how adding value depends on technology *and* organisation
7. Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of setting a project agenda

Key terms

This chapter introduces these terms:

internet
intranet
extranet
big data
artificial intelligence
blogs
social networking sites
user generated content (UGC)
wikinomics
co-creation
Metcalfe's law
e-commerce
e-business
disintermediation
reintermediation
customer relationship management (CRM)
knowledge (KM)
knowledge management system
information systems management

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

Types of information systems
Enterprise resource planning systems
IS, strategy and organisation – the big picture

Case study Google www.google.com

Sergey Brin and Larry Page founded Google in 1999 and in 2019 it was the world's largest search engine with 92 per cent of the search market. It receives over 35 per cent of the world's expenditure on digital advertising: in 2018 the company earned over $80 billion from this – $26 billion more than the year before. It has 60 per cent of the browser market through Chrome, and 80 per cent of mobile phones use its Android system.

Its mission: 'to organise the world's information and make it universally accessible and useful'. The need for search services arose as the world wide web expanded, making it progressively more difficult for users to find relevant information. Brin and Page began working on this problem in 1995 as doctoral students in computing science at Stanford University. Page was thinking about ways to rate automatically the quality of websites. He realised that an algorithm was the only way to do this objectively – and that the data to use in the algorithm already existed. He asked Brin:

Why don't we use the links on the web to do that?

Page understood that weblinks were like citations in a scholarly article. You can easily identify which papers are really important without reading them – simply count how many other papers refer to them (cited in Levy, 2011, p.17). This insight encouraged Page and Brin (and fellow students) to devise an automatic way to rank every site – by seeing which other sites it linked to *and* which sites linked to it. Page called the system PageRank – the basis of Google – as (apart from being his name) it ranks every page on the web. It does not evaluate the page itself, but how many people have linked their page to it. This set the basic blocks of web search:

Search was [and is] a four-step process. First came a sweeping search of all the world's web pages, via a spider [a program that crawled the web for data, visiting a thousand pages simultaneously]. Second was indexing the information [about weblinks] from the spider's crawl and storing the data on racks of computers known as servers. The third step, triggered by a user's request, identified the pages that seemed best suited to answer that query. That result was known as search quality. The final step involved formatting and delivering the results to the user (Levy, 2011, p.19).



© Roberto La Rosa/Shutterstock

The PageRank algorithm enables advertisers to deliver a message that is relevant to the results on a page. Advertisers pay a fixed amount, depending on what they have bid for a keyword, each time their ad is viewed: the more they bid the nearer the top of the page their advertisement will be.

When the company offered shares to the public in 2004, Page warned potential investors that Google was not a conventional company. In the interests of long-term stability the founders would own about one third of the shares, but control over 80 per cent of the votes at Board meetings.

Sources: Based on Harvard Business School case 9-806-105, *Google Inc*., prepared by Thomas R. Eisenmann and Kerry Herman; Levy (2011).

Case questions 12.1

- What are the inputs and the outputs of the Google business?
- What assumptions about investors did Page make when offering shares to the public?
- What assumptions do advertisers make when they bid a high price for a keyword?

12.1 Introduction

Google is an organisation founded on data – it gathers, processes and disseminates it from and to millions of people in a way that gives them valuable information. All have different requirements and ways of working, yet Google developed a free search engine that works at astonishing speed to meet their needs. Google survives on income from advertisers – who pay because it identifies customers most likely to respond to their ad when it appears beside the search results. Google (like eBay, Facebook, YouTube and many more) is an example of a company created to use the internet – it is a pure 'e-business' company, whose managers built it around computer-based information systems (IS).

In that sense, it differs from companies founded long before the internet but that now depend on it to support the business. Their managers began by implementing relatively simple information systems which they progressively built, through trial and error, into the complex ones they use today. Traditional businesses like British Airways, Ford or Sainsbury's depend on information about each stage of the value-adding process:

- **Inputs**: cost and availability of materials, staff and equipment.
- **Transformation**: delivery schedules, capacity utilisation, efficiency, quality and costs.
- **Outputs**: prices, market share and customer satisfaction.

Their systems gather data about all of these, and feeds information to staff working throughout, and beyond, the organisation. Figure 12.1 shows how information systems support these fundamental management processes.

Computer-based information systems can make operations more efficient, change the way people work together, and offer new strategic possibilities and threats. Used well, they help managers to add value to resources. Used badly, they destroy wealth – when managers invest in an IS project that does not deliver what they expected, and is abandoned or replaced. Flyvbjerg and Budzier (2011) analysed almost 1,500 IS projects and found that on average they exceeded their budget by 27 per cent. A few exceeded this – about one in sixty cost double what was expected, and 70 per cent took longer to complete than expected. Many IS projects are now so large that they touch many aspects of the organisation – which greatly increases their risk of failure.

Every manager is affected by the vast changes brought by the internet, as information systems move from background activities (accounting, stock control) into foreground activities (online banking or sponsored websites) which directly involve customers, and then

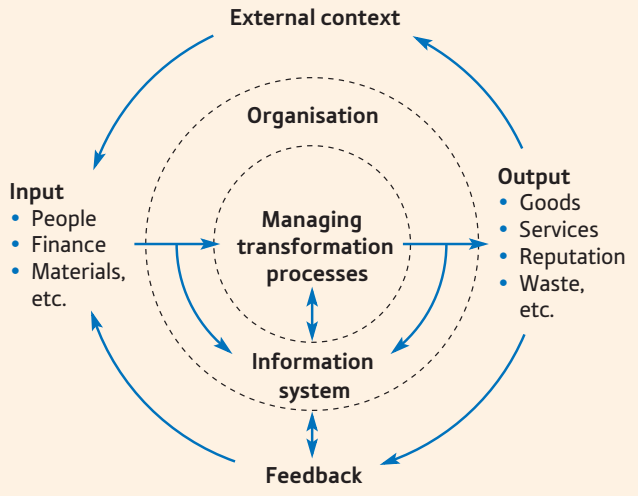


Figure 12.1 The role of information systems in organisations

into activities that customers manage themselves (social networks or music downloads). No organisation is immune: if dissatisfied customers use a popular social networking site to spread bad news about a business, managers need to respond – even if they have never heard of the site. Sectors as different as agriculture and mining are able to use information systems to manage their businesses with better information than they have ever had. A pressing issue for any company is the extent to which their boards and senior managers have the depth of experience in technology to lead their business successfully in this changing world.

This chapter will show how IS can transform organisations. It shows how traditional businesses progressively widened the role of computer-based systems in managing data about their operations, and how technical developments have led to the convergence of data, voice and vision systems. This led to the phenomenon of co-creating value, in which users not only view content on a site, but also create it. In either case, adding value depends on managing both technological and organisational issues – which the chapter will illustrate with accounts of three widely used systems, and with the link between IS and strategy. Both 'technology' and 'organisation' need to be on the project agenda – which is why that is the topic of the 'Develop a skill' feature at the end of the chapter.

Activity 12.1 Applying the open systems model

Apply the open systems model in Figure 12.1 to an organisation that you know (such as the one in which you are studying).

- What are the inputs and outputs?
- Describe the transformation process.
- List examples of information systems that provide information about inputs, outputs and/or transformations.

12.2 The context of IS – digital disruption

Using IS to add value to data

Since the 1950s, organisations that make and deliver products or services have extended the tasks of computer-based information systems (IS), beginning with routine accounting and stock control systems, then manufacturing and transport, and now covering almost every activity:

- Allied Bakeries use engineering maintenance systems to monitor equipment and plan maintenance.
- UK Vehicle Licensing Agency encourages drivers to pay their road tax online.
- Mining firm Rio Tinto uses driverless trucks, controlled and monitored by computers, to transport iron ore in its mines.
- Most large organisations only accept online job applications.

Such systems are embedded throughout the organisation and still raise management issues as requirements change or new systems become available. Staff then begin costly projects to change or enhance them.

Converging technologies of data, sound and vision

The information systems just described are all computer-based. The 'digital disruption' now affecting many aspects of management follows from the convergence of computer technology with two others – the telephone and television. Engineers developed the three

The **internet** is a web of hundreds of thousands of computer networks linked together by telephone lines and satellite links through which data can be carried.

An **intranet** is a version of the internet that only specified people within an organisation can use.

An **extranet** is a version of the internet that is restricted to specified people in specified companies – usually customers or suppliers.

technologies in different eras, and for many years they worked independently. As the cost of computing power fell, engineers began to use the digital technology at the heart of computing to re-design how telephones transmit voice signals, and how television transmits images. They could then combine the three technologies in a single device – such as your mobile phone. The common language and rules specifying the format in which to send data between devices enabled them to communicate electronically, creating the **internet** (Berners-Lee, 1999). Another relevant term is an **intranet**, a private computer network operating within an organisation by using internet standards and protocols. The opposite is an **extranet**, a network that uses the internet to link organisations with specified suppliers, customers or trading partners.

Linking mobile phones to the internet led to the rapid growth of the 'wireless internet', liberating the computer from the desk top, and enabling people to send and/or receive text, voice and visual data almost anywhere. This drives change in established businesses (the BBC claims the iPlayer has changed how people watch television, viewing over a million programmes online each day (www.bbc.co.uk)), and enables disruptive new entrants:

- Sky News disrupts print newspapers
- Amazon disrupts book retailing and many other retail sectors
- Uber disrupts taxi operators in major cities around the world
- Airbnb disrupts hotel companies
- Netflix disrupts TV and cinema companies.

Big data and artificial intelligence

Big data describes information of an order of magnitude far greater than has been encountered before. Typically the data comes from social media, or from connected devices including satellites, surveillance cameras and mobile phones.

Artificial intelligence refers to the theory and development of computer systems able to perform tasks normally requiring human intelligence, such as visual perception, speech recognition and decision making.

Organisations collect, store and process a vast amount of information about individuals' lifestyles, and spending habits, especially as they use social media and make online purchases. Every such transaction creates an electronic record which is useful to the company making the transaction: combined with data about the person's other transactions, and other aspects of their lives, marketers find this **big data** of great value. **Artificial intelligence** is closely related, referring to the development of computer systems able to perform tasks normally requiring human intelligence, such as visual perception, speech recognition and decision making. Davenport and Ronanki (2018) surveyed 152 AI projects, and found they formed three groups:

- **Process automation** (71): the most common use, to automate digital or physical tasks – typically back-office administrative or financial tasks such as:
  - transferring data from emails and call centre records to update customer addresses
  - replacing lost credit cards.
- **Cognitive insights** (57): using algorithms to detect patterns in data, and interpreting it:
  - predicting what a particular customer is likely to buy
  - automating the personal targeting of digital advertisements.
- **Cognitive engagement** (24): projects to engage with customers or employees using natural language and intelligent agents:
  - answering customer queries about passwords or technical matters
  - proposing a treatment plan for a patient according to their condition and medical history.

The authors noted that some companies invested heavily in AI projects with little return, and advised that to get the most out of the technology practitioners should understand the tasks to which AI is suited, and ensure that the project is clearly directed at a pressing business need.

BlackRock, the world's biggest investment group, is setting up a centre dedicated to research in AI. The company's chief operating office said the lab would:

> accelerate our efforts to bring the benefits of these technologies to the firm and to our clients. AI may be in a big hype cycle, but there's no doubt the technology is real and changing the world already. We clearly live in a world with more computing power, more data and new methods to take advantage of (*Financial Times*, 20 February 2018, p.23).

Others urge managers to be cautious about the likely returns from such systems:

> The ability to study large trends and patterns is clearly useful. But it is no substitute for getting around the business and asking people, especially frontline staff, what they think is happening. The data can tell you how many customers you have lost each month, but not necessarily why they have gone. You can do online surveys, which some may ... complete, but you would learn far more from contacting and talking to some of those lost customers yourself (from an article by Michael Skapinker, *Financial Times*, 9 May 2013, p.12).

The implication for managers is clear: part of their role is to evaluate, and act on, the threats and opportunities that modern IS bring. Pinkham et al. (2010) provide an overview of how advances in IS enable an organisation's resources to add more value, including co-creation.

Producers and consumers co-create value

A **blog** is a web log that allows individuals to post opinions and ideas.

Social networking sites use internet technologies that enable people to interact within an online community to share information and ideas.

Individuals using blogs and social network sites are now driving the growth of internet traffic. **Blogs** attract individuals with an interest in the topic to ask questions or express their views in a discussion group. **Social networking sites** developed from blogs, by providing a communication channel for people who want to share their interests with other members of an online community.

Management in practice

Social media gives Topshop fashion a new look www.topshop.com

According to Tracy Yaverbaum, group director of retail at Facebook:

> **The fashion community is known for taking risks and experimenting, and now they are starting to do it in digital.**

Fashion brands are embracing social media to reach their customers and fans, [most of whom] will not be attending the London Fashion Show. When Topshop showed its unique collection, it teamed up with Facebook and Instagram to create a 'social catwalk'. It shared at least two key looks from the show on Facebook before they appeared on the catwalk.

Five Instagrammers were given unprecedented access to the show, with their content appearing on Topshop's channels and also in the window of its London flagship store on Oxford Circus.

Sheen Sauvaire, global marketing and communications director at Topshop, says technology is bringing about a revolution in fashion, turning the traditional idea of the catwalk on its head, and forging deeper relationships between the retailer and its customers.

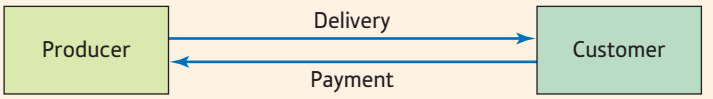
FT Source: *Financial Times*, 16 September 2014, p.20.

This digital culture erodes boundaries between producers and consumers. Wikipedia, written by volunteers, quickly became the world's largest encyclopaedia, competing with *Encyclopaedia Britannica* (www.britannica.com). YouTube claims to hold the world's largest collection of videos, including professional work. Amazon encourages visitors to the site to review books, which others can read before they buy. Media groups encourage readers to write stories for their websites – all examples of **user-generated content (UGC)** – which users place on a site for others to view.

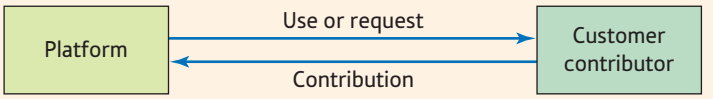
User-generated content (UGC) is text, visual or audio material that users create and place on a site for others to view.

Wikinomics describes a business culture in which customers are no longer only consumers but also co-creators and co-producers of the service.

This is known as **wikinomics**, a business culture that sees customers not as consumers but as co-creators and co-producers. Smartphones allow people to build and maintain their social relationships through creating and sharing content. They decide how much time or



(a) Traditional pattern of production and delivery of product or service, followed by payment by a customer.



(b) New pattern of consumption by customers, who also contribute to a platform, such as Wikipedia, Google or Linux.

Figure 12.2 Traditional delivery and customer participation

money to spend using content (downloading music, games or professional apps) and how much to spend creating content (uploading photographs, film reviews or texts). Many companies encourage **co-creation**, through blogs, customer reviews and online communities. They believe this not only enhances customers' experience of, and loyalty to, the brand: it may also add to the engagement of employees, and produce more useful innovations.

Co-creation involves the joint creation of value by the firm and its network of 'actors' such as customers, suppliers and distributors.

Stokburger-Sauer et al. (2016) introduce a note of caution, pointing to what they term the co-production paradox: while co-production offers benefits to the customer by meeting their preferences more closely, they have to put in time and effort. A study of co-productions offered by hotels and restaurants found that customers are only willing to co-produce up to a point. If the system requires too many decisions, customers become dissatisfied and abandon the experience and perhaps the company as a whole.

Metcalfe's law states that the value of a network increases with the square of the number of users connected to the network.

Metcalfe's law states that '*the value of a network increases with the square of the number of users connected to the network*'. The more people who have phones, the more valuable a phone becomes to the next adopter. This 'network effect' encourages more people to use an existing website, and creates barriers for new entrants who have few users to attract others. New payment systems face this barrier. Retailers need to install card readers and banks have to put in software to process payments: a new system, like Apple Pay, needs to reach a point where enough users have the cards or apps required, and enough ticket barriers, tills, or websites are willing to accept them, to justify the investment required to join them.

Figure 12.2 illustrates the idea. In a traditional economic system, producers create products that consumers order, receive, and pay for (Figure 12.2a). The alternative is when companies such as Google, Facebook or YouTube provide a platform, customers view the content, and may in turn add to that with their own content – a video, a message or a page from another site. They add value to the platform as they provide more information and so enhance its perceived quality. Consumption does not reduce value, but increases it (Figure 12.2b) – see the 'Management in practice' feature.

Management in practice — An online forum in healthcare

A physician dealing with fertility treatment at the University Hospital Nijmegen, the Netherlands, spent a lot of time informing couples on the pros and cons of the treatments, and in providing emotional support. As an experiment he started an online forum in which his clients (exclusively) share information and anxieties. It also provides relevant medical information. From time to time, the doctor and other staff join the sessions. The 'electronic fertility platform' saves a lot of the time the doctor used to spend advising and supporting clients. Clients contribute anonymously to the platform, and so help each other.

Source: Boddy et al. (2009), p.62.

Activity 12.2 Reflect on your use of social networking sites

Consider an occasion when you used a social networking site to interact with an organisation.

- What were the circumstances?
- Did it change your view of the company, either positively or negatively?
- Can you identify any assumptions that those designing the site must have made about users?
- What were the limitations of the site for you?

CWS Types of information system

12.3 The internet and e-business

Two commonly used terms are **e-commerce** and **e-business**. The former refers to the simple practice of offering goods and services through a website – which is defined here as *e-commerce*. A more radical, and now very-widely used way to trade on the internet is for what is here called *e-business*, when companies use a website to manage information about sales, capacity, inventory, payment and so on – and to exchange that information with their suppliers or business customers. Some companies only sell over the internet – see 'Management in practice' below.

e-commerce refers to the activity of selling goods or services over the internet.

e-business refers to the integration, through the internet, of all an organisation's processes from its suppliers through to its customers.

Management in practice

Asos – online-only fashion www.asos.com

Nick Robertson founded Asos in 2000 as an online fashion retailer – it is now the largest online-only fashion retailer in the UK, and could reasonably claim to be Britain's first global shopping heavyweight. About 700,000 people a day visit the website – most of them aged between 16 and 34. The company's HQ is in Camden, North London, and the fulfilment centre – which receives orders and then packs and delivers the goods – is in Hemel Hempstead (about 30 miles north).

Sales grew by 26 per cent to £2.4 billion in the year to 31 August 2018, with pre-tax profit rising from £80 million to £102 million – while many clothing stores struggled. It is spending about £250 million a year on new warehouses and systems that would support £4 billion annual sales – its medium-term target. But it is not immune to external forces: later in 2018 it had to cut prices sharply to maintain sales growth, and warned that profits would be lower in 2019.

The Camden office is where most of the images that appear on the website are produced – including photo shoots (the company photographs 2000 items a week) and catwalk videos. Keeping the fashion and technology parts of the company under one roof – the company employs 16 designers and 120 people in information systems – enables both sides of the business to learn from each other:

We are a fashion and a technology business.

While many companies discourage blogging or tweeting in the office, Mr Robertson encourages it, as an ideal way to keep in touch with customers and fashion trends:

They're doing what they would be doing anyway, but they're doing it for Asos.

This is no coincidence. Most Asos staff fit the demographic of the company's customers – young, trendy, mainly female. Understanding exactly who its customers are is a great strength. Mr Robertson believes that employing the same types of people as Asos sells to means the company knows how to meet them – as shown by a marketing strategy built upon social networking sites. Teenagers think they have 'discovered' Asos through blogs and tweets, instead of feeling they have responded to a sales pitch.

FT Sources: *Financial Times*, 26 January 2018, 11 February 2018, p.15, 18 October 2018, p.20; *The Guardian*, 18 December 2018, pp.14–15; company website.

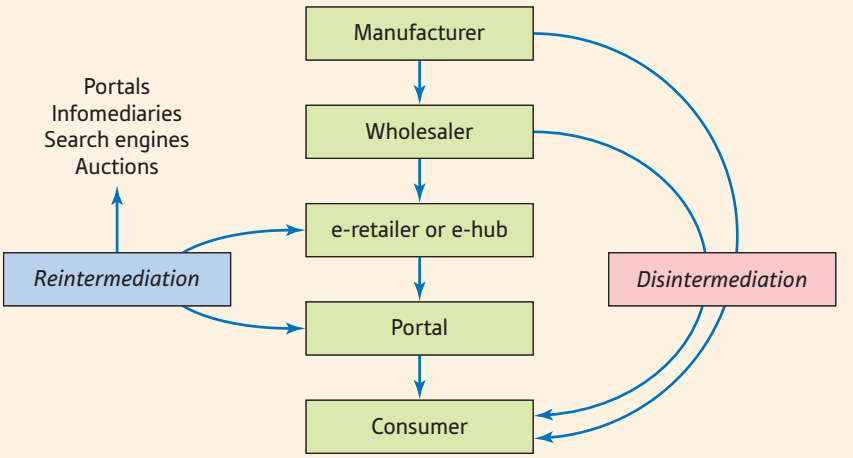


Figure 12.3 Reinventing the supply chain

Disintermediation is removing intermediaries such as distributors or brokers that formerly linked a company to its customers.

Reintermediation is creating intermediaries between customers and suppliers, providing services such as price comparison and product evaluation.

The internet changes the relationship between a company and its customers and suppliers as electronic systems bypass parts of the supply chain – known as **disintermediation**. Figure 12.3 shows how a manufacturer and a wholesaler can bypass partners to reach customers directly.

The benefits of disintermediation are to reduce transaction costs and enable direct contact with customers. Companies can also extend their 'reach' from a local presence to a national or international one. **Reintermediation** is the creation of new intermediaries between customers and suppliers by providing a (new) service such as supplier search and product evaluation. Examples are portals such as www.lastminute.com and www.moneyfacts.co.uk which help customers to compare offers and follow a links to their preferred supplier.

Adding value in traditional delivery systems

The internet affects all aspects of organisational activity, enabling new forms of organisation and new ways of doing business. Established organisations typically go through successive stages in the way they use the internet, which Figure 12.4 illustrates.

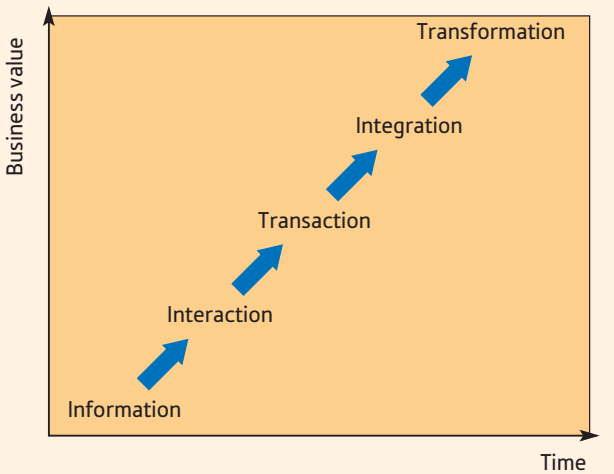


Figure 12.4 Stages in using the internet

The simplest websites provide information, enabling customers to view product or other information; conversely suppliers use their website to show customers what they can offer. Interaction occurs when customers enter information and questions about (for example) a flight for a weekend break. The system then uses the customer information, such as preferred dates and times of travel, to show availability and costs. Conversely, a supplier who sees a purchasing requirement from a business (perhaps expressed as a purchase order on the website) can agree electronically to meet the order. The next stage is to enable transactions, when the customer buys their flight online, and the whole transaction takes place electronically.

A company achieves integration when it links its internal system to the website, so that when a customer goes online to place an order, it automatically passes to internal operating systems which begin the processes (including those at suppliers) required to make and deliver the order. Transformation refers to the situation where a company links internal with external systems, includes customers in product design, and engages with online communities.

Case study

Google – the case continues www.google.com

Beyond its core search and advertising capabilities, the company has embarked on many other ventures to extend its services. It acquired YouTube in 2006, which in 2018 earned $20 billion in revenue, and analysts expected that to grow by about 20 per cent a year for the next five years: its revenues still account for less than 10 per cent of the amounts spent on traditional TV advertising, implying a good chance of further growth.

It also has a cloud computing business which some observers also believe will grow, as it is well behind Apple and Microsoft in this market. It is investing heavily to build a strong position, funded by revenues from the search business. It has also invested in Picasa for photo management; DoubleClick for web ads; Keyhole for satellite photos (now Google Earth); and Urchin for web analytics (now Google Analytics). Such acquisitions grow the business in a way that stays focused on Google's distinctive competence, (developing superior search solutions) and earning revenue from these through targeted advertising.

Another venture is driverless cars (Waymo). While the prospects here are unclear, one observer noted:

Waymo's clear lead might put it in the position to sell its software to different car makers: and they are in effect creating the autonomous vehicle system for all cars. Waymo may make even more money from search – everything leads back to search. All these people will be sitting in vehicles, and doing what? They'll be online. It's a way to facilitate search, and to maximise the value of the network (Richard Waters, *Financial Times*, 30 May 2018, p.17).

Sources: Company website; *The Times*, 16 September 2017, p.25.

Case questions 12.2

- Referring to Chapter 8 (Strategy), what kind of strategy is Google following?
- What 'strategic direction' (Section 8.6) did the purchase of YouTube represent?
- What assumptions appear to shape Google's acquisition strategy?

Adding value through online communities

Millions of people use online platforms to interact socially, and this is of great interest to companies. Some create and host customer communities to provide closer links with customers, hoping to learn more about the views and preferences than through conventional market research techniques. They host product discussions – if people are critical, managers want to know this so they can deal with the problem. A user's blog might identify possible new uses for a product, or hint at features the company could add. This is still challenging for companies, who are trying to work out how best to use these opportunities to build a positive image, or at least prevent a negative one – see 'Management in practice' that follows.

Management in practice — Managers learn to use the social web

Bernoff and Li (2008) note that:

> **Companies are used to being in control. They typically design products, services and marketing messages based on their ... view of what people want ... Now, though, many customers are no longer cooperating. Empowered by online social technologies ... customers are connecting with, and drawing power from, each other. They're defining their own perspectives on companies and brands, a view that's often at odds with the image a company wants to project. This groundswell of people using technologies to get the things they need from one another, rather than from companies, is now tilting the balance of power from company to customer (p.36).**

The authors advise managers how they can best respond to this change by 'working with the groundswell' – developing a clear view of how they can use social applications to achieve business goals. Amongst their examples:

- **'Listening'**: a software company uses an application that allows customers to suggest new features and then vote on them: this helps the company to decide which of the (thousands of) suggestions to develop.
- **'Talking'**: a car company wanted to increase students' awareness of a new model. They created a stunt in which students lived in the car for a week: from there they wrote blogs, posted YouTube videos and contacted thousands of friends through Facebook, greatly increasing awareness of the brand, at a fraction of the cost of traditional publicity methods.
- **'Energising'**: an old and respected company wanted to build enthusiasm amongst current and new customers for the brand. It hired four enthusiastic customers to act as 'lead ambassadors', whose job was to build an online community of users to exchange ideas and experiences with the product. The size of this community quickly exceeded expectations, and a big increase in sales.

Source: Bernoff and Li (2008).

12.4 Two applications – customers and knowledge

Customer relationship management (CRM)

Customer relationship management (CRM) is the process of maximising the value delivered to the customer through all interactions, both online and traditional. Effective CRM aims to develop one-to-one relationships with valuable customers.

Customer relationship management (CRM) refers to an organisation's attempts to build long-term, profitable relationships with their customers. This involves many organisational changes and IS play a major role in supporting this. CRM software tries to align business processes with customer strategies to recruit, satisfy and retain profitable customers (Ryals, 2005; Kumar et al., 2006). Figure 12.5 shows three approaches. The first treats all customers in the same way by sending impersonal messages in one direction. The second sends a one-sided, but unique message to each customer, depending on their profile. The third personalises the messages which may lead to real interaction, in the hope of increasing customer loyalty.

Many businesses want to focus on recruiting and retaining valuable, long-term customers and hope CRM will help them to:

- gather customer data swiftly
- identify and capture valuable customers while discouraging less valuable ones
- increase customer loyalty and retention by providing customised products
- reduce costs of serving customers
- make it easier to acquire similar customers.

The 'Management in practice' feature that follows is an example of this idea in advertising.

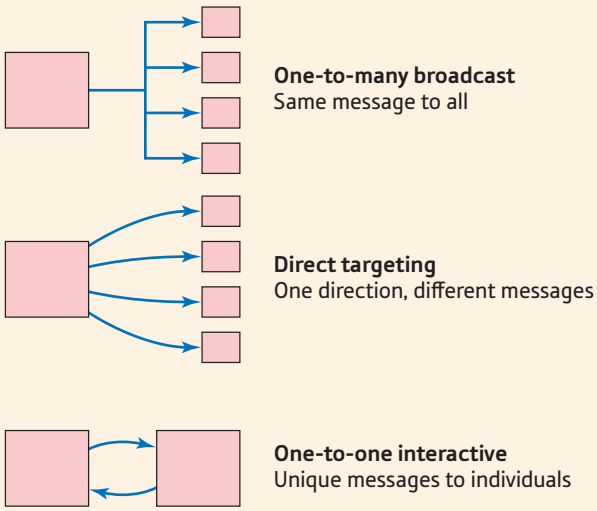


Figure 12.5 Communications methods and messages

Management in practice — Iris and 'The Source' www.irisnation.com

Iris is a rapidly growing advertising agency, with close relationships with international customers. As an example of the services it offers, Ian Millner, Managing Director describes 'The Source':

> **A key part of our global relationship with Sony Eriksson is a digital asset management system, that has now been branded The Source. The role of that system is to collect all marketing assets of value, most of which will have been originated by Iris, have it all in one place so that if you're Sony Eriksson in Brazil or in Indonesia or in China, instantly you're able to access marketing materials that have value and relevance for you to use really, really quickly in your marketplace.**
>
> **So this idea of real time sharing is a key part of working with clients in dynamic and competitive markets, and I think the other bit that comes with that is not only value but also speed to market. It's so important now to be able to do things quickly, so that is a massive asset in our sort of overall strategic relationship with that client but also our anticipation is that there'll be more and more clients now who want that type of agency partner globally.**

Source: Interview with Ian Millner.

Maintaining good customer relationships also depends on using their information in a way that they trust – some tools to help analyse an approach feature in 'Key ideas' below.

Key ideas — Do customers trust you with their data?

Websites have for years been able to track users' online activities and so target advertising precisely. Morey et al. (2015) observe that technological advances, such as incorporating intelligent technology in physical products ('wearables' as well as mobile devices) allow companies to collect new data about customers, especially about their location and behaviour, giving examples from Medtronics and Uber. They claim that customers appreciate the benefits, but are wary of the risks of abuse and security breaches. The authors advocate that companies align their interests with customers', to benefit both.

To assist that analysis, the authors categorise data according to its source, and how the company intends to use it. Three sources are:

- **self-report**: where users have voluntarily given demographic, email address, or work history
- **digital exhaust**: such as location data or browsing history, created while using mobile devices
- **profiling**: derived by combining self-reported data, 'digital exhaust', and possibly other data, to predict a person's interests and behaviour, which they use for marketing.

The authors distinguish three uses of the data:

- **sell to third parties**: such as data about a credit card transaction
- **facilitate targeted marketing**: using browsing history to shape online advertising
- **improve a product or service**: adapting a product to a user's interests: allowing a map application to recommend a route from the user's location.

The authors advocate that if companies are transparent about their data sources, and how they use it, customers will be more likely to trust them. They also suggest rewarding customers for using their data.

Source: Morey et al. (2015).

Knowledge management (KM) systems

Knowledge builds on information and embodies a person's prior understanding, experience and learning.

Knowledge builds on information that is extracted from data (Boisot, 1998, p.12). While data is a property of things (size, price), knowledge is a property of people, which predisposes them to act in a particular way. It embodies understanding, experience and learning, and is either confirmed or modified as people receive new information. Knowledge enables people to add more value to resources, since they can react more intelligently to information and data than those without that experience and learning. Someone with good knowledge of a market will use it to identify significant patterns or trends, and so attach a different meaning to the information than someone without that knowledge.

Knowledge management systems are a type of IS intended to support people as they create, store, transfer and apply knowledge.

Managers (especially those employing many skilled professionals) have long wanted to make better use of their employees' knowledge, believing it vital to innovation and the primary source of wealth in modern economies. Staff often believe the knowledge they need to improve performance is within the business – but they cannot find it. **Knowledge management (KM)** refers to attempts to improve the way organisations create, acquire, capture, store, share and use knowledge. This will usually relate to customers, markets, products, services and internal processes, but may also refer to knowledge about relevant external developments.

Managing knowledge is not new – the industrial revolution occurred when people applied new knowledge to manufacturing processes. What is new is the growth of knowledge-intensive businesses employing thousands of professionals around the world. Their work generates knowledge and they also seek it, so face the puzzle of how to access, and renew, the internal stock of potentially useful knowledge about their current work. Developments in IS make it easier for people to share data, information and knowledge irrespective of physical distance. This has encouraged many to implement knowledge management (KM) systems.

The challenge is to decide what knowledge to include: not discriminating clearly leads to unwieldy and useless databases that no one uses – see 'Key ideas' that follows for one view on how to do this.

Key ideas

Identifying which knowledge really matters

Ihrig and Macmillan (2015) comment that while 'big data' is a fashionable topic, too much focus on that may mean a company neglects to manage other strategically important knowledge assets. These could include their core competences, areas of expertise and intellectual property. They advocate developing a clear understanding of how knowledge contributes to the organisation's success, and then mapping what knowledge they have, which are the most critical assets, and how they should be managed.

The core of their process is to map the firm's knowledge, by asking people what they consider the key dimensions of competitive performance, and what knowledge underpins that. This conversation ideally takes place at several levels of the business, and across functional or divisional boundaries, to identify a relatively small number of critically important knowledge domains. These can then be mapped and analysed to identify characteristics such as whether it is tacit (unstructured) or explicit (structured), and how widely it is diffused around the organisation. It then becomes feasible, they say, to begin interpreting the complex data so available, to identify both gaps that should be filled, and/or new opportunities to exploit the newly-understood knowledge assets.

Source: Ihrig and Macmillan (2015).

Recall the distinction between data, information and knowledge discussed above. Many systems that people refer to as 'knowledge' management systems appear to deal with data and information, rather than knowledge. While computer-based systems are effective at dealing with (structured) data and information, they are still less effective at dealing with (unstructured) knowledge. They are unlikely to replace the learning that takes place through interpersonal contact.

Case study

Google – the case continues www.google.com

The investors who had supplied the capital to create the business pressed the founders to build a professional management team. The company was growing rapidly, hiring staff, building data centres and facilities for developers – but the founders were reluctant to appoint a professional CEO. In late 2000 they relented, and appointed Eric Schmidt – who had an excellent reputation as a computer scientist, and in senior management positions at other technology companies. As far as the engineering side was concerned, the founders were keen that the software engineers:

> **would arrange themselves in pods of three, work on projects, and check in with [the head of engineering]. That struck some of Google's executives as madness. Stacy Sullivan, the head of HR, begged Page and Brin not to go through with it. 'You can't just self-organise!' she told them, 'People need someone to go to when they have problems!' (Levy, 2011, p.158).**

Eventually the 'self-organising' plan faded, and formal management structures evolved.

Google has a technocratic culture, in that individuals prosper based on the quality of their ideas and their technological acumen. Engineers are expected to spend 20 per cent of their time working on their own creative projects. The company provides plenty of intellectual stimulation which, for a company founded on technology, can be the opportunity to learn from the best and brightest technologists.

There are regular talks by distinguished researchers from around the world. Google's founders and executives have thought through many aspects of the knowledge work environment, including the design

and occupancy of offices (jam-packed for better communication); the frequency of all-hands meetings (every Friday); and the approach to interviewing and hiring new employees (rigorous, with many interviews). These principles suggest an unusually high level of recognition for the human dimensions of innovation. Brin, Page, and Schmidt have taken ideas from other organisations – such as the software firm SAS Institute – that are celebrated for how they treat their knowledge workers.

Google's Android operating system dominates the smartphone market – in 2017 its sales were about six times greater than those of its nearest rival, Apple's IOS. This is especially significant as consumers have moved from desktop computers to mobile devices. More than half of worldwide internet traffic is on mobile devices, 80 per cent of which run on Android. This then provides a showcase for Google services and mobile apps. Google gives away Android to smartphone makers and updates it freely. The device makers receive the Android licences in return for agreeing to certain conditions – notably that they pre-install a wide range of Google products and services on their devices.

Other companies such as Microsoft, Oracle and Nokia have long complained that this unfairly stifled competition, and made it hard for them to sell their apps to consumers. They complained to the European Commission, and in July 2018 the EU fined Google $4.3 billion for imposing what the EU judged to be anti-competitive terms on users of the Android operating system.

FT Sources: Levy (2011); *Financial Times*, 19 July 2018, p.15.

Case questions 12.3

- What were the founders' initial assumptions about managing the engineers? Were there any limitations to what they suggested?
- Read the Pixar 'Management in practice' on page 267 and note any similarities between their practices and those of Google.
- What aspects of the context appear to be becoming more troublesome for Google?

KM tools can exploit explicit knowledge about previous projects, technical discoveries or useful techniques. But re-using existing knowledge may do less for performance than using it as a step towards creating new knowledge that suits the situation. That creative process depends more on human interaction than on technology. Adding value depends on insight and judgement (Gupta and Govindarajan (2000)):

> effective knowledge management depends not merely on information-technology platforms but ... on the social ecology of an organisation – the social system in which people operate (made up of) culture, structure, information systems, reward systems, processes, people and leadership (p.72).

People are more likely to use a KM system if the culture recognises and rewards knowledge sharing.

Activity 12.3 What knowledge do you need for a task?

- Identify for an employee (perhaps yourself) what knowledge they create, acquire, capture, share and use while doing a specified task.
- Identify examples of explicit and tacit knowledge in this example.
- For one of your examples of tacit knowledge, (a) how do they/you obtain that knowledge? (b) can you envisage how a computer-based IS would be able to provide it?

12.5 Adding value depends on technology *and* organisation

The internet evidently challenges established ways of doing business. Combined with political changes, this is creating a wider, often global, market for many goods and services. The challenge for managers is to make profitable use of these possibilities. This includes looking beyond technology – which receives most attention – to the wider organisation. A manager who played a major role in guiding internet-based changes at his company commented:

> The internet is not a technology challenge. It's a people challenge – all about getting structures, attitudes and skills aligned.

Whether the company is an internet-based start-up or an established business, it requires deliberate management action to create the IS infrastructure to engage with the internet. **Information systems management** is the term used to describe the activities of planning, acquiring, developing and using IS such as Google's network of data centres – and also of making the necessary organisational changes if it is to pay off – see 'Key ideas' on the following page (the extroverted firm).

Information systems management is the planning, acquisition, development and use of these systems.

Any information system includes people and processes as well as hardware and software – as shown in Figure 12.6.

A computer-based student record system illustrates this. The hardware consists of computers and peripherals such as printers, monitors and keyboards. This runs the record system, using software to manipulate the data and to either print the results for each student or send them electronically – which they see as information. The system also requires people (course administrators) to enter data (name and other information about students and their results) following certain processes – such as that one person reads from a list of grades while another keys the data into the correct field on the student's record. Managers of a department might use the output to compare the pass rate of each course – so the record system is now part of the university's management information. Staff will use their knowledge (based on learning and experience) to interpret trends and evaluate their significance.

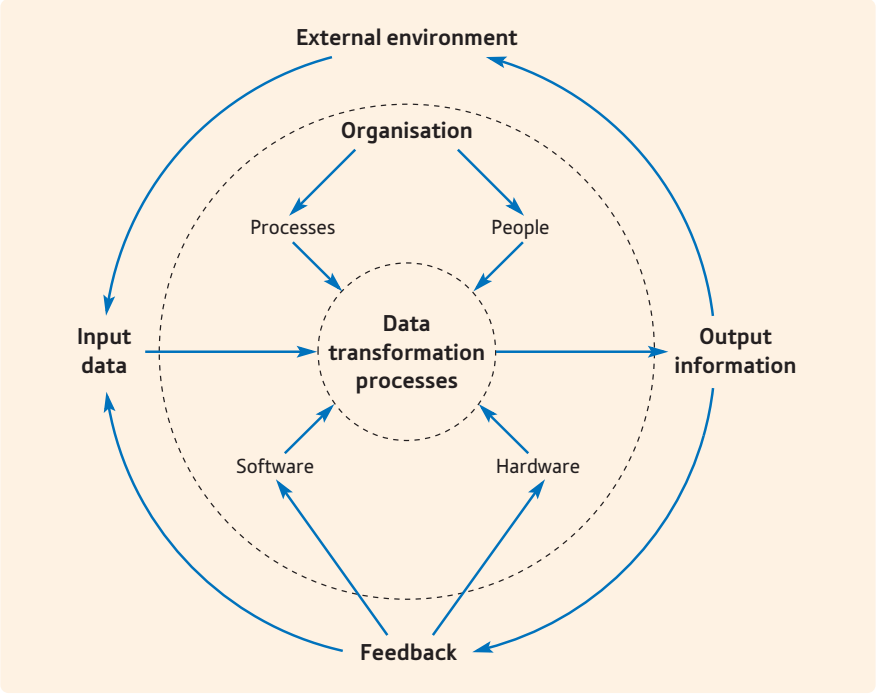


Figure 12.6 The elements of a computer-based IS

Figure 12.6 also shows that the hardware and software is part of a wider organisational context, which includes people, working processes, structures and cultures. Bala and Venkatesh (2016) illustrate this in their study of two companies, carried out over several years as each introduced an IT system. They found that three identifiable management practices – user participation and involvement, training and management support – enabled staff to see the new systems as opportunities rather than threats, which in turn increased job satisfaction and performance. Failure to deal properly with these issues is a major cause of the many IS projects that fail to deliver value (Boddy et al. 2009; Flyvbjerg and Budzier, 2011).

Avgar et al. (2018) show that employee working practices affect the outcomes of an investment in IS. A healthcare authority introduced an Electronic Medical Record tool, from a single supplier, to 15 care homes. The research question was whether established working practices in the homes would affect how well staff learned to use the system. The dependent variable was the number of support requests (other than those on technical issues) staff submitted to the supplier in the 12 months after introduction. Their hypothesis was that work practices which promoted employee involvement (teamwork, decentralised decision making, training, communication and adequate staffing) would lead to a lower number of calls for help. Such practices would create a context in which staff took initiatives and learned to use the system, rather than depending on being told what to do.

The results showed that to be the case – homes that scored high on employee involvement made far fewer requests for support than those where work practices discouraged learning.

Key ideas — The extroverted firm – complementarities improve productivity

An article in *Management Science* by Tambe et al. (2012) reiterates that effective performance depends on being able to detect and respond to changes in a firm's operating environment. Modern IS enable companies to track customer behaviour (extreme examples being the way Amazon and Google record their customers' key-strokes and analyse this data to optimise their products, processes and marketing), but this data is of no value unless the company can use it. The authors draw on research to suggest that the value of IS investment will be enhanced if companies associate this with decentralised decision making. The logic is that this will enable the firm to respond quickly to the information, through product innovation – see Figure 12.7.

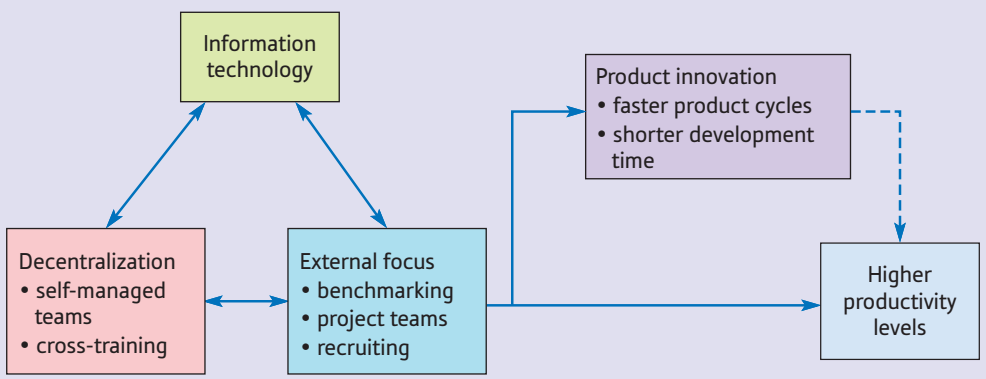


Figure 12.7 The complementarities model

Source: Tambe et al. (2012), p.844.

They tested the model in a survey of over 200 US firms and found that, as expected, firms gain more from IT investments if they capture:

> **external information through networks of customers, suppliers, partners and new employees ... an effective response to external information requires that firms have the mechanisms in place through which to absorb this information, such as self-managing teams, cross training and [decentralised decision making]. Internal workplace organization, external information practices and information technologies seem to be part of a mutually-reinforcing cluster of activities associated with faster product development cycles and higher productivity (p.845).**

This study is one of many that shows the benefits of complementarity or 'fit' – when managers ensure that discrete elements of the organisation complement each other, in the sense that they are mutually reinforcing, sending consistent messages about the behaviour that will support the strategy (see Boddy et al. 2009 for more on this theme).

Source: Tambe et al. (2012).

Activity 12.4 Using the model

Use Figure 12.6 to analyse an IS project that you know, or can gather information about.

- Who promoted the system, and what were their objectives?
- Describe the system they implemented, especially the hardware and software.
- What changes did the system lead to for people and procedures?
- What changes for other aspects of the organisation such as its culture and structure?
- What were the outcomes, and how did they compare with the objectives?
- What can you learn from this case?

12.6 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 12.1 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and what variables they assumed would help achieve them) and about process (how they tried to gain the support of stakeholders). *These are examples only – not a comprehensive analysis.* You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *A company's knowledge is a potential competitive advantage, yet few have developed a computer-based system to manage this asset. Imagine you work in a consultancy firm that wants to implement a system for recording and using the knowledge it has, and that consultants learn in successive projects. Use the ideas in Sections 12.4 and 12.5 to outline the issues the firm may have to manage in such a project.*
>
> *Assume there is a technical system available – focus on the organisational issues.*

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 12.1 'Clear thinking' examples from the Chapter Case study and a theory

Clear thinking practices	From the Chapter Case study – The EU and Google	Theory – a question about implementing a knowledge management system (Section 12.4)
Checking assumptions	The EU claims that Google's bundling practices harm customers – what evidence is there of that? Google's claim that the EU is defending local suppliers from competition – what evidence is there of that?	**Introduction** Set scene by saying why knowledge matters to an organisation, and why it is hard for staff to know what others know Computer-based systems could be the technical solution: what to consider if implementing even a simple system to record lessons from successive projects? Note: draw on ideas from other chapters Assumptions to consider could be that: • it is feasible to build a cost-effective KM system, when many have failed • someone is clear about which knowledge matters (explicit or tacit?) • someone is clear about the dimensions or measures of performance a KMS would improve • people with knowledge will be willing to share it • we can decide who will be responsible for maintaining the system
Recognising contexts	Do Google's practices also go against WTO rules, or is this something only the EU worries about? Many small EU hi-tech companies have been acquired by US or other rivals. Is this part of the reason for the EU response to Google's practices?	What knowledge is most critical in our context? Being clear about that may focus a project on most productive areas Where would it best fit in the structure of the organisation? Decentralised activity or a central one? Does the culture of the organisation encourage sharing or not? Are staff rewarded for their individual performance (and knowledge)? How best to give incentives to share?
Imagining alternatives	EU rules banning bundling of products in a device, requiring them to be bought separately	Technology may make it easier to find knowledge informally and by personal contact than through formal systems Enabling informal opportunities to encourage knowledge sharing, by the design of buildings and workspaces
Acknowledge limitations	More difficult for most customers, requiring more tasks, and with limited knowledge to make an informed choice	KMS require significant cultural and attitudinal change, and may be out of line with flexible and creative working systems

Skill

You can also think clearly (now, or far into the future) about how you use these skills in real situations – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of setting a project agenda.

Develop a skill: setting a project agenda

The success of any major project (not just in IS) depends on identifying the tasks it needs to deal with, and ensuring they are on the project agenda. This exercise should help you develop that.

- **Assessment.** Assess how well you 'set the agenda' when dealing with a large task. Do you, for example, act quickly to get into action, or do you prefer to spend time finding out what it will involve, and making sure you do not overlook something?
- **Learning.** Look again at Chapter 7 (Planning), especially Section 7.6 and Figure 7.6 (Possible action areas in a plan). Read again Section 12.3 and Section 12.5, especially Figure 12.6.
- **Analysis.** Consider the likely implications for a manager responsible for implementing an IS project of Figure 7.6.
- **Practice.** Consider the Google case (on your own or with colleagues) and identify where it mentions any of the items in Figure 7.6. How is the way Google dealt with them likely to have affected the outcome? Record what that tells you about setting the agenda for any project (IS or not).
  - Record what you find, and reflect on what you have learned.
  - Try to compare your work with that of others to see what else you can learn.
- **Application.** Decide on another opportunity to practise this skill on another case or situation.

Summary

1 **Explain how converging technologies change how people add value to resources**

- Continuing advances in information systems for processing data have been enhanced by the convergence of systems so that they now integrate data, sound and visual systems.
- The radical result is that this enables producers and customers to co-create value.

2 **Illustrate how organisations use the internet and e-business to add value**

- Internet-based (e-business) are systems that operate across organisational boundaries, enabling new relations with business partners and customers.
- Other practices include re-inventing the supply chain, building online-only businesses and building online communities.

3 **Evaluate the potential to add value of customer relations and knowledge systems**

- Customer relations systems aim to capture and process information about each customer, so that products and services can be tailored more closely to individual needs.
- Knowledge management systems attempt to improve the ability of an organisation to use the information that it possesses.

4 **Explain how adding value depends on technology *and* organisation**

- This chapter shows how successful IS and e-business projects depend on managing organisational as well as technical factors.

5 **Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of setting a project agenda**

- This chapter showed that IS project agendas should include technical and organisational factors, and the 'Develop a Skill' feature helps develop this skill of setting a project agenda.

Test your understanding

1 Explain the significance of information systems in organisations. How do they relate to the core task of managing?
2 Give some original examples of companies using information systems to add value.
3 Identify examples of co-creation, and explain the benefits to company and customer.
4 For what purposes are commercial companies using social networking sites?
5 Explain the meaning of customer relationship management systems.
6 Draw a sketch showing the organisational factors that may affect computer-based IS.
7 Outline the stages through which organisations go in using the internet, giving an original example of each.

Read more

Krotoski, A. (2013) *Untangling The Web: What the Internet is Doing for You*, Faber and Faber, London.

A social psychologist's perspective on the interaction between people and the internet, this book gives many valuable insights into how people are using the internet to suit their needs.

Morey, T., Forbath, T. and Schoop, A. (2015) 'Customer data: Designing for transparency and trust', *Harvard Business Review* , vol. 93, no. 5, pp.96–105.

An empirical study of how some companies use the growing power of information systems.

Davenport, T.H. and Ronanki, R. (2018) 'Artificial intelligence for the real world', *Harvard Business Review*, vol. 96, no. 1, pp.108–16.

Clear presentation of the current status and future possibilities of this technology.

Avgar, A., Tambe, P. and Hitt, L.M. (2018) 'Built to learn: How work practices affect employee learning during healthcare IT implementation', *MIS Quarterly*, vol. 42, no. 2, pp.645–59.

An excellent study showing the interaction of technology and organisation.

Go online

These websites have appeared in the chapter:

www.google.com
www.lastminute.com
www.moneyfacts.co.uk

www.topshop.com
www.irisnation.com
www.asos.com
www.bbc.co.uk

Visit two of the business sites in the list, or any others that interest you, and answer these questions:

- If you were a potential employee, how well does it present information about the company and the career opportunities available?
- Evaluate the sites on these criteria, which are based on those used in an annual survey of corporate websites:
  - How many languages is it available in?
  - Is it possible to email key people or functions from the site?
  - Does it give a diagram of the main structural units in the business?
  - Does it set out the main mission or business idea of the company?
  - Are there any other positive or negative features?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



CHAPTER 13

ENTREPRENEURSHIP, CREATIVITY AND INNOVATION

Aim

To outline why these closely linked topics matter and how they add value.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Explain the meanings of entrepreneurship, creativity and innovation, with examples
2. Explain the nature and significance of entrepreneurship, and summarise theories of why people become entrepreneurs
3. Illustrate some of the tasks and processes of entrepreneurship, and how context may affect them
4. Explain the significance of creativity and innovation, and summarise theories about their sources
5. Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of practising everyday creativity

Key terms

This chapter introduces these terms:

entrepreneur
opportunity
entrepreneurial intensity
Freelancer
entrepreneurial alertness
venture capital
creativity
innovation
design thinking
open innovation

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The Companion website contains additional material on:

organisational factors affecting innovation

Case study

Dyson www.dyson.co.uk

Dyson is a family-owned technology company, and its founder, Sir James Dyson is still active in the business. Following his first success with a bagless vacuum cleaner, the company is dedicated to inventing new things that solve a problem.

The company is based at Malmesbury, Wiltshire, employing (in 2018) 6,500 people across the world: in 2017, revenue was £3.5 billion, and earnings were £801 million, up 27 per cent on the previous year. It aims to employ 10,500 people by 2020, with annual revenue of £4 billion, from a Malmesbury site double the present size. This will give more space for research into new product categories, and for the commercial activities.

James Dyson, born in Norfolk in 1947, studied classics at school, followed by four years at the Royal College of Art, where he focused on furniture and interior design. A chance meeting led to a job designing products for an engineering company, which he left in 1977 to start his own company designing and making garden equipment. The business succeeded, but after a disagreement over its direction with the investors, he left to start another company.

In 1979, he began to design a radically new form of vacuum cleaner and by 1984 (after thousands of protypes) believed he had a viable product:

> **It took 5126 prototypes to create a working device. That was my advantage. I had the resilience to keep going when others might have given up. In fact, I wanted to fail fast, the quicker to learn. That is how technology advances. People trying things, making mistakes, and gaining fresh knowledge. Failure is indispensable to success in any complex field.**

Five years of this had damaged his finances, with he and his wife depending on her income as an art teacher. He tried to license the design to major UK and European consumer goods companies, but none were interested. He eventually made a deal with a Japanese company, launching the product in 1986, and sales grew quickly.

He then set up a manufacturing company in the UK to meet demand. Banks were unwilling to lend money to finance this, so he raised it by borrowing against the security of his house. Manufacturing began in 1993, and by 2000 annual sales exceeded £3 billion.



© TY Lim/Shutterstock

Dyson machines, which had bright colours and cleaned very efficiently, sold more than the brands that had rejected his licensing offers.

He wanted to expand the factory in Wiltshire, but the local authority and government refused planning permission. In 2002, he decided to move the factory to Malaysia, which is near to several component suppliers and large Asian markets. Design and engineering remain in Wiltshire, partly to defend his products against patent infringements, but also to remain close to design talent.

It is market leader by value in Taiwan, Japan and Hong Kong, and has recently entered China. Ninety per cent of machines are sold outside of the UK, to customers in 72 countries. In 2015, it opened the first Dyson store in Tokyo, and plans to open over 1000 controlled retail spaces and 45 online stores within retailers' websites.

Sources: *The Times*, 30 June 2018, p.32, 24 October 2018, p.15; company website.

Case questions 13.1

- What examples of creativity and innovation has the case mentioned?
- What have been the main challenges in building this creative company to its present position?
- What aspects of the context have helped, and what have hindered, the company?

13.1 Introduction

Dyson is an example of an entrepreneurial company that lives by creativity – there are many other vacuum manufacturers, and designs are quickly copied – so the company regularly adds new and improved features to distinguish it. The company also uses its creativity to launch new products, such as hand dryers and garden equipment. The case also shows that creativity itself does not start a business – persistent determination to overcome endless design challenges was clearly vital, but the founder also needed to secure finance, and develop a succession of incremental improvements to keep the company in the news. Later sections will show how the company is also innovative in the way it manages staff to encourage a flow of creative ideas, turning the best of them into innovative products.

Other technology companies like Facebook and Google depend equally strongly on innovations to meet customers' ever-rising expectations. The same is true of established businesses – GlasxoSmithKline and GKN both depend on creative work by their scientists and engineers to develop new pharmaceuticals and solve automotive engineering problems. Managers in the public sector face a similar challenge: de Vries et al. (2016) provide a comprehensive review of research on innovation in administrative processes, technologies and in products and services.

The chapter begins by identifying forms of entrepreneurship, presents evidence of why people become entrepreneurs, the distinct nature of entrepreneurial tasks and processes. It then does the same for the closely related topics of creativity and innovation – see Figure 13.1.

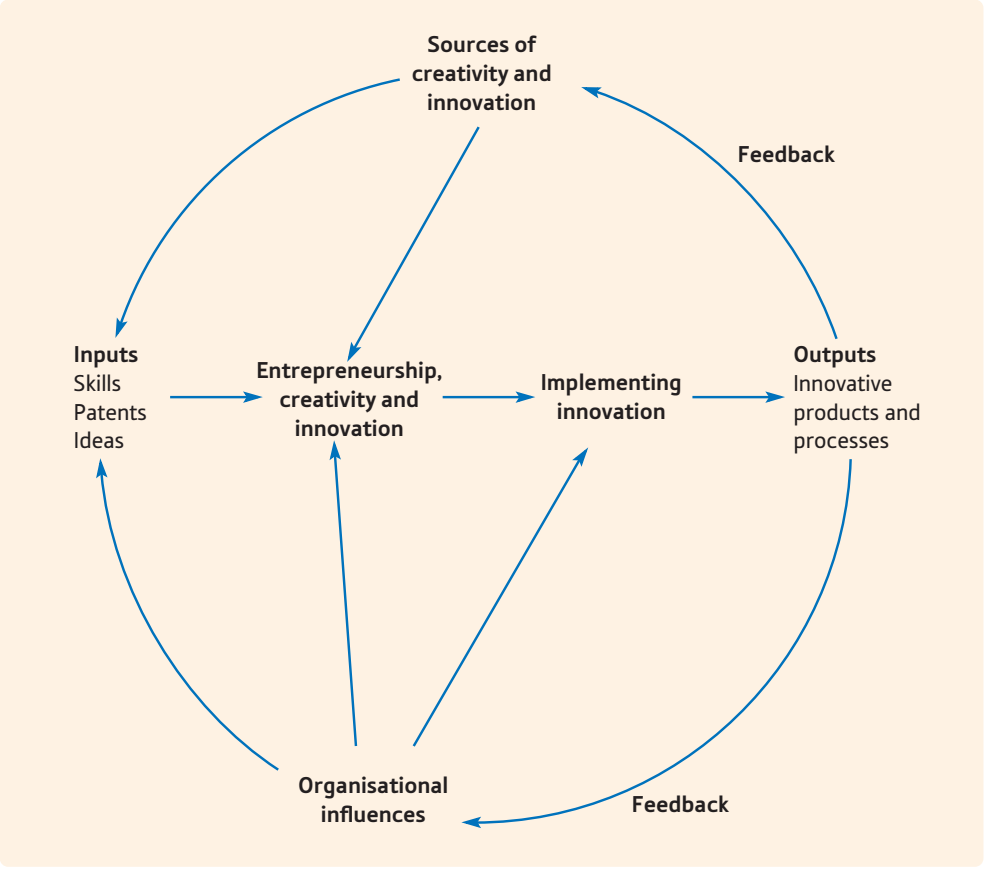


Figure 13.1 An overview of the chapter

13.2 Entrepreneurship and why it matters

Entrepreneurs are people who are able to see **opportunities** in a market that others have overlooked. They secure resources and use them to build a profitable business. Simon Mottram is obsessed by cycling, and regularly rode to work in London. He intensely disliked the poorly designed cycling clothes available at the time – so in 2004 created Rapha (www.rapha.cc) to make and sell something better. Raising capital required over 200 meetings to raise the £140,000 needed for staff, premises and equipment to begin work. It took over five years to make a profit, but the breakthrough came in 2013, when Team Sky, the Manchester-based professional cycling team, appointed Rapha as its kit supplier (*Financial Times*, 10 December 2014, p.14). In 2019, it had bases in 23 countries, and has secured substantial investment to grow the business.

Entrepreneurs are people who see opportunities in a market, and quickly mobilise the resources to deliver the product or service profitably.

An **opportunity** is a favourable set of circumstances that creates a need for a new product, service or business.

Entrepreneurship is essential to create value for customers and organisations – and for the economy as a whole. Richard Reed, one of the founders of innocent drinks (Chapter 2 Case study) referred to entrepreneurs as being 'like the yeast in society – they are the thing that allows the bread to rise and the dough to get bigger' (interview with Emma Featherstone in *The Guardian*, 20 March 2017). All commercial businesses start with an act of entrepreneurship – people like Simon Mottram see what they believe is a viable opportunity to provide a better product, and assemble the resources to do it. The innocent case showed how Richard Reed and his two university friends took a different approach. They were determined to create a business, but were unclear about which industry to enter: they explored several ideas before choosing smoothies.

Established companies, like Dyson or Apple, continue to act like entrepreneurs in their constant search for innovative products to meet customers' changing needs. Others prefer tradition. Imagine a scale that represents company behaviours ranging from highly conservative (1) to highly entrepreneurial (10). Uy et al. (2015) refer to a firm's 'score' on this scale as their **entrepreneurial intensity**. Those at the entrepreneurial end are highly creative, identifying emerging conditions and considering how best to respond: more conservative firms tend to be cautious, reluctant to take risks, and to be followers rather than leaders.

Entrepreneurial intensity refers to a firm's position on a scale ranging from highly conservative to highly entrepreneurial.

Staff in universities, especially those in areas related to science, engineering or medicine, sometimes become entrepreneurs as they turn their research results into products that can be sold profitably – either by their own company or in a joint venture with an established business. People who see an opportunity to help a disadvantaged group take on the role of social entrepreneurs — they create an enterprise to satisfy a social or humanitarian need, rather than to make a profit for external shareholders. Scott-Bader (www.scott.bader.com) is an example: since 1951 this chemical merchant has been owned by its employees, who share in the profits, and every year gives a proportion of its profits to charitable and community causes around the world. Making a profit is necessary to sustain the company, but is also the means to fulfil a social purpose.

Activity 13.1 Recording an example of entrepreneurship

Try to identify someone:

- who is familiar with an entrepreneurial change in an organisation, which they are willing to discuss

or

- who has set up a small business that they are willing to discuss.

Make notes on these questions and refer to them as you work on the chapter.

- What was the change, or the new business?
- What were they trying to achieve?
- What had driven those involved to do this?
- How did they go about it – what were the two or three biggest decisions they made?
- How far have they got towards their objectives?
- What lessons can they, and you, take from the experience?

13.3 Why do people become entrepreneurs?

Barringer and Ireland (2016) identify three motives which, individually or in combination, encourage entrepreneurs:

- **Independence.** Many who start their business do so when they become frustrated with working for someone else: perhaps a strong need for achievement, or for esteem, motivates them to follow a course of action which, despite the risks (or perhaps because of them) means they can satisfy those needs. Some feel constrained from doing work of the quality or scale they think is possible, and go into business on their own to achieve this.

Management in practice — Hotel Chocolat www.hotelchocolat.com

When they opened the first Hotel Chocolat store in 2004, founders Angus Thirlwall and Peter Harris were on a mission 'to make chocolate exciting again': then there was no innovation or excitement about it. They created an upmarket niche for their premium products which claim to have more cocoa and less sugar than competing brands. Consumers have been willing to pay the extra for products they perceive as high quality, made with fine ingredients. In an interview for *The Guardian* Thirlwall recalled two significant events that influenced their story. They did not want to sell through supermarkets, so at first they established themselves as an online business but sales grew very slowly. They realised that this was counter-intuitive – customers did not want to buy fine chocolates and wait for them to arrive the next day. So they decided to open physical stores – and these were supported initially by loyal online customers.

They also decided that to have complete control over their ingredients they would buy a coffee plantation in the Carribean island of St Lucia. 'We had to get close to the cocoa' they said: 'doing so completely changed our perspective'. From a cocoa-grower's perspective (rather than a chocolate maker's) we realised we could make and sell cocoa drinks, alongside our other products, and of much higher quality than the chocolate drinks generally available.

In 2016 they sold shares in the business to the public for the first time, and raised £55 million. Most of this went to the founders, while about £10 million was used to buy more shops, improve the website, and raise production at their Cambridge factory. By 2018 they were selling online, and through 103 shops and two restaurants.

Sources: *The Guardian*, 10 May 2016, 15 September 2016; company website.

- **Pursue an idea.** People who are naturally alert and aware of what is happening readily see ideas for new products and services, and have an urge to do something, rather than to talk – see 'Management in practice' feature. Someone with a potentially profitable idea in an established business may persuade senior managers to take it on: if not, they may feel sufficiently strongly to take the risk of doing it themselves.
- **Make money.** A third reason is the prospect of making money – which in some sectors are clearly substantial. This motivation is often secondary to the other two – good to have as a result of the effort, but not the underlying driver. This is best seen in consumer

electronics where a succession of successful of entrepreneurs have maintained that while they value the financial rewards, the main driver was a desire to satisfy customers with a superior product – confident that if they did that, the financial rewards would follow.

In 2018, Global Entrepreneurship Monitor (www.gemconsortium.org.uk) reported that immigrants were more likely to be starting a business than people born in the UK – 12.9 per cent of the former, compared with 8.2 per cent of the latter. One commentator thought the reasons for entrepreneurship amongst immigrants to the UK were complex, though a family business background, cultural attitudes and educational achievement all helped (*The Times*, 4 July 2018, p.43).

13.4 Entrepreneurial tasks, processes and contexts

Whether creating a new business or being entrepreneurial in an established one, people engage in identifiable tasks and processes, within a context.

Tasks

Barringer and Ireland (2016) identify three primary tasks in entrepreneurship.

Recognising opportunities

Those who do this well seem to share these characteristics:

- **Prior experience.** A study of 500 entrepreneurs found that almost half got their new business idea while working for companies in the same industry. This enabled them to spot unsolved problems that represent opportunities, and to build a network of advice and information. Hopp and Sonderegger (2015) also show the beneficial effects of prior experience, either in previous new ventures, formal education or work experience. The more of these that entrepreneurs had done, the more likely they were to put time and energy into making their venture a success.

Freelancer is a person who is in business for themselves, works their own time with their tools and equipment, and performs services for every clients.

Management in practice — The flower folk (1) www.theflowerfolk.com

When Pip opened her first shop in Newcastle in 2018, she drew on 12 years of experience in the business. At university she decided she wanted a creative career, working with nature, colour and texture – which floristry could provide. She began at the bottom with unpaid work on a flower stall, while taking a college course in floristry to learn the basics. This led to a full-time paid job, and then to a floristry role in a prestigious flower company in London.

This opened a whole new world, and a chance to learn new skills. The company did the flowers for large weddings, showing Pip that these require meticulous planning and preparation, as well as working quickly and efficiently in luxury hotels and other venues. The clients were wealthy – so Pip learned the skills of demonstrating professionalism and discretion, as well as putting forward creative ideas to potential clients. She came to realise that excellent customer care skills were paramount, as well as attention to detail in the floristry work.

After a few years she decided she had enough experience to work for herself – and more flexible working hours would make it easier to look after her baby. She began by freelancing as a florist for larger companies to bring in some regular income, and alongside that took stalls at wedding fairs and markets to meet potential customers.

Very slowly Pip began to take on weddings, but it was a frustratingly slow process. Eventually the orders began to grow, and it was then that the steep learning curve of managing to turn a profit, and all that is entailed in running a small business, came into play – with creative floristry almost taking a back seat.

Sources: Private communication from Pip; company website.

Entrepreneurial alertness is the ability to notice things without engaging in deliberate search.

- **Cognitive factors.** Some believe that entrepreneurs have a sixth sense which allows them to notice things without engaging in deliberate search. **Entrepreneurial alertness** is a learned skill, and people who know an industry are more alert to opportunities and more able to assess a market.
- **Social networks.** People who build a substantial network of social and professional contacts are exposed to more opportunities and ideas than those with sparse ones. A survey of 65 start-ups showed that half of the entrepreneurs obtained their initial business idea from social contacts.
- **Creativity.** The fourth factor is the person's ability to generate a novel or useful idea from the information they see (Section 13.5).

Raising money

Venture capital is money that individuals or business invest in start-ups and small businesses with exceptional growth potential.

This is the next critical requirement for a new venture. Capital is essential to sustain the business until it can earn its own income, and may bring in new skills if investors require the entrepreneur to strengthen their management resources as a condition. Hallen and Eisenhardt (2012) examined how entrepreneurs form ties efficiently with the **venture capital** community – that is, when an approach leads quickly to a completed tie with a desired partner.

They found that the entrepreneurs themselves play the central role in fundraising by using one or more 'catalysing strategies' – opportunities and inducements to attract investors. The researchers found the components of these included:

- **Casual dating**: informal but deliberate, repeated meetings about the venture with a few potential partners: not at first seeking investments, but asking for advice about the venture.
- **Amplifying signals of progress**: by timing approaches around positive 'proofpoints' such as a major customer paying for a product, to show the venture is making progress.
- **Scrutinising interest**: actively seeking confirmation of the potential partner's genuine degree of interest in the venture.
- **Crafting alternatives**: signalling that the venture has alternative routes to finance available, as an inducement to encourage a desired partner to commit.

The authors' research showed that ventures that used one or more of these tactics were able to form ties more efficiently than those who used other approaches.

Building a team

A third entrepreneurial task is to build a management team to support, and in some cases to replace, the founder. This can occur at the start-up phase, but can also occur as the firm grows and needs to raise further capital. A *Financial Times* report drew attention to the difficulty which new companies have in recruiting competent sales staff. A survey of company founders showed that 26 per cent of respondents said sales leaders were the most difficult posts to fill, followed by engineering staff at 24 per cent. Good sales staff perceive that they will be better paid at an established business than at a start-up, and possibly have more job security (*Financial Times*, 23 April 2018, p.12).

Processes

A common feature of new entrepreneurial businesses is that their processes are typically less formal than in established ones. Marketing in entrepreneurial firms bears no resemblance to practice in the large firms which are the source of most marketing principles:

> Attempts to adapt and apply traditional marketing models to SMEs, based on the assumption that the basic principles of marketing … are universally applicable, have been unsuccessful (Jones and Rowley, 2011, p.26).

These authors quote research into how small firms do their marketing, finding that what they call 'entrepreneurial marketing' has a distinctive style, being informal, simple, haphazard, reactive and opportunistic.

Marketing activities here tend to depend heavily on informal networking as sources of information and advice, as well as for generating customer contacts through personal networks. They are likely to have a high degree of customer orientation, as they can react quickly to customer needs, leading to high levels of customer satisfaction and loyalty (Jones and Rowley, 2011, p.28). Richard Reed, in the interview cited above, emphasised the significance of understanding consumers:

> most of the time business is not thinking about what the consumer wants, but what the boss or the shareholders want. We were always very strong on this point at innocent: without consumers buying our product we cease to exist (interview in *The Guardian*, 24 March 2017).

Shaw (2006), in a study of six advertising and design companies (all with less than ten employees), also showed that entrepreneurs depend on informal networking. This typically built upon the owners' personal networks, and those of their families and acquaintances in non-competing firms. Most encouraged staff to use *their* personal networks to gather evidence about competitor moves or new entrants to the market. Such information (as well as that about legal, tax or financial matters) was the most common reason for the network contacts, as it was a significant addition to the resources available to these small firms – who rarely used official business support agencies. Their personal networks also generated new business. Braun et al. (2018) in a quantitative study of 96 high-tech entrepreneurs in Berlin and 228 employees confirmed this, finding also that networking by employees was even more valuable than that done by the individual entrepreneur.

Management in practice — The flower folk (2) www.theflowerfolk.com

A major challenge was the lack of a shop or physical work place through which to meet clients. Pip saw that it was essential for her business to engage with social media platforms and to reach potential clients through a high-quality website. Professional images of her work let clients she what she has done and gives them confidence in her abilities as a florist – which encourages them to place an order or make a booking. So she invested time and money in photoshoots that could be used across all social media accounts and the website.

A major opportunity arose when Pip met someone who owned three gift shops in London, and wanted to diversify them by adding flowers and plants. Pip initially helped as a freelance: they found they worked well together, shared ideas, and had similar aspirations and aesthetic tastes. They drew up a contract giving Pip the right to run the floristry side in return for paying the owner 30 per cent of her monthly profit.

They both realised the importance of online sales, so Pip partnered with 'Floom', an online platform selling UK florists' bouquets nationwide. Sales through Floom grew rapidly, and soon accounted for almost half her monthly turnover. This allowed her to take on her own member of staff (a freelance florist). It also meant

learning how to style photoshoots to sell online – the importance of aspirational images, showing new products as often as possible and managing deliveries were all new areas to learn.

Selling online was a challenge – Floom took 20 per cent commission on each sale, and delivering orders by courier was an expensive yet essential part of the fulfilment process. Some abandoned their shopping cart basket once they reached the checkout if the delivery charge was too high. Pricing was difficult – to cover these third-party costs and still make a profit.

By 2018 the floristry business she had built had achieved a turnover of almost £200,000 in its second year. It had also given her the confidence and expertise to set up on her own with plenty of experience and knowledge behind her. She was ready for Newcastle (chapter 7 includes an account of that business).

Sources: Private communication from Pip; company website. Instagram: pip@theflowerfolk.

Contexts

In uncertain contexts, plans to deal with problems must be provisional, with managers adapting them as circumstances change. Brinckmann et al. (2010) note that entrepreneurs necessarily work in highly uncertain settings, with little information about how to solve the novel problems that arise. They probably make do with only the most basic plan, using their limited resources to create enough value for the business to survive. This experience should enable them to gather the information and knowledge they need to build a plausible business plan to raise more money.

Jones and Rowley (2011), cited above, attributed the informal marketing practices to the unique context in which it takes place including:

- influence of the entrepreneur (who is rarely an expert in marketing)
- limited size and resources of the business
- lack of formal structures and
- few, if any, communication systems.

Activity 13.2 Connecting theory and practice

Read both features about 'the flower folk' above.

- What examples can you find in the story so far of the entrepreneurial tasks and processes that Barringer and Ireland outlined?
- What other ideas or insights about entrepreneurship does this case give you?

13.5 Creativity and innovation

Creativity

Creativity is the ability to combine ideas to produce something new and useful.

Creativity refers to the ability to combine ideas to produce something new and useful – a theme for a film, a new taxi booking system (www.uber.co.uk), or a system to deliver live theatre performances to cinema audiences (www.nationaltheatre.org.uk). The idea in itself does not add value – people then need to apply it to create value. Darren Henley, chief executive of Arts Council England (Henley, 2018) sees creativity as the source of ideas and change – which move things along and underpin the creation of wealth and a

sense of worth and well-being. People who put creativity at the heart of what they do (in any field – business, science and technology, as well as the arts) arrange things in new ways, change familiar patterns, change the story, using an ability to envisage something beyond what is there now.

This includes being open-minded and willing to consider things from new perspectives – which will often suggest solutions that now seem obvious. The innovative organisation is one that encourages creativity and channels it into value-adding outcomes – especially significant in new product development. Google, GKN or The Eden Project are innovative because they take novel ideas and turn them into products or ventures that customers want, or into improved ways of working.

Key ideas — Everyday creativity

Henley (2018) uses the term 'everyday creativity' to represent:

> **everyday expressions of originality and meaningfulness. It's something that we humans have been doing since we began cave painting, expressing ourselves in art and music and words that mirror back to us our consciousness … [It] covers the myriad acts by which we build our lives. Observing, reflecting, solving problems and applying our imagination – the activities it covers do not have to produce art, but they tend to follow the same processes that artists use.**

Source: Henley (2018), p.73.

Creative individuals

Focusing on the characteristics of creative individuals, Sternberg and Lubart (1999, p.11) note that research consistently shows that creativity depends on six distinct resources converging:

- **Intellectual abilities**: the ability to see problems in new ways and so escape from convention, the ability to recognise which ideas are worth pursuing, and the ability to persuade others of their value.
- **Knowledge**: knowing enough about the field to be able to move it forward, though knowledge sometimes leads to a narrow perspective that obstructs new ideas.
- **Style of thinking**: a preference for thinking globally as well as locally – able to recognise which questions are important and which are not.
- **Personality**: attributes commonly associated with creativity are a willingness to overcome obstacles, take sensible risks, tolerate ambiguity, and be willing to defy convention.
- **Motivation**: intrinsic, task-focused motivation is essential to creativity – a focus on, and commitment to, the work being done, rather than potential rewards.
- **Environment**: a context that supports the creative person, if only by providing a forum in which to express ideas, and to encourage their discussion amongst colleagues.

Activity 13.3 — Learning from a creative person

- Identify someone whom you regard as being especially creative in their area of work – possibly an entertainer, film-maker, musician, or artist whose work you find creative.
- Read the section above identifying six features that research often finds to be associated with creative people.
- Which of those characteristics do you recognise in your example?

Creative organisations

The 'environment' factor encouraged Amabile et al. (1996) to develop and validate an instrument (known as 'KEYS: Assessing the climate for creativity') to assess the organisational stimulants and obstacles to creativity – see Table 13.1.
Amabile and her team (Amabile et al. 1996) conclude that:

> Creative ideas from individuals and teams within organisations sow the seeds of successful innovation, [and that their instrument] highlights the psychological context of innovation … that can influence the level of creative behaviour displayed in the generation and early development of new products and processes (p.1178).

Unsworth and Clegg (2010) focused on why employees work creatively, rather than follow established practice. They interviewed 65 design and development engineers in 4 aerospace factories, whose work was to design solutions to problems identified by test engineers. They too found that the working context influenced staff views about whether the effort of finding a creative solution was worth it: perceptions of context moderate personal inclinations. Management could influence these by making creativity an explicit part of the engineers' role; providing time, resources and a degree of autonomy; and creating a supportive culture.

Table 13.1 Factors in KEYS: assessing the climate for creativity

Scale name	Description (partial)	Sample survey item
Stimulant scales		
Organisational encouragement	A culture that encourages creativity through fair, constructive judgement of ideas, reward and recognition of creative work	People are encouraged to solve problems creatively in this organisation
Supervisory encouragement	A supervisor who is a good work model, sets goals appropriately, supports the work group	My supervisor serves as a good work model
Work group support	A diversely skilled group in which people communicate well, are open to new ideas, constructively challenge each other's work	There is free and open communication within my work group
Sufficient resources	Access to appropriate resources including funds, materials, facilities and information	Generally, I can get the resources I need for my work
Challenging work	A sense of having to work hard on challenging tasks and important projects	I feel challenged by the work I am currently doing
Freedom	Freedom in deciding what work to do or how to do it: a sense of control over one's work	I have the freedom to decide how I carry out my projects
Obstacle scales		
Organisational impediments	A culture that impedes creativity through internal political problems, harsh criticism of new ideas, avoidance of risk	There are many political problems in this organisation
Workload pressures	Extreme time pressures, unrealistic expectations for productivity, distractions	I have too much work to do in too little time

Source: Amabile et al. (1996, p.1166).

Innovation

In the management context it is useful to think of **innovation** as the process of implementing something new and useful: that is, adding value by incorporating creative solutions in products and/or implementing changes in organisational processes. This is not only major, visible breakthroughs – a flow of incremental improvements can be just as useful to consumers. Laundry detergents show this pattern – moving from powder in a box, to liquid, to concentrated forms, tablets and capsules.

Innovation is the process of applying or implementing something new and useful.

The systems model introduced in Chapter 1 helps to understand how organisations can become more innovative. Figure 13.2 shows that getting the desired outputs (innovative products or work methods) depends on suitable inputs and on suitable ways of transforming those inputs.

Inputs include having creative people and groups who are able to generate novel ideas and methods, but they only flourish in a favourable context. Managers create a context that they hope encourages creative people and the application of their ideas into profitable goods and services. One aspect of that context is encouraging 'design thinking' – see 'Key ideas' below.

Design thinking refers to an approach to innovation that puts observation and discovery of human needs at the forefront of the innovation process.

Key ideas — Design thinking

Gruber et al. (2015) stress the value of '**design thinking**' as a tool for innovation, shown by the way companies like Apple and Dyson have succeeded. They have done this:

> **by helping to translate technological innovations into products that deliver compelling customer experiences as they have come to dominate their respective industry sectors. By 'design thinking' [they] refer to a human-centred approach to innovation that puts the observation and discovery of human needs at the forefront of the innovation process. It considers not just the technical system constraints but also the sociocultural context.**
>
> **At the heart of design thinking is the primacy of the customer or user experience – and the compelling user experience should not simply be the consequence of other design factors, it should be intentional.**

Source: Gruber et al. (2015).

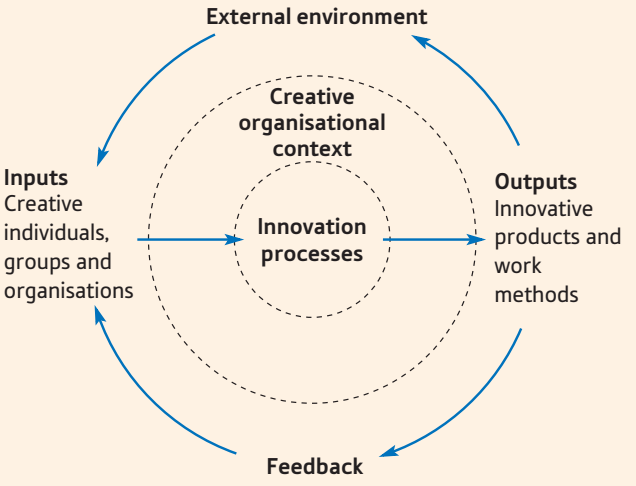


Figure 13.2 Systems view of innovation

Innovations affect one or more of these areas: product, process, position and paradigm.

Product

An innovation here could be a change in the function or feature of a product, such as incorporating a music player, or an app for personal banking within a mobile phone. Such innovations are intended to enhance the customer's experience. The success of Pret a Manger, the coffee and sandwich chain, is probably due to the variety it offers, and continuous innovation. This is what attracted investment group JAB Holdings to buy the company in 2018. One person close to the deal:

> Pret has been innovating around breakfast and lunchtime meals. The offering has never got tired.

Julian Metcalf and Sinclair Beecham founded Pret in 1986 with a single store in London. They sold a stake to Bridgepoint in 2008 for a reported £350 million, but remained shareholders – and were closely involved in the business. It continued its innovative ways, growing to 530 stores globally, for which JAB paid £1.5 billion (from an article in the *Financial Times*, 30 May 2018, p.15).

Process

Examples are self-service checkouts or online seat reservation systems. Carol Kane, joint chief executive of Boohoo says that the company's website is designed to attract young consumers who shop on their phones and share fashion on social media (*The Guardian*, 27 September 2018, p.31). Examples in manufacturing would be Dyson using robots to assemble electric motors. Equally important are innovations in management techniques – such as implementing 'kaizen' or 'just in time' practices that have influenced management throughout the world (for another example, see 'Management in practice' about Pixar, page 267).

Case study

Dyson – the case continues www.dyson.co.uk

Dyson believed the Cyclone captured the market as it was an innovative product that consumers felt was better than others. Innovation that consumers value drives the business, which invests heavily in the Research, Design and Development Centre in Wiltshire. This supports continuing improvements to the range of products, which now include vacuums (including a cordless range), air treatment, hand dryers and lighting.

The James Dyson Foundation supports design and technology education, making substantial donations to the Royal College of Art, Imperial College London, and the University of Cambridge. The company also partners with external expertise to help turn emerging technologies into practice. A team of 150 engineers is charged with spotting promising ideas and knowing the right ones to back.

Everyone in the team is responsible for finding new breakthroughs, whether it is home grown or externally sourced, it is all about finding the next generation technologies that we can push forward.

Since design and creativity are the foundations of the company, about half of annual profits are reinvested in these, and the cash is backed up by a coherent set of practices to encourage the design of high-quality products. Care is taken to recruit only the most talented designers and engineers from universities, and to pay them well.

About 650 engineers, scientists and designers work together, as Sir James believes all can learn from each other. They are located at the centre of the well-designed facility, emphasising the significance of their roles. All engineers and designers are members of frequently changed teams. The culture

emphasises dialogue, seen as the foundation of progress. Sir James speaks to employees daily not just about design but also about marketing and financial issues, and the overall progress of the business. He considers errors to be part of the innovation process, in which failure is tolerated – innovation inherently involves following a wrong path, and that failure spurs determination to succeed. He aims to create a culture that encourages people to try things, from which they emerge with useful innovations. His motto:

Creativity + Interactive development = Innovation

The company has a flat structure with direct communication. He avoids email and phone calls, in favour of face-to-face meetings. Designers regularly visit the manufacturing hub in Malaysia to meet the production staff, which he believes must improve the way the two work together.

Source: Company website.

Case questions 13.2

- Which of the types of innovation mentioned in this chapter can you see in the case study?
- Visit the Dyson website and read the timeline summarising the company's development.
- What assumptions does Sir James make about how to encourage creativity and innovation?

Position

These are changes in the target market or customer base for a product or service. Amazon has re-positioned from its initial bookselling position to providing many other services to business. For many years Lucozade was sold for people recovering from illness — it is now for healthy people engaged in sport. Four-wheel drives were invented for off-road work, and now sell as fashionable family cars.

Management in practice — DSM innovates for sustainability www.dsm.com

DSM, a leading Dutch life-sciences company, has positioned sustainability as one of its four strategic business drivers. As part of a regular, intensive, planning cycle, a wide range of managers identify what they believe to be major global trends affecting the planet in the next five years – global security, climate change, energy resources, health and well-being, as examples. They then try to identify the sustainability challenges these will offer to society: these in turn become the focus for the company's search for potential business that the company may be able to address by drawing upon its substantial scientific expertise. This search is itself based on several structured processes:

- technical super-scouting through the supply chain
- searches that favour radical sustainable solutions
- integration of sustainability metrics into product development
- championing the supply chain to build demand for radical solutions
- harnessing the benefits of open innovation.

Source: Kennedy et al. (2017).

Paradigm

These are changes in how a whole company presents what it does. Tesco has moved from selling groceries to providing many more of a family's needs – petrol, clothing, financial products (the last providing a synergy as the means to pay for all the others).

13.6 Sources of innovation

Figure 13.3 illustrates the main sources of innovation.

Accidents and the unexpected

Many innovations have been accidental – from Fleming's discovery of Penicillin to the Post-It Note which arose when Art Fry used a recently invented 'sticky but not too sticky' adhesive to keep his book mark in place. This gave him the idea for the Post-It Note which, after a process of design and development, became the familiar product range. The 'Management in practice' feature describes parkrun – claimed to be the largest run on the planet – which started by accident.

Management in practice **parkrun – driven by love and fun** parkrun.org.uk

From an article in *The Guardian*:

Every Saturday at 9am sharp a little bit of anarchy breaks out across the country. Not that it's billed as such. It's meant to be a 5km run, which is why at Richmond Park in south-west London this morning the grass is carpeted with well over 400 people in sports gear. But is has none of the intensity you'd expect at a track or even on a gym treadmill. Although supported by the charity parkrun, this and the 559 other events across the UK … are entirely self-organised.

The man who started it all in 2004 is Paul Stinton-Hewitt, who had been sacked from a marketing job, and also suffered a training injury that ended any hopes of doing a marathon. Isolated and low, his response was 'to give something back': to organise a weekly run around the local park in nearby Teddington. No-one else was offering a free run, and numbers grew rapidly.

Stinton-Hewitt had by accident become a world-class innovator. Today parkrun is the largest running event on the planet, at over 400 places. The London Marathon may attract the wacky costumes and the BBC scheduling, but last April [a little over] 40,000 people finished it – and that was a record. In one good weekend, parkrun's adult and junior events pull in 235,000 participants in the UK; within five years that's expected to be a million.

Source: From an article by Aditya Chakrabortty in *The Guardian*, 29 August 2018, pp.10–11.

Market pull and other external pressures

An innovative new product will not survive without enough customers, so managers need a sense of the likely need before they will invest scarce resources. This is not straightforward:

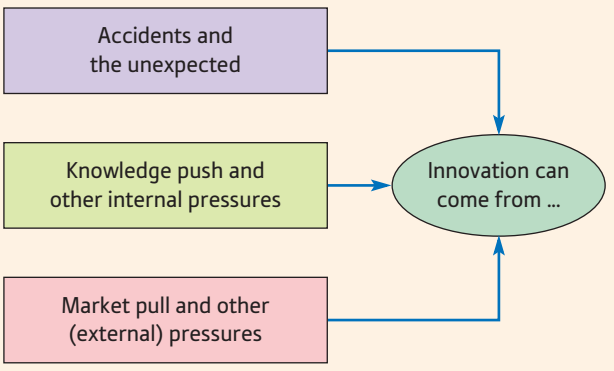


Figure 13.3 Sources of innovation

before lightweight digital music players and headphones arrived, sportsmen and women trained without equipment to combat boredom. This technology is now an essential part of a runner's or cyclist's kit, and there are versions for swimmers.

Companies spend heavily to understand changing customer needs – Unilever has several Innovation Centres devoted to just that. Many UK pubs are highly innovative: a smoking ban, higher beer duty and low prices for beer in supermarkets has prompted them to find new ways to attract customers. An industry observer:

> they keep surviving and they reinvent themselves.

Key ideas **Stephen Johnson – environments that favour innovation**

In *Where Good Ideas Come From* (published in 2010) Stephen Johnson presents the idea that environments are the key to understanding innovation:

> **Some environments squelch new ideas; some environments seem to breed them effortlessly. The city and the Web have been such engines of innovation because, for complicated historical reasons, they are both environments that are powerfully suited for the creation, diffusion, and adoption of good ideas. Neither environment is perfect, by any means. (Think of the crime rates in big cities, or the explosion of spam online). But both the city and the Web possess an undeniable track record at generating innovation … If we want to understand where good ideas come from, we have to put them in context ...**
>
> **The argument of this book is that a series of shared properties and patterns recur again and again in unusually fertile environments. I have distilled them down into seven patterns – the more we embrace these patterns [in various activities] the better we will be at tapping our extraordinary capacity for innovative thinking.**

Source: Johnson (2010) pp.16–17.

Regulation changes

The makers of Segway encountered regulatory problems over safety and traffic: regulations often hinder innovation. Other regulations trigger it by requiring change – those on environmental pollution encourage the search for renewable sources of energy. Regulations intended to improve road safety have led to the development of speed cameras and air bags.

Co-creation

Chapter 12 showed how innovations in IS can emerge from collaboration between an organisation and its customers. Ford et al. (2012) note that value to a customer comes from their *experience* of using products or services, not from their objective nature. This implies that providers who wish to meet customers' expectations need to draw heavily on the latters' knowledge, skills and abilities. They describe how IKEA and Disney apply this principle, while stressing that while the concept sounds easy, implementing it is a challenge. Chapter 9 (companion website – Customer Relationship Management) shows how Lego does it.

Frow et al. (2015) offer a structured model of the co-creation process, identifying nine motives and 12 forms of co-creation. These encourage practitioners to think widely (and creatively) about the contributions that customers (and others) can make.

Knowledge push – and other internal pressures

Organisations that depend on innovation implement deliberate systems to ensure an adequate flow. Figure 13.4 shows a model of the traditional method – a filter through which people gather, channel and focus ideas before selecting those with most potential. Generating the initial idea is largely random, but thereafter firms try to create an orderly process,

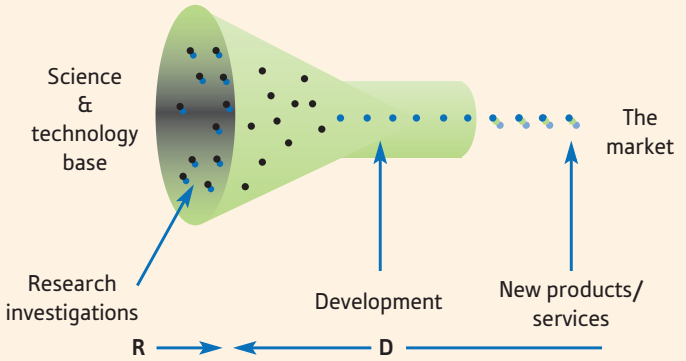


Figure 13.4 A closed innovation model

Source: Chesbrough et al. (2006), p.3.

putting resources into ideas they may be able to develop and implement. The steps look sequential but their duration and complexity varies – some require significant R&D, others a change to the sales effort. Ramirez et al. (2011) describe how Shell uses a process like this – see 'Management in practice'.

Management in practice — Shell's 'Gamechanger2' process www.shell.com

Since 1998, Shell has used what it calls the Gamechanger process to develop, and select between, innovation projects. In the nine years to 2007, over 2050 innovation projects were submitted to Gamechanger, and of these 1950 had been stopped at some point in the gated funnel. 100 were commercial successes. All projects are submitted to one of six 'domains' – 'stepping stones' that show a path from where Shell is now, to several possible futures. The stepping stones reveal areas that Shell needs to explore to realise those futures. Each domain consists of a small set of strategic propositions, and a small number of innovation projects chosen to test those propositions. Proposals must pass a rigorous process before they are accepted into a domain.

For example, the 'bio-fuel' domain could include an ethanol project and an algae project and these projects, together with others in the domain, would give Shell the option to move to a future where fuels are 'grown', not 'mined'.

A strength of the system is believed to be the tight connections it develops between innovation projects and company strategy, as domains ensure staff attend to three concerns – strategic options, opportunities offered by R&D, and the company's environment. Since introducing the discipline of the domains in 2003, the proportion of projects surviving the first gate fell from 60 per cent to 30 per cent (more projects were killed off earlier), with no fall in the number of successful outcomes. The system has led to more focused development and the earlier selection of winners.

Source: Ramirez et al. (2011).

Staff as innovators

The Japanese system of 'kaizen' or 'continuous improvement' (Imai, 1986) encourages employees to question work processes and look for incremental improvements in all they do. Suggestion schemes are not new, but the more systematic and proactive approach of the Japanese supported the success of CI. Kaizen has been joined by other systems such as total quality management and lean manufacturing (Slack et al. 2013). While differing in emphasis the common theme is to involve employees in innovation.

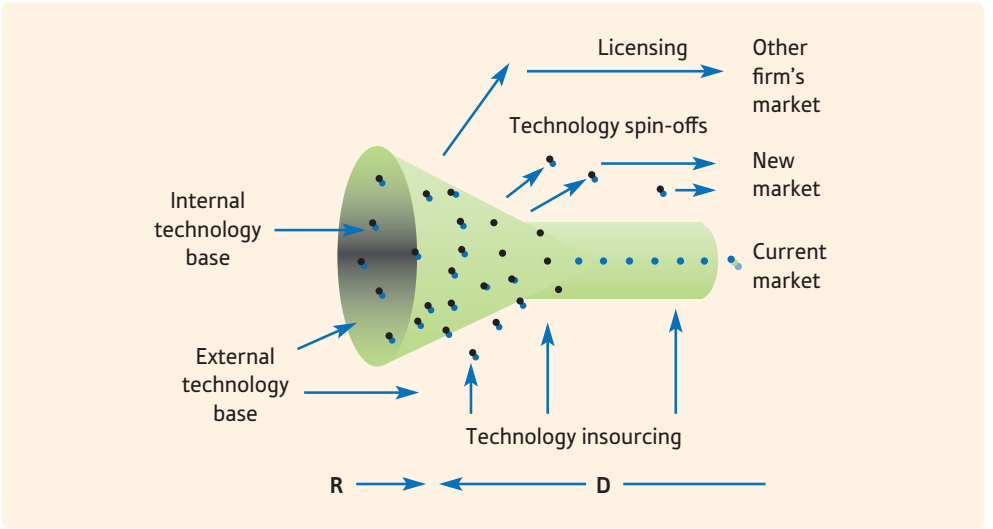


Figure 13.5 An open innovation model

Source: Chesbrough et al. (2006), p.3.

Open innovation

Open innovation is based on the view that useful knowledge is widely distributed and that even the most capable R&D organisation must identify, connect to, and draw upon external knowledge as a core process in innovation.

Large companies spend significant sums on their R&D laboratories in the hope of finding new products – but they now depend less on this source. The cost of scientific work, the preference of many scientists to create their own research companies, and above all the need to present new products quickly is encouraging companies to use 'open innovation' (Chesbrough et al. 2006). This happens as managers recognise useful knowledge is widely distributed and that they can benefit by drawing upon that wider resource. Figure 13.5 shows this, with the internal technology base being supplemented by an external technology one throughout the process. **Open innovation** may be controversial amongst skilled R&D staff, if they feel that their professional identities are threatened: Lifshitz-Assaf (2018) shows this in a long-term study in the US space agency NASA, where an experiment in open innovation brought significant scientific breakthroughs very quickly, but also met resistance from those staff who opposed what they saw as the diminution of their identity.

GlaxoSmithKline (www.gsk.com) sources half of its new products from external laboratories and Unilever (www.unilever.com) relies on external input for 60 per cent of its innovations – up 25 per cent from when it established an open innovation team in 2009. Roger Leech, Unilever's director of external research:

> We are extremely interested in being able to tap into external sources of new ideas and capabilities.
>
> To find solutions in the external world has been extremely important to us, and we are looking at different ways of tapping into that (*Financial Times*, 11 October 2012).

The method is also a valuable way in which small firms can grow quickly, by securing the technology they need from others, rather than investing scare resources in fixed facilities and high overhead costs. Open innovation can work both ways, as companies transfer their technologies and knowledge to other firms through licensing or joint ventures. Whether this happens depends on more than good intentions – a firm itself needs to be ready for openness. Monteiro et al. (2017) show that the lack of adequate financial resources and well-qualified staff are significant barriers to firms being able to use external knowledge. Another is when staff are reluctant to abandon an understandable habit of secretiveness in dealing with external partners.

CWS Organisational factors affecting innovation

Case study

Dyson – the case continues www.dyson.co.uk

In late 2017, the company began its most daring project yet, to design and sell an electric car by 2021. In an interview with the *Financial Times* Sir James acknowledged that the car is a huge challenge. The £2 billion gamble is the appliance maker's boldest move yet: one that will either grow and define the brand as it dwarfs its other products, or drain its resources and potentially plunge it into oblivion (*Financial Times*, 15 February 2018, p.15).

GQ Magazine (2018) pointed out that at first sight all the company's products look like variations on a theme – vacuums in 1991 (suck), the first cordless vacuum in 2006 (suck), airblade hand dryer (blow), air purifier in 2016 (suck and blow). Yet all made substantial leaps in key technologies: the latest Dyson motor (used in its V10 cordless battery vacuum), spins around ten times faster than a jumbo jet engine. The motor is manufactured in a fully automated process, which produces one every 12 seconds.

The electric car venture will draw on the company's deep manufacturing knowledge and its ability to design radical new process and products. Sir James reflected on his willingness to invest so much of his own money:

> **Because I haven't sold any shares [to outside investors] my wealth is tied up in the business so I quite like living on a knife edge. It gets the adrenalin going. It's an odd thing to do, I think. It's not for everyone … but the adrenalin of taking a big risk, of living on the knife edge, it keeps you on your toes.**

The company will make the car in Singapore – close to the large Chinese car market. It has also been working closely with the industry's largest suppliers. Dyson has long experience of running a global supply chain and manufacturing operations – something that has caused big problems for fresh industry entrants such as Tesla. Someone close to the company:

> **He's not a Silicon Valley start-up, he understands manufacturing.**

FT Sources: *Financial Times*, 15 February, 2018, p.15, 28 October 2018, p.9; *GQ Magazine*, 8 August 2018.

Case questions 13.3

- Which aspects of the context may help, and which may hinder, the electric car project?
- Which of the biases in decision making (Chapter 6, section 6.6) may be a hazard here?

Management in practice — Pixar www.pixar.com

Ed Catmull (Catmull, 2008) believes that Pixar's success is due to its work environment, and the close collaboration and interaction between work groups – the technology group that delivers computer graphics tools, the creative department that creates stories and the production group that coordinates the film making process. Practices include:

> Getting talented people to work effectively with each other [by constructing] an environment that nurtures trusting relationships and unleashes everyone's creativity. If we get that right, the result is a vibrant community where talented people are loyal to one another and their collective work (p.66).

Everyone must be free to communicate with anyone … the most efficient way to deal with numerous problems is to trust people to work out the difficulties directly with each other without having to check for permission (p.71).

We must stay close to innovations happening in the academic community. We strongly encourage our technical artists to publish their research and participate in industry conferences. Publication may give away ideas … but the connection is worth far more than any ideas we may have revealed: it helps us attract exceptional talent and reinforces the belief throughout the company that people are more important than ideas (p.71).

[Measure progress.] Because we're a creative organization, people [think that what we do can't be measured]. That's wrong. Most of our processes involve activities and deliverables that can be quantified. We keep track of the rates at which things happen, how often something had to be reworked, whether a piece of work was completely finished or not when it was sent to another department ... Data can show things in a neutral way, which can stimulate discussion (p.72).

Source: Catmull (2008).

13.7 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 13.2 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and what variables they assumed would help achieve them) and about process (how they tried to gain the support of stakeholders). *These are examples only – not a comprehensive analysis.* You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *What do you understand by 'co-creation' as a form of innovation? Drawing on the material in Chapter 12 (Section 12.2), and the Lego story on the Chapter 9 companion website), discuss the situations in which it is believed to be useful. What are its limitations?*

Skills

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of practising everyday creativity.

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 13.2 'Clear thinking' examples from the Chapter Case study and a theory

	From the Chapter Case study – Dyson's decision to offer an electric car	Theory – a question about co-creation as a source of innovation (Sections 12.2 and 13.6)
Check assumptions	**Introduction** Recall the situation – plans to launch electric car by 2021 Assumptions here could have been: • that the creative skills developed in domestic appliances will transfer to this new area • that costs will be roughly as planned • that they will be able to begin production in time to deliver in 2020–21	**Introduction** • Set out idea – creating value jointly with suppliers and/customers • Most often discussed in media, but also examples in manufacturing – Lego example in chapter 9 Companion website material Assumptions to consider could be: • there are sufficient external resources able and willing to co-create with you • they will work to quality standards acceptable to you and other customers • you have the money and people to be able to co-create profitably • they are willing to work on terms (rewards) acceptable to you • you will be able to learn the process in an acceptable time
Recognise contexts	Are they underestimating the power that far greater resources will give competitors? Are their suppliers up for the electric car project? Does Dyson, or their suppliers, have the skills?	What settings does it seem to be most suitable for? • Media and entertainment? • Consumer goods, where fashions change rapidly? • Markets where it is harder to track and identify customers' wants and demands? • Expertise is widely distributed? Knowledge about managing co-creation – could be more complex than expected
Imagine alternatives	To license their technology derived from domestic products to a firm in the auto business	Manage it all in-house to have design consistency? Establish joint ventures with established commercial players?
Acknowledge limitations	The car project will take most management time for years to come This could be spent on other projects, with less risk (Dyson thrives on 'living on the edge')	Does not deliver because of internal shortcomings on either or both sides How to share the benefits amongst the co-creators

Develop a skill: practising everyday creativity

Everyday creativity is a useful idea to use to develop our creative skills, and this exercise should help you develop that.

- **Assessment.** Assess how creative you are in dealing with a situation. Do you, for example, prefer to look for guidance in written policies, ask how others have dealt with it before, or do what seems to be the safest way out? Or do you tend to see if there are better, more imaginative ways to deal with the issue, and find a better solution?
- **Learning.** Read again Section 13.5, especially 'Key ideas' on page 331, and the section summarising Sternberg and Lubbart's work. Summarise the main points made in this section. Why might knowing about these ideas help you in your career?
- **Analysis.** Identify someone (whom you know, or can read about) who appears to use a creative approach to solving problems. Consider what they do, what the effects are, and what you may be able to learn from them – try to identify a specific practice.
- **Practice.** Identify (on your own or with colleagues) an everyday problem that is troublesome, and for which you would like to find a more creative solution than you have done before. It could be something about your study group, sports team, or a tricky situation in your accommodation.
  - Write down now what you believe is the problem.
  - Use one or more of the ideas in Section 13.5 – such as observing (e.g. other solutions, other examples of the same situation), reflecting (might that idea be adapted to suit my problem?) gathering knowledge (what can you find out about the topic)
  - Focus intently on this for about ten minutes, recording on your device or paper some unusual ways to deal with the problem.
  - Go into action – try what you have discovered, and see what the effects are. When you have worked that through stop and reflect on your progress.
  - Record what you find, and reflect on what you have learned.
  - Try to compare your work with that of others to see what else you can learn.
- **Application.** Decide on another opportunity to practise this skill within the next week.

Summary

1 **Explain the meanings of entrepreneurship, creativity and innovation, with examples**

- Entrepreneurship is when someone spots an unmet need and works to create a business to satisfy that need profitably.
- Creativity is the ability to combine ideas and information in unusual ways to create something new and useful.
- Innovation refers to the processes of implementing such new and useful things into an organisation where they add value.

2 **Explain the nature and significance of entrepreneurship, and summarise theories of why people become entrepreneurs**

- Entrepreneurs see an opportunity for a new product or service – if the idea works and the venture become a sustainable business it is adding value and creating wealth. Most commercial businesses have started with an entrepreneurial idea.
- One theory about entrepreneurs' motivation is that they do it for independence, to pursue an idea, and/or to make money.

3 **Illustrate some of the tasks and processes of entrepreneurship, and how context may affect them**

- Tasks include recognising opportunities, raising money and building a team.
- A feature of entrepreneurship is that they have a relatively informal way of working, in part due to limited time and resources.

4 **Explain the significance of creativity and innovation, and summarise theories about their sources**

- As markets and customers' preferences change, most companies need to encourage creativity and innovation among their staff to meet these market expectations. Innovation can focus on products (what it offers for sale); processes (how it makes the product); position (how it offers or targets the product); and paradigm (how the company frames what it does).

5 **Illustrate the organisational factors believed to support creativity and innovation**

- Cultural, structural and HR factors influence the context within which creative people work, and which managers can shape
- Strategy – innovation is explicitly called for in the corporate strategy.
- Support – IT systems are available to support innovative behaviour.

6 **Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of practising everyday creativity**

- The chapter included the idea of everyday creativity – something humans do as expressions of originality and meaning by which we build our lives. This is of eternal value, so the chapter included an opportunity to develop the skill of everyday creativity.

Test your understanding

1 Is entrepreneurship only about people seeing opportunities and starting a new business? Where else does entrepreneurship flourish?
2 What are the three reasons cited in the chapter as to why people become entrepreneurs?
3 Barringer and Ireland describe three main tasks of entrepreneurs. What are they?
4 What is the difference between creativity and innovation?
5 Name the four forms of innovation, and briefly describe one of them.
6 What is the significance of the term 'open innovation' as used in the chapter?
7 The Pixar example (end of Section 13.6) states four practices which Ed Catmull believes helps innovation in this company. Name as many of them as you can.

Read more

Johnson, S. (2010) *Where Good Ideas Come From: The Natural History of Innovation*, Allen Lane, London.

A stimulating look at sources of innovation, including the idea that most significant innovations come not from financially-driven individuals but from creative groups and networks motivated by things other than money.

Christensen, C.M. (2011) *The Innovator's Dilemma: When New Technologies Cause Great Firms to Fail*, Crown Business, New York.

One of the central dilemmas in business is where to allocate investment, especially between alternative innovations. Analysis by an influential writer on management.

Catmull, E. (2014) *Creativity, Inc: Overcoming the Unseen Forces That Stand in the Way of True Inspiration*, Transworld, London.

Absorbing account of how Pixar overcomes the hidden barriers of creativity.

Lifshitz-Assaf, H. (2018) 'Dismantling knowledge boundaries at Nasa: The critical role of professional identity in open innovation', *Administrative Science Quarterly*, vol. 63, no. 4, pp.746–82.

The author spent years interviewing many NASA engineers about an experiment in open innovation, drawing out valuable lessons about the significance of professional identity.

Go online

These websites have appeared in the chapter:

www.pixar.com
www.gknplc.com
www.gsk.com
www.unilever.com
www.dyson.co.uk
www.nationaltheatre.org.uk
www.shell.com

Visit two of the business sites in the list, and navigate to the pages dealing with corporate news, investor relations or 'our company'.

- What can you learn from the site about recent innovations at the company, either in products or processes?
- Does the site give you a sense of an organisation that is emphasising its innovativeness, or not?
- Does it say anything about how it manages or encourages innovation?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



PART 4 CASE

ROYAL BANK OF SCOTLAND

www.rbs.co.uk

The company

For many years RBS offered traditional banking services to retail and business customers, mostly in the UK. It took deposits, made loans and provided payment services. During the 1990s, the company's senior management took advantage of changes in UK and international banking regulations to widen the scope, and increase the size, of the business. It began to provide more services to UK customers, expand overseas, and increase its trading activities – using bank funds to trade in assets on behalf of the bank itself, rather than on behalf of customers.



© Tim Ayers/Alamy Stock Photo

In 2007, RBS was innovative and profitable, providing good returns to shareholders. Fred Goodwin became chief executive in 1997, and the bank grew rapidly and made large profits. This was publicly recognised in 2004 when he was awarded a knighthood for services to banking. By 2008, RBS was on the point of collapse, and only survived because the UK Government invested £45.5 billion in the bank (at about 50 pence a share), in return for an 84 per cent stake in the business. Sir Fred had presided over the biggest bank failure in history.

In 2019, managers and staff were trying to rebuild the business so that the government could sell more of its shares, part of the plan to return RBS to private ownership. The previous year it sold 7.7 per cent of its shares at 271p each, raising £2.5 billion, reducing the public stake in the bank to 62.4 per cent. This price represented a loss of £2.1 billion for taxpayers compared with the amount paid for the shares when it rescued the bank in 2008. (In a public relations exercise in 2012, every ten of the original shares, trading at 25p, were converted into one new share valued at 250p.) Sir Fred had become so unpopular with the public that there was little opposition when the government arranged to remove his knighthood in 2012.

What happened to bring about this change? Before 2007 management, under Goodwin, RBS made many internal changes, including:

- segmenting customers into three groups – retail, commercial and corporate
- creating new management roles, structures and an aggressive, results-based culture
- HRM policies to hire more entrepreneurial managers who could deliver the vision of expanding in the UK and overseas, and to base appointment and rewards on achievement and ability.

Table 1 Measures of financial performance in year ending 31 December

	2018	2017
Total income (£m)	13,402	13,133
Operating expenses (£m)	9,645	10,401
Profit before impairment losses (£m)	3,757	2,732
Impairment losses (£m)	398	493
Operating profit before tax (£m)	3359	2239
Tax (£m)	1275	824
Profit from continuing operations (£m)	2084	1415

Source: RBS Annual Report 2018.

This transformed the bank, and provided the base for a period of successful growth and acquisitions – and for the later crisis.

The table shows the main financial indicators of performance in the two most recent financial years.

Managing to add value

Diversifying the business

Since the early 1990s, the bank had diversified from traditional UK banking operations into many businesses and countries. By 2019, it had withdrawn from many of these to focus on six businesses:

- UK Personal and Business
- Ulster Bank (RoI)
- Commercial Banking
- Private Banking
- RBS International
- Natwest Markets.

These were supported by six Group divisions – Finance, Risk and Internal Audit; Manufacturing; Legal; Strategy; Communications; and Human Resources.

Growth by acquisition

RBS gained a reputation for acquiring other financial institutions and integrating them profitably. The most notable of these was the acquisition of NatWest Bank in 2000 – three times the size of RBS at the time. When RBS completed the acquisition, senior management quickly established the 'Integration Programme' to merge the two companies' operations, which it achieved early in 2003. This successful acquisition (Kennedy et al. 2006) enhanced the reputation of Fred Goodwin and his team though, having made 23 acquisitions since 2000, they claimed they would now focus on building existing businesses.

Senior management, supported by the board, completed another deal (in a consortium of banks) in 2008 – which was disastrous. In the biggest deal in banking history the consortium acquired ABN Amro, a Dutch bank. Many doubted the wisdom of this since RBS had to raise £12 billion to buy it, especially as management did not conduct a rigorous analysis of ABN Amro. In 2012, a group of investors claimed the bank's directors had misled them about the financial state of the group. The defendants denied this, arguing that in early 2008 the directors could not have foreseen the economic crisis that occurred later that year.

HRM policies

Goodwin expected the Head of Group HRM to develop policies and cultures that supported his goals. Goodwin's style was highly directive, holding executives personally, and publicly, accountable for their performance. Personal direction was reinforced by a performance management and reward system that reflected the CEO's emphasis on data to guide decisions – reward was closely tied to objective financial measures of the performance of a manager's team. HRM also ran a leadership programme for the top 300 executives to reinforce Goodwin's approach, and to spread it throughout the bank. Martin and Gollan (2012) believe this may have led them to ignore cautionary voices advising against the ABN Amro bid.

Investing to improve efficiency

The bank has for many years developed information technology systems to centralise administration. The clearest example is Manufacturing Division which deals with routine functions such as clearing cheques and opening accounts – and which has a mechanistic structure. The bank created the division in 1999 by transferring most administrative tasks from the branches to a central location. To select staff for the new division they used personality tests to identify those more comfortable with processes and systems. Those who were more interested in people remained in the branches. The branches themselves had been mechanistic, with staff working on strictly defined tasks. Now they are more organic, with staff trying to meet customers' diverse needs and interest them in other products, such as Payments Protection Insurance.

RBS was quick to exploit the opportunities that information technology offered to change the way it dealt with customers. It was an early innovator when it launched Direct Line as one of the first examples of delivering financial services, and later motor insurance, by telephone and online.

In 2012, many customers were unable to access their accounts for several days due to a technical fault during a routine software upgrade. RBS had to pay millions of pounds in compensation to customers.

Trading innovative products

Under Goodwin's leadership, the bank built a substantial operation in which traders dealt with complex products, often based on 'sub-prime US mortgages'. These were loans that banks had made to low-income families in the USA to buy a home – as with any mortgage, they borrow the money and gradually repay the capital, with interest, over perhaps 25 years. Financial companies devised complex schemes which turned a familiar product into a financial instrument which could be traded on financial markets.

RBS chose to enter this market, not by using the funds of its depositors, but by using short-term loans from other banks. HRM policies, especially those relating to pay and bonuses, encouraged its traders. The FSA

report into the collapse of RBS stated that while building up this risky business Goodwin vigorously resisted FSA procedures, which he saw as unnecessary interference. It also found that while the bank claimed to have in place suitable control mechanisms, there was 'a spectacular lack of understanding [about the nature of this business] at the very highest ranks of the bank' (*Financial Times*, 13 December 2011, p.4). Deteriorating financial conditions (including the collapse of a major US bank) in 2008 reduced confidence amongst lenders – so that RBS was no longer able to borrow money for this business – many of whose assets were now of little value.

This led to a crisis in October 2008 when the UK Government transferred taxpayers' money to RBS so that it could continue trading – and in return received an 83 per cent stake in the company. They demanded management changes, including the dismissal of Sir Fred Goodwin and most of the board. New managers were appointed to rebuild the bank so that it could be returned to private ownership.

Aspects of the RBS context

Competition

RBS is an example of a diversified bank providing a wide range of financial services. It therefore competes not only with other national (such as Barclays) and international (such as HSBC) banks offering a similar range, but also with businesses that focus on just one area (such as Royal Insurance Group or Fidelity Investments). Since the mid-1980s, the UK Government had encouraged growth of the financial services sector by removing restrictions on who could offer banking services – encouraging many new banks, including those based overseas, to set up in the UK.

Established banks like RBS also face competition from new entrants like Virgin Money, Metrobank and other smaller specialist lenders (such as Close Brothers) which avoided risky investments during the boom. However, these new entrants face the fact that customers are reluctant to change banks, even when service is poor or expensive.

The authorities also see the risks of competition, which can encourage banks to sell inappropriate products, and reward some staff well: but in so doing encourages irresponsible behaviour. This in turn encourages government regulation to prevent these abuses.

Regulation

All governments try to regulate the financial services sector, hoping that this will benefit customers and national economies. Regulators aim to balance the economic benefits of a strong banking sector against the risks to consumers, business and the wider economy if banks' innovative practices and policies fail. They develop guidelines on acceptable practice by banks and apply sanctions against those that breach them.

In 2001, the UK Government created the Financial Services Authority (FSA) to regulate financial services. (In 2013, the Financial Conduct Authority (www.fca.org.uk) took over this role.) All firms providing a financial service must be authorised by the FSA (now FCA) – which sets the standards they must meet, and can act against them if they fail to do so.

The FSA report into the collapse of RBS acknowledged that there were at least four occasions between 2005 and 2007 when it failed to take a sufficiently hard line:

> **They show that the FSA allowed the bank to run high risks with low stocks of capital and liquid assets and left it vulnerable to a loss of investor confidence. These factors reveal how the regulator's 'light touch' approach, emphasising cooperation rather than confrontation, helped RBS down the road to failure (*Financial Times*, 13 December 2011, p.4).**

In 2018, RBS reached a settlement to pay the US Department of Justice $4.9 billion as a penalty for misselling residential mortgage properties before the financial crisis. A Justice Department report into the case:

> **This settlement holds RBS accountable for serious misconduct that contributed to the financial crisis.**

Amongst the failings it discovered were that staff waived rules on how bad loans were categorised (so making the position look safer than it was). It also reported transcripts of internal discussions in which staff joked about destroying the US housing market, and 'redistributing wealth to [shareholders]'.

The FCA prepared a detailed review of one aspect of the RBS failure – its Global Restructuring Group (GRG). This was a division ostensibly set up to help small businesses recover from financial difficulty: in practice it gave inappropriate advice in many cases, making difficult situations worse. The FCA refused to publish the report, citing legal advice that doing so would expose the FCA to an unacceptable risk of successful legal action by current/former RBS managers for unfair treatment. In 2018, the Treasury committee of members of parliament invoked parliamentary privilege to publish the full report. Nicky Morgan, chair of the committee:

> **The findings are disgraceful. The overarching priority at all levels of GRG was not the health and strength of customers, but the generation of income for RBS through made-up fees, high interest rates, and the acquisition of equity and property' (*The Guardian*, 21 February 2018, p.29).**

International

Financial services are such an important aspect of modern economies that most countries seek a share of the employment, income and tax revenues which they provide. They compete with each other to attract international firms to their country. This (along with developments in IT) has encouraged many financial services companies to become international businesses.

While national governments want to regulate the industry, those in the industry try to shape these decisions in their favour. They imply that if regulations become unfavourable, they will move some or all of their operations to more favourable conditions. There is constant interaction between financial service firms and national governments over the form and stringency of regulations.

Governments counter this by pressing for common international agreements across the world, or for common regional policies, such as within the European Union. Such international regulations are additional to those that national governments create. The EU in 2012 announced that it would impose a limit on bank bonus levels, possibly limiting them to the same level as salaries. The rules were expected to apply to a relatively small number of staff – senior managers and traders who have significant influence on profits. Banks outside the EU were expected to benefit, as they would find it easier to recruit good senior staff.

Current management dilemmas

The management of RBS has been dealing with the challenge of returning the bank to profit and increase its reserves. In 2018, Ross McEwan announced that the bank was now back in profit and would pay the first dividend to shareholders since the crisis: 'The turnround of the bank is almost complete'.

Range of services

Stephen Hester replaced Goodwin as chief executive: Ross McEwan took over the role in 2013. He has been trying to rebuild the bank by focusing on its traditional strength – the UK retail bank, including small businesses. Even there it is closing branches as more customers bank online – by 2019 it will have less than 900 branches, down from almost 2,300 a decade ago.

It has disposed of other parts of the business such as the Direct Line, much of the investment bank and of the international business.

Pay and bonuses

Despite having had to seek a government bail-out, and to the fury of public and politicians alike, Fred Goodwin insisted that he was entitled to his full pension of over £700,000 a year, due at once although he was only 50. The bank's remuneration committee agreed to Sir Fred's massive payoff as part of the negotiations to remove him – he had a contract.

Others pointed out that bankers' pay during the bubble was too high, but that it would be a mistake for the state to impose pay limits. Finance relies on individuals, and employers compete for their skills. If taxpayers were to get their money back, RBS would need to become profitable, and it was unlikely to do so if it could not pay competitive salaries.

EU rules on bank bonuses have encouraged many banks to raise basic salaries, and to offer valuable non-monetary rewards such as more rapid promotion, fewer time-wasting tasks, less-demanding deadlines, and better communications with line managers.

Internal governance

Banks, perhaps more than most organisations, need to balance innovation and control. For years they have attracted very bright graduates from universities and business schools, and encouraged them to develop innovative and profitable products.

RBS itself had all of the formal mechanisms of corporate governance in place – independent non-executive directors, audit and risk committees, remuneration committee. In the years before 2008 none of the people on these boards and committees appears to have been able and willing to stand up to Fred Goodwin. Whatever misgivings they may have had in private, they continued to support the management team in public – 90 per cent of shareholders approved the ABN AMRO deal.

Sources: Kennedy et al. (2006); *The Economist*, 14 February 2009, *Financial Times,* 13 October 2008, 13 December 2011, 10 January 2012, 17 January 2012, 14 June 2012, 27 June 2012, 26 April 2013, 28 February 2014, 21 December 2014, 5 January 2015, 18 February 2015; 6 December 2017, p.18, 2 May 2018, p.19, 6 June 2018, p.18, 16 August 2018, p.14; *The Guardian*, 21 February 2018, p.29, 4 August 2018, p.32, 6 September 2018, p.32; Martin and Gollan (2012); RBS website.

Part case questions

(a) Relating to Chapters 10 to 13

1 Refer to Chapter 6, Section 6.6 (biases in decisions) and companion website (Irving Janis and 'groupthink'). Do they offer insights into possible explanations for the troubles at RBS?

2 Which aspects of the bank's operations were mechanistic, and which organic? (Section 10.7)

3 Outline how the HRM practices introduced in the years following Goodwin's arrival contributed to the bank's rise and fall. (Sections 11.6 and 11.7)

4 Describe two examples of the bank using IT to change the way it operates. What organisational changes did it make to support this? (Sections 12.4 and 12.5)

5 What did it do during the boom years to encourage innovation, especially by traders? What external factors encouraged this risk-taking culture? (Section 13.6 and companion website, organisational factors)

6 Why do you think the board were unable to influence Fred Goodwin and the senior team – what sources of power did Goodwin possess? (Sections 14.5 and 14.6)

(b) Relating to the company

1 Visit the RBS Group website (www.rbs.com), including the pages for 'investor relations' and read one or more of the management reports you will find there. Note recent events that add to material in this case.

2 Access the websites of *The Economist, Financial Times* or BBC News (business pages) and make notes about how, if at all, the dilemmas identified in the case are still current, and how the company has dealt with them.

3 What new issues appear to be facing RBS which the case did not mention?

4 The issue of bank bonuses is still contentious. Summarise how it has responded recently to calls for it to limit the rewards to senior staff.

5 What information can you find on the website, or in the annual report, about the company's governance systems, and the issues faced in reaching a balance between innovation and control?

6 What progress has the bank made towards enabling the government to sell its shareholding?

7 For any one of those issues it faces, how do you think it should deal with it? Build your answer by referring to one or more features of the company's history outlined in the case.



PART 5

LEADING

Introduction

This Part takes up the theme of practitioners generating the effort and commitment to work towards adding value. One person working alone has only him or herself to motivate. As an organisation grows, management activities become, in varying degrees, separated from the core work activities. The problem of generating effort changes as one person, or one occupational group, now has to secure the willing cooperation and commitment to the task of others. They include subordinates, colleagues, those higher in the hierarchy – and in other organisations – whose support a manager needs.

How does management secure the effort it needs from others? Chapter 14 examines ideas on influence, while Chapter 15 presents theories about what those others may want from their work. Communication is inherent to management's role of adding value, and Chapter 16 examines this topic.

Teams are a prominent feature of organisations, and the motivation and commitment they can generate is often a major influence on performance: Chapter 17 introduces ideas on teams. Change takes many forms, and understanding how it arises and takes the direction it does is a highly practical question, into which the new Chapter 18 may give some insights.

The Part Case is the British Heart Foundation, a leading UK medical charity, which is successful in part because of the skill with which it influences many people to support the charity's objectives.



CHAPTER 14
INFLUENCING

Aim

To examine how people influence others by using personal skills and/or power.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Distinguish leading from managing, and explain how each adds value
2. Explain why leading and managing both depend on influencing others
3. Compare trait, behavioural (CW) and contingency perspectives on influencing
4. Outline theories that focus on power (personal and organisational) as the source of influence
5. Outline a model of the tactics people use to influence others, including networking
6. Use clear thinking to evaluate these practices and theories, and as you develop the skill of setting 'end of event' goals when planning to influence others

Key terms

This chapter introduces these terms:

influence
leadership
traits
big five
transactional leaders (CW)
transformational leaders (CW)
behaviour
initiating structure (CW)
consideration (CW)
situational (contingency) models
power
political behaviour
delegating (CW)
networking

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

Transactional and transformational leadership
Behavioural models
Gaining and using power

Case study

W.L. Gore and Associates in Europe www.gore.com

In 2019, W.L. Gore and Associates continues its distinctive approach to managing 9,000 employees ('Associates' at Gore) around the world, including about 400 in the UK. Turnover at the privately-owned company in 2018 was about $3 billion, from manufacturing sites in the United States, Germany, China, Japan and the UK (at Livingston and Dundee), and sales offices in 25 countries.

While working as a scientist at Dupont (a major chemical company), Bill Gore became convinced of the potential value of polytetrafluorethylene (PTFE), commonly known as Teflon, as an insulating material for wire. This led him and his wife Vieve to begin the company in Newark, Delaware in1958. In 1969, their son, Bob, discovered that PTFE could be stretched to form a strong porous material, which enabled the company to extend its range of electronic products with many new applications, including solutions to environmental pollution. The business is best-known for the GORE-TEX® brand. GORE-TEX® fabric works in a wide range of temperatures, does not age, is weather durable, porous and strong.

The business focuses on developing, engineering and manufacturing products based on PTFE in four areas – electronics (cables for aviation, telecommunication and medical uses), medical (vascular grafts, implants and patches), high-performance fabrics (sports, leisure, work and protection), and industrial (filters and gaskets in food and textile industries).

The company has a tradition of close and direct personal contact amongst associates, which it believes is essential in this innovative business. There are almost no job titles – the company hires associates for a broad area of work at one of their sites. With guidance from their sponsors, growing understanding of the business, and of opportunities at their site, they commit to work on projects that match their skills. Teams organise around opportunities and leaders usually emerge based on the needs of a business unit – some providing technical leadership, others business leadership.

The philosophy reflects a belief that there are no limits to what people can accomplish, provided they are consistent with business objectives and strategies. Associates work to four principles:

1 Being fair to each other and everyone with whom they come in contact



© Kristoffer Tripplaar/Alamy Stock Photo

2 Encouraging, helping and allowing other associates to grow in knowledge, skill and scope of responsibility
3 Being able to make one's own commitments and keep them
4 Consulting with other associates before doing anything that could affect the company's reputation – the 'waterline principle'.

The last principle is intended to balance the risks of innovation, by ensuring that associates engage in thorough review with colleagues to ensure that work is in line with business objectives before making significant financial commitments.

The company assigns a new associate to one or more sponsors who help them become acquainted with the company and its ways of working, ensure they receive credit and recognition for their work, and that they are fairly paid.

Sources: Manz et al. (2009); Boddy (2011), *Wall Street Journal* (2012); company website (accessed 11 January 2019).

Case questions 14.1

- What aspects of the context may support the company's approach to influencing what associates do?
- What assumptions about people seem to guide the approach?
- Can you envisage any limitations to the approach?

14.1 Introduction

W.L. Gore is an example of a successful company using unusual methods to influence staff. It is a technology-driven enterprise based on discovering and producing innovations. It prospers by creating a flow of new products based on a core technology, that it sells at a profit to users in many industries. The tasks the associates undertake will be familiar to those in similar science-based enterprises, but the processes by which they organise their work may be less so.

All managers have to influence others – such as when Dave Lewis became chief executive at Tesco (Part 6 Case), and began persuading other senior managers to back the changes he would make to restore the business. Boards of public companies need to persuade major shareholders to accept their policies: when Unilever decided to move its HQ from London to the Netherlands in 2018, many large investors disagreed. After unusually vigorous public lobbying by Investment Forum (a group that lobbies UK companies on behalf of big investors), the Board dropped the plan. Sir Alex Ferguson had to influence United's owners, fans, financial interests and star players with big egos – see 'Management in practice' below.

Management in practice — Sir Alex Ferguson: influencing genius

Sir Alex Ferguson (manager of Manchester United until 2013) has more trophies than any manger in football history due, his biographer believes, not to his knowledge of the game or coaching skills, but to his ability to influence. His practices include:

- **Cultivate every interest group inside your company.** Early in his career, Sir Alex was sacked for disagreeing with his chairman. He had not grasped that this man's consent was central to his project: even if you hate your chairman, you have to find a way of getting on, he concluded. Ever since he has worked to keep his club's board, players, fans and sponsors onside. One leader of United's fan base said Sir Alex would chat to him for hours on the phone, keen to know what supporters thought.
- **Gather information everywhere.** A prominent political figure recalled a social gathering at which Sir Alex knew:

  all of those present: he calls them all the time, he hoovers up information all the time.

- **Do not let other people cause you stress.** Asked by the same person how to avoid being overwhelmed by requests from other people he advised:

  You've got to imagine you are putting blinkers on. People want to get into your space. Only you decide who gets into your space. Tell them: I think you can resolve this yourself.

- **Remember that crises blow over.** Sir Alex has been through many, especially when top players have behaved foolishly. Sir Alex never adjusts his strategy, because he knows crises pass.

Source: Based on material in Kuper (2011).

Influence is the process by which one party attempts to modify the behaviour of others by mobilising power resources.

Whatever their role, people add value to resources by influencing others. The tasks of planning, organising, leading and controlling depend on other people agreeing to cooperate within a web of mutual **influence**. Senior managers influence investors to retain support, sales staff influence customers, a software engineer influences a manager to accept a design. Careers depend on this, and those they are influencing are often more senior, or in other organisations.

In that sense the work of the manager is close to the entrepreneur, implementing new ideas in a hostile or possibly indifferent setting. Tim Smit, co-founder of the Eden Project (Chapter 15 Case study) is like that – he is trying to influence the public:

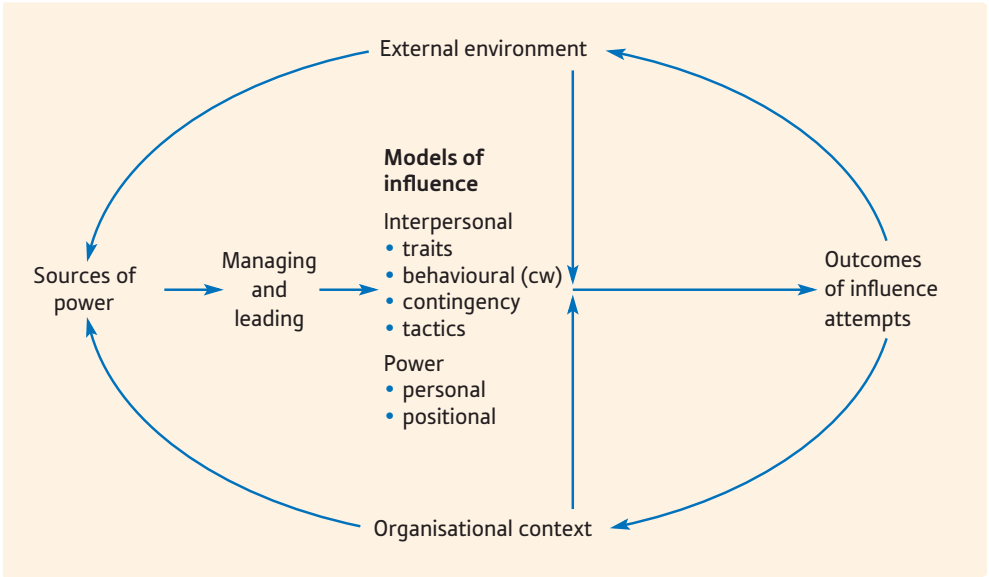


Figure 14.1
An overview of the chapter

> We're facing the most incredible challenges over the next 30 years, and I think that's why Eden is so important because to persuade people to change you can't do that with that waggy figure of sanctimony. The only way to do it is to write a story in which people see a better future coming up if we act in a different way. So I think this storytelling side is vital and that's what we do best. The very creation of Eden is a story. I think we stand for something that makes other people believe in themselves and do stuff – that would be the greatest tribute you could ever pay us if that's what we could achieve (interview with Tim Smit).

Figure 14.1 shows the Chapter's topics, beginning with why leaders and managers influence others to add value. It then presents two 'interpersonal' theories (trait and contingency) of how they do this, followed by 'power' theories. The chapter concludes by showing the tactics people use to exert influence, including networking. The figure shows that outcomes depend on method and circumstances and they in turn affect the outcome of an attempt to influence. A valuable influencing skill is to set goals for the end of each influencing event: the 'Develop a skill' feature at the end of the chapter is an opportunity to begin developing that.

14.2 Managing and leading depend on influencing

Managing and leading

Research and commentary on influencing use the terms 'manager' and 'leader' (and their derivatives) interchangeably. It is worth briefly clarifying them.

Chapter 1 defined a manager as someone who gets things done with the support of others. Most commentators view an 'effective manager' as one who 'gets things done' to ensure order and continuity. They maintain the steady state – keeping established systems in good shape and making incremental improvements. People generally use the term 'effective leader' to denote someone who brings innovation, moves an activity from trouble to success, makes a difference. They (like Julian Metcalf at Pret A Manger – see 'Management in practice' over the page) do new things, take initiatives, inspire.

Management in practice — Julian Metcalf, founder of Pret A Manger — www.pret.com

Commenting on the leadership of Julian Metcalf, who founded Pret A Manger in 1986 (in 2019 it has about 500 shops in 7 countries) one of his directors said:

> **Pret has always been very innovative because our founder, Julian Metcalf, is a true entrepreneur: he is here most days and he is really the spirit for all things entrepreneurial here and that is fantastic. The benefit of that is that we don't spend months and months and months developing new products, we're very quick to turn things around and it's very fast paced here. We have lots of new products and upgrades to our ingredients going on month in month out. And people comment when they come here, in terms of the pace of change, sometimes it can be hard to keep up with, but it's exciting, and makes us feel like a small organisation when in fact we're not.**

Source: Interview with the director.

Leadership refers to the process of influencing the activities of others towards high levels of goal setting and achievement.

Bennis and Nanus (2003) refer to **leadership** as that which:

> can move organizations from current to future states, create visions of potential opportunities … instill within employees commitment to change and instill new cultures and strategies … that mobilize and focus energy and resources. These leaders … assume responsibilities for reshaping organizational practices to adapt to environmental changes. They direct organizational changes that build confidence and empower their employees to seek new ways of doing things (p.17).

Key ideas — John Kotter on leading and managing

Kotter (1990) distinguishes between leadership and management – while stressing that organisations need both, and that one person will often provide both. He regards good management as bringing order and consistency – through planning, organising and controlling. 'Management' developed to support the large companies that developed from the middle of the nineteenth century. These complex enterprises tended to become chaotic, unless their managers developed practices to bring order and consistency, and

> **to help keep a complex organization on time and on budget. That has been, and still is, its primary function. Leadership is very different. It does not produce consistency and order … it produces movement (p.4).**

Individuals whom people recognise as leaders create change. Good leadership:

> **moves people to a place in which both they and those who depend on them are genuinely better off, and when it does so without trampling on the rights of others (p.5).**

Leaders succeed by establishing direction and strategy, communicating it to those whose cooperation they need, and inspiring people. Managing and leading are closely related, but differ in their primary functions – one creates order, the other creates change. Organisations need both.

Source: Kotter (1990).

People work to create change and to create order in varying degrees, so there is no value in a sharp distinction between managing and leading: John Adair quotes a Chinese proverb:

> What does it matter if a cat is black or white, as long as it catches mice (Adair, 1997, p.2).

Managing and leading both depend on influencing others to put in the effort – whether to create order or change.

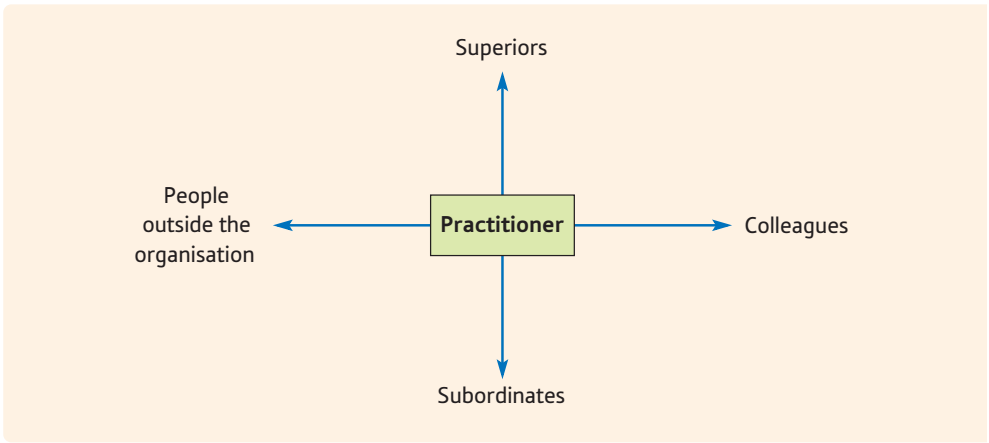


Figure 14.2 Influencing in four directions

Targets of influence

People at all levels who want to get something done influence others. Influencing skills at the top (like Tim Cook at Apple (Part 1 Case) or Jeff Bezos at Amazon (Chapter 18 Case study)) have the most visible effects, shaping the direction of the business or how it operates. People throughout the enterprise try to do the same: the first female practice manager at a City of London legal firm:

> The hardest things in management … are complicated people issues. Sometimes you realise you can't solve everything. Our assets are the brains and personalities of some highly intelligent people, so there are a huge number of relationship issues. Most of these 250 people are very driven. If you get it right, the commitment is there. But you've got to take a lot of people with you a lot of the time (*Financial Times*, 15 February 2001, p.17).

Figure 14.2 shows that managers and leaders influence others below them in the hierarchy, on the same level, formally above them – and some in other organisations: how do they try to do this? The following sections aim to answer that question.

Responses to influence

Someone attempting to influence another has an outcome in mind. Kelman (1961) identified three outcomes – compliance, identification and internalisation – to which this section adds a fourth, resistance: Table 14.1.

Table 14.1 Four outcomes of influence attempts

Outcome	Description	Commentary
Resistance	Target opposes the request and actively tries to avoid doing it	May try to dissuade the influencer from persisting, or seek support to block the influence attempt
Compliance	Target does what is asked, but no more. No enthusiasm, minimal effort	May deliberately let things go wrong, leading to 'I told you so … '. May be enough in some situations
Identification	Target meets request to maintain a valued relationship	Only agreeing because request comes from that person – no wider commitment
Internalisation	Target internally agrees with a request and commits effort to make it work	The most successful outcome for the influencer, especially when task requires a high level of commitment

- **Resistance**: staff have no commitment to the work, either refusing, or doing it grudgingly.
- **Compliance:** occurs when an individual accepts influence because they hope to achieve a favourable reaction. They do what is asked, to avoid trouble – 'I'll do it to keep the peace.'
- **Identification:** occurs when someone acts in the way requested because they feel that by doing so they identify with the person making the request – it maintains a desired relationship. They do what they are asked, but without much energy: 'I'll do it – but only because it's you who is asking.'
- **Internalisation:** when a person happily does what they are asked because it is consistent with their values. They see the request as being the right thing to do – it solves the problem, is congenial and brings other rewards: 'sure, that should work' shows someone has internalised the request.

Resistance or grudging compliance gives the manager a signal that there may be trouble ahead. Complex work depends on people working with imagination and flexibility: if they work with customers, the latter soon sense that staff are complying rather than working enthusiastically. An influencer can repeat their request more forcefully, but this rarely works. They may do better if they pause to reflect on why people reacted this way. That may give some insight into their request, or how they made it: and they may decide to try another approach next time.

14.3 Traits models

A **trait** is a relatively stable aspect of an individual's personality which influences behaviour in a particular direction.

The **big five** refers to trait clusters that appear consistently to capture main personality traits: openness, conscientiousness, extraversion, agreeableness, and neuroticism.

Many observers have tried to identify the personal characteristics of effective leaders. They observed public figures (usually in politics or business) to identify enduring aspects of their personality – **traits** – which might explain their success. This line of research usually failed to find convincing links between traits and performance – mainly due to the diversity of traits identified and dubious measures of performance. Two things changed: the synthesis of many traits into 'the big five', and paying attention to the contexts in which people were working.

The big five

Researchers found they could group the many observed traits into five clusters (McCrae and John, 1992), known as **the big five**: the left-hand column in Table 14.2 shows the label for each cluster, and the other columns show adjectives describing their extreme positions.

Table 14.2 The big five trait clusters

Label for cluster	Descriptions of extreme positions in cluster	
Openness	Explorer (O+): creative, open-minded, intellectual	Preserver (O–): unimaginative, disinterested, narrow-minded
Conscientiousness	Focused (C+): dutiful, achievement-oriented, self-disciplined	Flexible (C–): frivolous, irresponsible, disorganised
Extraversion	Extravert (E+): gregarious, warm, positive	Introvert (E–): quiet, reserved, shy
Agreeableness	Adapter (A+): straightforward, compliant, sympathetic	Challenger (A–): quarrelsome, oppositional, unfeeling
Neuroticism	Reactive (N+): anxious, depressed, self-conscious	Resilient (N–): calm, contented, self-assured

McCrae and John (1992) show that each cluster contains six traits. Using these in personality assessments enables researchers to identify the pattern of traits which an individual displays, and predict how this will affect their performance. Colbert and Witt (2009) note that conscientiousness is the most consistent predictor of work outcomes, probably because such people tend to be dutiful, take care, deal with tasks accurately, and persist to overcome difficulties. They also found that supervisors could influence such workers to perform well by emphasising the value of achieving goals, and helping them to do so.

Context matters

Anderson et al. (2008) noted that the traits appeared to have a greater predictive effect on performance if researchers took into account the work a person was doing (a contextual variable). Extroverts had more influence in a team-oriented consulting firm, while conscientious individuals had more influence in a telecommunications support unit, where staff typically worked alone to solve technical problems.

Judge and Zapata (2015) reach a similar conclusion, showing that the situation exerts both *general* and *specific* effects on the degree to which personality predicts job performance. They analysed 125 usable studies of the relationship between traits and performance. To assess the *general* effects of traits, they distinguished strong from weak situations. A situation is 'strong' when work is structured (tasks closely defined), superiors make most decisions and there is little task variety. It is 'weak' when employees have relatively high discretion over how they work, can influence decisions, and their work is varied.

The analysis showed that the predictive general effects of the model are stronger in 'weak' situations (where employees have more discretion). A conscientious person will perform better in situations where they have more discretion than where they have less.

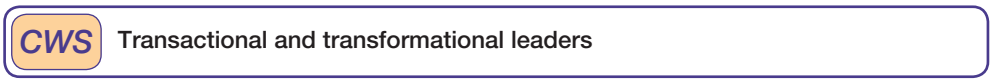
Regarding the *specific* effects, the effect of a trait varied with the requirements of the work. Openness had a highly positive effect on performance in jobs requiring innovation and creativity, while agreeableness was less positively related to performance in work of a competitive nature. Extroverts performed better in jobs requiring social skills.

The contextual perspective may also explain why some prominent leaders appear to be successful for several years – then fail. Whatever traits Fred Goodwin had during his early (successful) years as chief executive at The Royal Bank of Scotland were still there when he resigned from the almost bankrupt company in 2009 (Part 4 Case). Consider the context: the early years were a time of economic prosperity and global growth, and the Board allowed him great discretion to develop the business into unusual markets. When the economic context changed in 2008 neither he, nor the Board, knew how to respond.

When people specify traits or personal qualities when selecting staff they are implicitly assuming that these will enhance the successful candidate's performance in the job. As two of the foremost scholars of leadership concluded:

> There is no one ideal leader personality. However, effective leaders tend to have a high need to influence others, to achieve; and they tend to be bright, competent and socially adept, rather than stupid, incompetent and social disasters (Fiedler and House, 1994, p.111).

Another influential traits theory is James Burns' distinction between transactional and transformational leaders – the companion website presents this.



Behavioural theories seek to identify the styles of effective managers. What did they do to influence subordinates that less effective managers did not? Scholars at the Universities

Behaviour is something a person does that can be directly observed.

of Ohio State and Michigan respectively identified two **behaviours**: one concerned with interpersonal relations, the other with accomplishing tasks. The companion website presents these theories.

CWS Behavioural theories

Case study W.L. Gore & Associates in Europe - the case continues www.gore.com

An associate in a UK plant:

> We do have standard procedures and rules and regulations. The underlying principle is to keep them to a minimum, and it's about questioning why we need them. If there's a business reason why that is the best way to deal with it, then we're not afraid to put in policies and procedures, for example ISO 9001 (a widely adopted industry standard to demonstrate a company manages quality systematically). There is a mentality that people understand the need for processes when there's something tangible. In manufacturing, people accept that that is required. Less so in areas like HR, where there is a reluctance to do anything that people would see as a limiting structure.
>
> If it increases profits, protects health and safety, and if people can see tangible results, then there really isn't too much of a problem. The buy-in is absolutely essential. You get buy-in by speaking to a few key influencers. You make a judgement about who is key to getting this project through, trying to see where opposition might come from, and trying to deal with it before you actually impose the procedure. You don't need to get everyone committed – apart from those who actually have to do something. Buy-in is willingness to accept and to put effort in on behalf of the team.
>
> Freedom of choice is not total. People will be asked at some point to go on a work commitment by the leader of a business group. When there is a pressing business objective, someone leading a commitment will find the right person for the job, in a way that is best for them and the company. Leaders may be appointed because people recognize they have exercised leadership within their function (say, as a chief chemical engineer). It could be that each plant has an overall business leader. We have a business leader for industrial filtration and, if there was particular skill needed on an area of work, he may decide to ask somebody to commit to that.

Source: Private communication with the author.

Case questions 14.2

- In terms of Table 14.1, which outcomes does Gore's method of influencing appear to be securing?
- Which of the 'big five' traits would you expect to find amongst associates in leadership positions at Gore?

Activity 14.1 Which traits do employers seek?

Collect some online job advertisements and recruitment packages. List the traits that the organisations say they value in those they recruit.

14.4 Situational (or contingency) models

Situational (contingency) models of leadership attempt to identify the contextual factors that affect when one style will be more effective than another.

Situational (contingency) models present the idea that managers influence others by adapting their style to the circumstances. Three such models follow. The Chapter 7 companion website features a fourth.

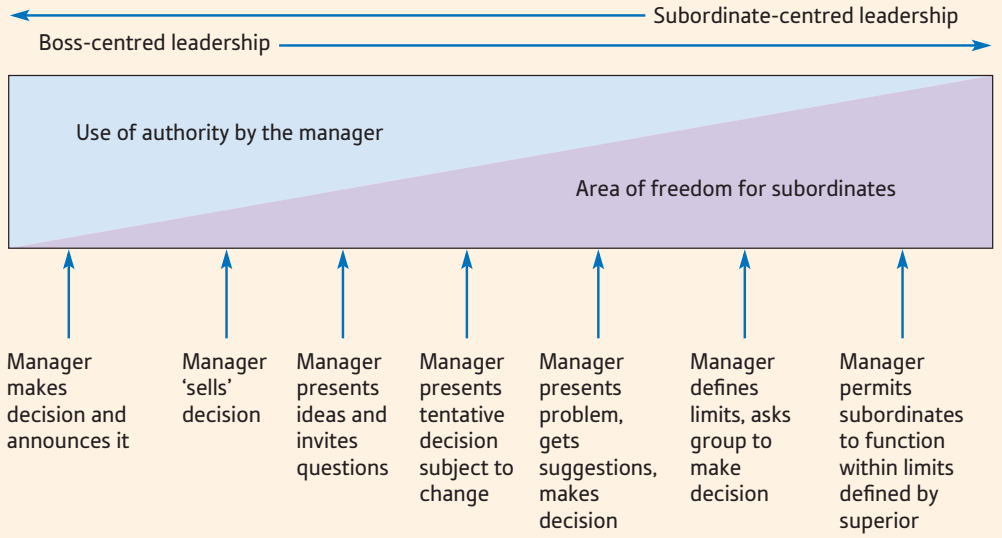


Figure 14.3 The Tannenbaum–Schmidt continuum of leadership behaviour

Source: Tannenbaum and Schmidt (1973), reprinted by permission of *Harvard Business Review*, © 1973 Harvard Business School Publishing Corporation; all rights reserved.

Tannenbaum and Schmidt's continuum of leader behaviour

Robert Tannenbaum and Warren Schmidt (1973) saw that leaders had different styles, ranging from autocratic to democratic. Figure 14.3 illustrates these extremes and the positions in between. They advised that a leader's choice of method should reflect three variables:

- **manager**: personality, values, preferences, and confidence in subordinates
- **subordinates**: need for independence, tolerance of ambiguity, knowledge of the problem, expectations of involvement
- **situation**: organisational norms, size and location of work groups, effectiveness of team working, nature of the problem.

House's path–goal model

House (1996) believed that effective leaders help subordinates to identify the path that will raise their performance, and so achieve the rewards they value. He identified four styles:

- **Directive**: letting subordinates know what the leader expects; giving specific guidance; asking subordinates to follow rules and procedures; scheduling and coordinating their work.
- **Supportive**: treating them as equals; showing concern for their needs and welfare; creating a friendly climate in the work unit.
- **Achievement**: oriented: setting challenging goals and targets; seeking performance improvements; emphasising excellence in performance; expecting subordinates to succeed.
- **Participative**: consulting subordinates; taking their opinions into account.

House suggested that the appropriate style would depend on the situation – the characteristics of the subordinate and the work environment. If a subordinate has little confidence, the leader should provide coaching and support. If a subordinate likes clear direction, the

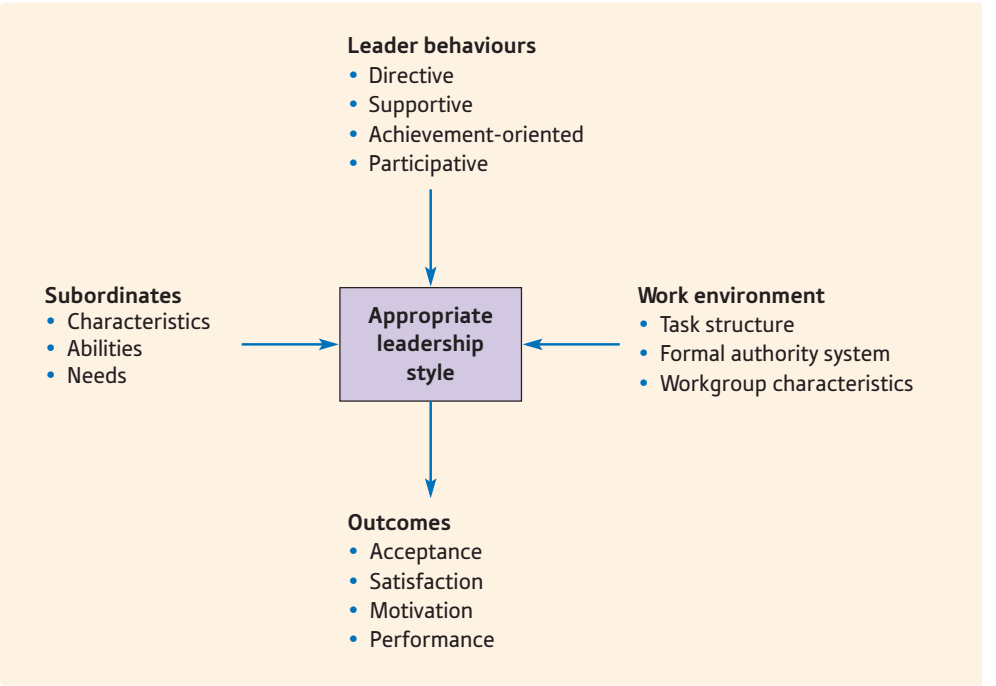


Figure 14.4 House's path–goal theory

leader should give it. Most skilled professionals expect to use their initiative and resent a directive style: they will respond best to a participative or achievement-oriented leader. The work environment includes the degree of task structure (routine or non-routine), the formal authority system (extent of rules and procedures) and the work group characteristics (quality of teamwork).

Figure 14.4 summarises the model that predicts, for example, that:

- a directive style works best when the task is ambiguous and the subordinates lack flexibility – the leader absorbs the uncertainty and shows them how to do the task
- a supportive style works best in repetitive, frustrating or physically unpleasant tasks – subordinates respect the leader who joins in and helps
- an achievement-oriented style works best on non-repetitive ambiguous tasks, which challenge their ability – they need encouragement and pressure to raise their ambitions
- a participative approach works best when the task is non-repetitive and the subordinate(s) are confident that they can do the work.

Contingency models indicate that participative leadership is not always effective and that, as Table 14.3 shows, a directive style is sometimes appropriate.

Table 14.3 Conditions favouring participative or directive styles

Participative style most likely to work when:	Directive style most likely to work when:
Subordinates' acceptance of the decision is important	Subordinates do not share the manager's objectives
The manager lacks information	Time is short
The problem is unclear	Subordinates accept top-down decisions

Key ideas John Adair and Action-Centred Leadership

Over 2 million people worldwide have taken part in the Action-Centred Leadership approach pioneered by John Adair. He proposes that people expect leaders to fulfil three obligations – to help them achieve the task, to build and maintain the team and to enable individuals to satisfy their needs. These three obligations overlap and influence each other – if the task is achieved that will help to sustain the group and satisfy individual needs. If the group lacks skill or cohesion it will neither achieve the task nor satisfy the members. Figure 14.5 represents the three needs as overlapping circles – almost a trademark for John Adair's work. To achieve these expectations the leader performs the eight tasks in the figure.

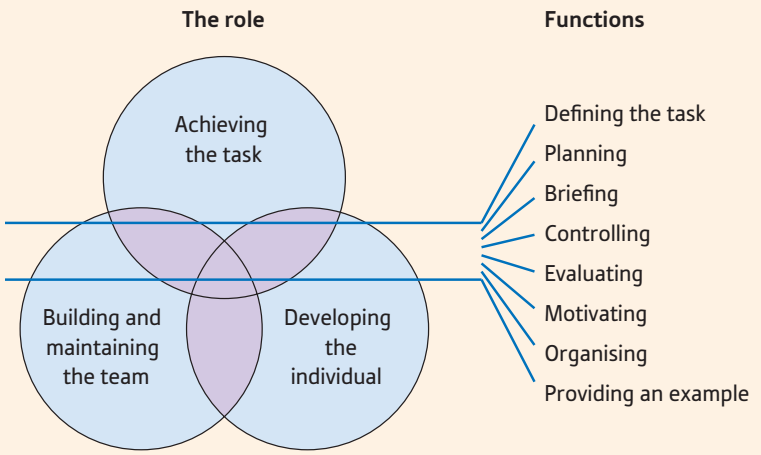


Figure 14.5 Adair's model of leadership functions

Source: Adair (1997, p.21).

Activity 14.2 Think clearly about research on situational theories of influencing

Consider carefully the summary of research in this section – if possible, source one of these (or any other empirical study) and evaluate it using the skills of clear thinking. For example, make notes in reply to one or more of these questions:

- What assumptions did the researchers make in selecting the variables to measure?
- What contextual factors did they consider?
- What alternative variables might they have plausibly included?
- What are the limitations of their conclusions?

14.5 Gaining and using power

Earlier sections show how people use personal skills to influence others: another resource is to acquire and use **power** (the ability to produce intended effects) to influence people and events.

Power is the ability to produce intended effects (attributed to Sir Bertrand Russell).

Sources of power

What are the bases of one person's power over another? French and Raven (1959) identified five sources:

- **Legitimate power** flows from the person's formal position. Their job gives them the power, for example, to make capital expenditures, offer overtime, choose a supplier or recruit staff.
- **Reward power** is the ability to reward another if they comply with a request or instruction. The reward can take many forms – pay, time off or interesting work.
- **Coercive power** is the ability to obtain compliance through fear of punishment or harm. It includes reprimands, demotions, threats, bullying language or a powerful physical presence.
- **Referent power**, also called charismatic power, is when some characteristics in a person are attractive to others: they identify with them, which gives the charismatic person power.
- **Expertise power** is when people acknowledge someone's knowledge and are therefore willing to follow their suggestions. This knowledge or skill may be administrative (how an organisation operates) or technical (how to do a task).

Case study

W.L. Gore & Associates in Europe - the case continues www.gore.com

In 2019, the company website included a statement of the company's fundamental beliefs.

> **Our beliefs are the basis of our strong culture, which connects Gore Associates worldwide in a common bond.**
>
> **We believe in *the individual* and each associate's potential to help Gore grow and succeed. We also believe in the *power of small teams* who can communicate freely to assemble talents and diverse perspectives to quickly make good decisions to produce good quality work that helps us deliver on our promise to our customers.**
>
> **We also believe *we're all in the same boat*. As associates we have a vested interest in the success of the company, and we share in Gore's risks and rewards, while having an added incentive to stay committed to our enterprise's long-term success. As a result, we feel we're all in this together, and believe we should always consider what's best for the enterprise as a whole when making decisions.**
>
> **Finally, we believe in *the long-term view*. Our decisions are based on long-term pay-off, and we don't sacrifice our fundamental beliefs at Gore for short-term gain.**

Source: company website (accessed 11 January 2019).

Case questions 14.3

- What are associates trying to influence each other to do?
- Which of the sources of power in Table 14.4 do associates in Gore use?
- How do associates increase their power in the eyes of those they are trying to influence?

Personal and positional sources

Table 14.4 reflects a theory that someone's power comes from a combination of one or more of five sources (identified by French and Raven, 1959), and that each of these can take personal and/or positional (organisational) forms (Hales, 2001).

Someone who has little access to these sources of power will have less influence than someone with more. People continually defend their power sources, and try to gain new ones.

Table 14.4 Personal and positional sources of power

Power source	Personal	Positional (organisational)
Coercive	Forcefulness, insistence, determination	Authority to give instructions, with the threat of sanctions or punishment available
Reward	Credit for previous or future favours in daily exchanges	Authority to use organisational resources, including the support of senior people
Expertise:		
Administrative	Experience of the business, whom to contact, how to get things done	Authority to use or create organisational policies or rules
Technical	Skill or expertise relevant to the task	Authority to access expertise, information and ideas across the business
Referent	Individual beliefs, values, ideas, personal qualities	Authority to draw on organisational (cultural) norms and values

Source: Based on Hales (2001).

Perceptions of power

Power is only effective if the target of an influence attempt recognises the power source as legitimate and acceptable. If they dispute the knowledge base of a manager, or challenge their positional authority over a specific issue, the influence attempt is likely to fail. Managers who are successful influencers ensure that they sustain their power sources and take every opportunity to enhance them – see 'Management in practice' below.

Management in practice

Marketing brand Me

People should manage their reputation like a brand. The most effective candidates [for promotion] do not leave their image to chance. They work at it, and massage its growth. They know that the best publicists they can have are their immediate staff. They are aware that team members talk about them more than anyone else. So they provide evidence to feed that grapevine … Staff need stories about their leader.

Another way to manage your reputation is to manage your boss … People keen to manage their reputation should find out what motivates the boss and try to satisfy those goals. If your boss likes punctuality and conscientiousness, turn up on time and work hard. If he or she needs reassurance, give it. If it is power, respond as someone who is less powerful. Why irritate a person who can influence your career path?

FT Source: John Hunt, 'Marketing brand Me', *Financial Times*, 22 December 2000.

In a study of 250 managers, Buchanan (2008) found that most believed it was ethical and necessary to engage in political behaviour at work. They worked at (mainly) middle and senior levels in public and private organisations. Respondents frequently saw five behaviours:

- building a network of useful contacts
- using 'key players' to support initiatives
- making friends with power brokers

- bending the rules to fit the situation
- self-promotion.

Political behaviour is 'the practical domain of power in action, worked out through the use of techniques of influence and other (more or less extreme) tactics' (Buchanan and Badham, 1999).

A clear majority agreed that **political behaviour** was a useful tool to improve organisational effectiveness, and 90 per cent agreed that 'managers who play organisation politics well can improve their career prospects'.

Activity 14.3 Reflect on sources of power

- Try to identify at least one example of each of the personal and positional power sources. Examples could come from observing a manager in action (including people in your university or college) or from your reading of current business affairs.
- Can you identify what the person concerned has done to develop their power?
- Have other events helped to build, or to undermine their power?

CWS More on gaining and using power

14.6 Choosing tactics to influence others

Another way to research them is to identify directly how practitioners influence others – typically subordinates, bosses and co-workers. Yukl and Falbe (1990) identified the categories in Table 14.5.

Table 14.5 Influence tactics and definitions

Tactic	Definition
Rational persuasion	The person uses logical arguments and factual evidence to persuade you that a proposal or request is viable and likely to result in the attainment of task objectives
Inspirational appeal	The person makes a request or proposal that arouses enthusiasm by appealing to your values, ideals and aspirations or by increasing your confidence that you can do it
Consultation	The person seeks your participation in planning a strategy, activity or change for which your support and assistance are desired, or the person is willing to modify a proposal to deal with your concerns and suggestions
Ingratiation	The person seeks to get you in a good mood or to think favourably of him or her before asking you to do something
Exchange	The person offers an exchange of favours, indicates a willingness to reciprocate at a later time, or promises you a share of the benefits if you help accomplish the task
Personal appeal	The person appeals to your feelings of loyalty and friendship towards him or her before asking you to do something
Coalition	The person seeks the aid of others to persuade you to do something, or uses the support of others as a reason for you to agree also
Legitimating	The person seeks to establish the legitimacy of a request by claiming the authority or right to make it or by verifying that it is consistent with organisational policies, rules, practices or traditions
Pressure	The person uses demands, threats or persistent reminders to influence you to do what he or she wants

Source: Based on Yukl and Falbe (1990).

Management in practice — Power balances in a charity

I worked for a charity providing advice to small companies in the Middle East. I was newly appointed, and wanted to run some of our courses through two of the business organisations in the region, as this was both fair and would give better results. One of my team members went behind my back, and told one of the organisations that we would only run the courses through them. She also persuaded our chief executive (CEO) that this was the best thing to do: I had no choice but to adhere to the decision.

Being new, almost the only influence tactic I could use with the CEO was *rational persuasion*. The other person had worked there for several years, and had developed close relations with the CEO, and was able to combine *exchange, personal appeal* and perhaps *pressure* to get her way.

Thinking back, and having read Yukl and Falbe's ideas, I realise I could have tried other tactics, such as *coalition* (persuading other team members of the benefits of my view) and *pressure* (threatening not to run the project: this could have worked, because I was the only person there who spoke the local language).

Source: Private communication from the project manager.

Yukl and Tracey (1992) extended their work by examining which tactics managers used most frequently with different target groups. They concluded that managers were most likely to use:

- rational persuasion when trying to influence their boss
- inspirational appeal and pressure when trying to influence subordinates
- exchange, personal appeal and legitimating tactics when influencing colleagues.

Lechner and Floyd (2012) found that staff trying to build support for strategic initiatives (such as new product development or acquisitions) combined rational justification, formal authority and informal coalitions. The projects were typically exploratory, involving significant changes, which promoters usually find it difficult to sell. The research found that influence attempts using rational justification had the biggest impact on success, supplemented on occasion by formal authority. Informal coalitions were only effective in projects that were especially exploratory in nature – but even they needed the support of formal authority.

14.7 Influencing through networks

Networking refers to 'individuals' attempts to develop and maintain relationships with others [who] have the potential to assist them in their work or career' (Huczynski, 2004, p.305).

Networking refers to 'individuals' attempts to develop and maintain relationships with others [who] have the potential to assist them in their work or career' (Huczynski, 2004, p.305). Table 14.6 shows several types of network.

Table 14.6 Types of network

Practitioners	Joined by people with a common training or professional interest, and may be formal or informal
Privileged power	Joined by people in powerful positions (usually by invitation only)
Ideological	Consisting of people keen to promote political objectives or values
People-oriented	Formed around shared feelings of personal warmth and familiarity – friendship groups that people join by identifying with other members
Strategic	Often built to help develop links with people in other organisations

Someone active in several networks gains access to contacts and information, which gives them more influence. They know what is happening in their business and use the network to extend their range of contacts in other organisations. Anecdotal evidence that networking is good for a career is supported by Luthans' (1988) research described in Chapter 1. Thomas (2003):

> in management what you know and what you have achieved will seldom be sufficient for getting ahead … Knowing and being known in the networks of influence both for what you have achieved and for who you are may be essential if you are to progress (p.141).

General managers rely heavily on informal networks especially when working outside the organisation – to make a sale, to gain access to a country's market or to set up a joint venture. Hillman (2005) showed how senior managers increase their influence over the business environment by appointing ex-politicians to their boards of directors. Government policy and regulations bring uncertainty, which managers try to reduce by building close links with politicians and senior officials. She found that firms in heavily regulated industries had more directors with political experience than those in other sectors, and that firms with politicians on their board were associated with better financial performance, especially in heavily regulated industries.

Key ideas — 'To influence, focus on the end of the event'

Whatever sources of power someone draws upon, and whatever tactics they use, they will have more effect if they plan their approach. In particular, they should focus on the event they are planning (email message, one-to-one negotiation, team presentation) to support their attempt at influence, and specify with great clarity what they want to achieve *by the end of that event*. There will be long-term goals to which this event should contribute, but that is more likely to happen if they specify what they want from *this* event.

- **Set the objective (or aim).** Define as clearly and exactly as possible what you want to achieve – what the other person or group will do or say. Some examples:
  - 'The team will have agreed to start work on the new project tomorrow, and have agreed a plan of work.'
  - 'The manager of department X will have agreed to release a named member of staff for this task, and will tell them today.'

  These statements are unambiguous, and describe outcomes that are observable – 'yes or no?'.
- **Set success criteria** (what will count as success?). Express what you hope to achieve more precisely by setting measurable targets. These can refer to the result itself, or how people achieve it. Some possible success criteria for the first objective:
  - 'The team members will themselves set out the timetable.'
  - 'They will have made at least three proposals to help the project forward.'
  - 'Tasks will be clearly specified, with names against each.'
  - 'We will have reached agreement within two hours.'

  These 'sub-objectives' provide unambiguous measures of progress and what else needs to be done.
- **Plan behaviour.** With clear objectives and success criteria, it is easier to decide what to do or say during the event, taking into account the situation, and the power and interests of those you are attempting to influence.

Source: Boddy (2002), pp.95–6.

Informal networks are probably becoming more important as a means of influencing:

> As traditional hierarchical structures have given way to flatter and more flexible forms, informal networks have become even more important in gaining access to valuable information, resources, and opportunities. The structure and composition of an individual's network allows him or her to identify strategic opportunities, marshal resources, assemble teams and win support for innovative projects … Individuals who hold central positions in informal advice networks enjoy greater influence than those in peripheral positions and receive more favourable performance ratings (Sparrowe and Liden, 2005, p.505).

The outcome of an influence attempt depends not only on the tactics used but on how well the influencer is able to meet the needs of the person they are influencing – see Chapter 15.

14.8 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 14.7 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and what variables they assumed would help achieve them) and about process (how they tried to gain the support of stakeholders). *These are examples only – not a comprehensive analysis*. You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *Outline Yukl and Falbe's (1992) theory of tactics for influencing others. In what ways, if at all, would you use these ideas to persuade your employer to give you interesting and rewarding assignments?*

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 14.7 'Clear thinking' examples from the Chapter Case study and a theory

Clear thinking practices	From the Chapter Case study – the fundamental beliefs at W.L. Gore (esp. instalment in Section 14.5)	Theory – a question on tactics to influence others (Section 14.6)
Check assumptions (task and process)	Articulate the stated or implied assumptions in the case: **Task** • that this approach serves company goals well • that ideas will be better when developed in this collegiate way • that it will also develop associates' personal skills and abilities beyond task-related settings **Process** • the approach becomes self-reinforcing, developing skills further • associates will develop these skills ('tested' in selection?) • method will also help in resolving tensions which must inevitably arise How valid are these assumptions?	**Introduction** Set out context of idea (mention other theories of influence very briefly to show you know), then the tactics – name a few examples and explain how you may try to apply them in the hypothetical situation Assumptions to consider could be: **Task** • individual preferences vary • may also have sources of (e.g.) formal power to achieve what want (tactics not only route to influence) • relative power of each tactic? **Process** • implied ability and skill to use these tactics, which you may not have • opportunities to use them will vary

(continued)

Table 14.7 (*continued*)

Clear thinking practices	From the Chapter Case study – the fundamental beliefs at W.L. Gore (esp. instalment in Section 14.5)	Theory – a question on tactics to influence others (Section 14.6)
Recognise contexts	In what ways does Gore's context help or hinder the company's ways of working: • immediate internal context: part of culture, embedded in history, selection? • competitive context; does strategy support approach – differentiation not low cost? • type of business – science-based? • general context?	Cite research in chapter that context affects them, such as: • nature of the topic • relative power of target of influence • local cultural preferences
Imagine alternatives	See GSK (Chapter 10 Case study) who also depends on highly skilled staff, and has taken different approaches – sometimes encouraging staff to start own firms, and taking a share See also Dyson (Chapter 13)	As above – using other sources of power as alternatives to, or in conjunction with, the tactics approach
Acknowledge limitations	Not everyone takes to the system – some prefer more structure, and more limited responsibility – and probably leave Is approach universally suitable or not? Where would it not work, and why? Would it work so well if the business faced hard times from a significant change in market?	Depends on assessing which tactics are likely to work in a situation, which sounds easier than it probably is That apart, comment on value or otherwise of this aspect of influence theory

Skills

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of setting 'end-of-event' goals.

Develop a skill: setting 'end-of-event' goals

Setting clear and precise goals is an essential management skill, and is especially valuable when trying to influence others. This feature focuses on setting clear 'end-of-event' goals.

- **Assessment.** Assess how well you set goals for a meeting – what you want to get out of it. Are you always clear what you want to achieve? Can you express it quickly if someone asks? Or do you wait to see what happens?
- **Learning.** Sections 14.6 and 14.7 introduced ideas on tactics of influencing – all of which will depend on some form of exchange with other people – emails, meetings, presentations, etc. Read that section again,

paying especial attention to the 'Key ideas' feature which shows the value of setting clear goals for the end of each such event. Summarise the ideas in these sections. Why is setting clear objectives, success criteria and planning behaviour likely to help you be more influential? How do ideas on goal setting (see Chapter 6 and 8 respectively) relate to this?

- **Analysis.** Do you have experience of being at meetings or presentations where the goals were unclear (or when they were very clear)? How did either condition affect the outcome? How do you distinguish a clear goal from an unclear one?
- **Practice.** Identify a meeting or similar event you will have soon – to do with your course, or another activity in which you take part. Use the steps in 'Key ideas' (p.370) to plan your objectives, success criteria and behaviours – record them in some way. Take part in the event and follow your plan.
- **Application.** When you have completed the work, review how you worked, and whether your plan helped you. Reflect on what you can learn. Decide on another opportunity to practise this skill within the next week.

Summary

1 **Distinguish leading from managing, and explain how each adds value**
- Both are essential and the difference can be overstated, leading usually refers to activities that bring change, while managing brings stability and order. Many people both lead and manage in their work.

2 **Explain why leading and managing both depend on influencing others**
- Achieving objectives usually depends on the willing commitment of other people. How management seeks to influence affects others' reaction. Dominant use of power may ensure compliance, but not the commitment required for creativity and innovation.

3 **Compare trait and contingency perspectives on influencing**
- Trait theories seek to identify the personal characteristics associated with effective influence.
- Contingency perspectives suggest that the traits (and behaviours) required for effective influence depend on context, such as the characteristics of employee, boss and task.

4 **Outline theories that focus on power (personal and organisational) as the source of influence**
- The more power a person has, the more they will be able to influence others. Table 14.4 identified sources of power as coercion, reward, expertise (administrative and technical) and referent – all of which can have both personal and organisational sources.

5 **Outline a model of the tactics people use to influence others, including networking**
- Yukl and Falbe identified these tactics in attempts to influence others: rational persuasion, inspirational appeal, consultation, ingratiation, exchange, personal appeal, coalition, legitimating and pressure. They have also found that effective influencers vary their tactics depending on the person they are trying to influence. A further line of research identifies the value of building networks as part of effective influencing.

6 **Use clear thinking to evaluate these practices and theories, and as you develop the skill of setting 'end-of-event' goals when planning to influence others**
- Setting 'end-of-event' goals should help to focus behaviour on achieving them, and so make the influence attempt more successful. The 'Develop a skill' feature helps you understand how to develop that skill.

Test your understanding

1. Why is the ability to influence others so central to the management role?
2. What evidence is there that traits theories continue to influence management practice?
3. Discuss with someone how he or she tries to influence people (or reflect on your own practice). Compare this experience with one of the contingency approaches.
4. What were the two variables in the situation that House believed affected a leader's style?
5. Draw Adair's theory of Action-Centred Leadership.
6. Explain in your own words the main sources of power available to managers. Give examples of personal and institutional forms of each.
7. List any three of Yukl and Falbe's tactics of influence.
8. What does the network perspective imply for someone wishing to be a successful influencer?

Read more

Elberse, A. and Ferguson, A. (2013) 'Ferguson's Formula', *Harvard Business Review,* vol. 91, no. 10, pp.116–25.

Isaacson, W. (2011) *Steve Jobs*, Little, Brown, London.

Insights into the methods of two people renowned for their abilities to influence others – Sir Alex Ferguson at Manchester United and the late Steve Jobs at Apple.

Heimans. J. and Timms, H. (2018) *New Power: How It's Changing the 21st Century*, Macmillan, London.

Maccoby, M. (2015) *Strategic Intelligence: Conceptual Tools for Leading Change*, Oxford University Press, Oxford.

A concise yet substantial book on leadership, drawing on the author's long and distinguished career as an academic and consultant.

Judge, T.A. and Zapata, C.P. (2015) 'The person-situation debate revisited: Effect of situation strength and trait activation on the validity of big five personality traits in predicting job performance', *Academy of Management Journal*, vol. 58, no. 4, pp.1149–79.

Study by one of the leading scholars in this branch of psychology.

Go online

These websites have appeared in the chapter:

www.gore.com
www.pret.com
www.facebook.com
www.bmw.com
www.edenproject.com

Each of these organisations has tried to develop new approaches to managing and influencing staff, and has, despite some difficult circumstances, survived and prospered. Go to the section about 'careers' or 'our team', and look for clues about the approaches to leadership the companies encourage.

- Use the House model to analyse what conditions may explain their approach.
- Do you find their leadership approach attractive, or not?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



CHAPTER 15
MOTIVATING

Aim

To examine theories of behaviour at work and connect them with practice.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Explain why managers need to understand and use theories of motivation
2. Give examples showing how the context, including the psychological contract, affects motivation
3. Compare:
   a. behaviour modification (CW)
   b. content (CW)
   c. process theories
4. Use work design theories to consider how to design jobs that are intrinsically motivating
5. Use clear thinking to evaluate these practices and theories, and as you begin to develop the skill of designing a motivating job

Key terms

This chapter introduces these terms:

motivation
work–life balance
psychological contract
perceived organisational support (POS)
organisational citizenship behaviour (OCB)
perceptions
behaviour modification
existence needs
relatedness needs
growth needs
expectancy theory
subjective probability
instrumental
valence
equity theory
goal-setting theory
intrinsic rewards
extrinsic rewards
job characteristics theory

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

Behaviour modification
Content theories (Maslow and Alderfer)
Equity theory

Case study

The Eden Project www.edenproject.com

The Eden Project is one of the most visited attractions in Europe: over 20 million people have visited it since it opened in 2002. The *Annual Report and Accounts for 2016–17* show that the number of visitors in the year exceeded one million for the first time since 2011, and that the surplus from trading activities was £1.6 million. In 2017, they launched a new company to drive the establishment of Eden Projects around the world, by partnering with like-minded organisations – including three in China. The commercial director:

> **We believe in profits for a purpose, and our trading surplus will enable us to continue to invest in our education programmes and new partnerships, the visitor destination, and our overseas activities.**

Tim Smit, who co-founded the project, was convinced that people (even those who did not initially like gardens) could be attracted by anecdotes – accessible stories about what they were looking at. He also noticed that people felt very positive about being in well-made, abundant gardens.

This led him to develop the idea of creating a place that looked good, technically sophisticated, and dedicated to explaining how all life on earth depends on plants. More than that, it could become:

> **a place where you started to think about your connection with nature, and whether you might want to get closer to nature again and whether some lessons of life might not be buried in there.**

From this vision, Eden has become a globally recognised brand; it has generated over £1 billion in revenues for the local economy and employs some 300 staff.

The first task in turning the idea into reality was to persuade people to invest in the project – which would cost about £76 million. Smit approached a leading architect who, after consulting colleagues, agreed to work on the project, Smit:

> **So for the next 18 months we had possibly the best design team in the world working for us for nothing. I think the reason Eden came into being was that we formed an enormous gang. There was a bunch of people that were really interested in the idea and we would meet in motorway service stations and in pubs and in people's houses and this just grew as people heard about it. People started leaving their jobs because they became so obsessed with it. And it suddenly had an inevitability, when we realised we were saying 'when' not 'if' … and the dice rolled unbelievably well for us.**
>
> **The environment became a big thing, plants are good, people can imagine the Crystal Palace and this is bigger than the Crystal Palace. We said we wanted the biggest in the world, to contain a full-size rainforest, we don't just want some namby-pamby greenhouse. I said we wanted to build a global must-see like the Guggenheim. The tourism people thought we might get 500,000 visitors in the first year: we actually had 1.8 million.**
>
> **And in the middle of all that there was a huge fundraising effort to raise the money for what we called the eighth wonder of the world.**



© James Pearce/Shutterstock

Sources: Interview with Tim Smit; Eden Project website.

Case questions 15.1

Creating Eden has depended on motivating people.

- Which groups of people have featured in the case so far?
- What has Tim Smit wanted these people to do for the Eden Project?
- What clues are there about what motivates them to give their support?
- What assumptions about people seem to shape his approach?

15.1 Introduction

Motivation refers to the forces within or beyond a person that arouse and sustain their commitment to a course of action.

The Eden Project has captured the public imagination, rapidly becoming one of Europe's most successful visitor attractions and a thriving educational charity. Tim Smit and his colleagues secured the support of talented architects, local agencies, significant funding bodies – and then of staff, visitors and many partner institutions. In good times as well as in bad, charities must raise income and recruit staff to survive: like any business Eden's management look for new ways to **motivate** people to continue their support.

Who are managers trying to motivate? Notice that in the Eden case so far (and in the next instalment), the founders were influencing people who had no connection with the (at the time non-existent) organisation. This is not unusual – practitioners spend much of their time influencing people (Chapter 14) in other organisations, members of the public, government officials, suppliers. Even within an organisation, they influence (motivate) not only people who report to them – their subordinates – but also senior managers and colleagues in other units or divisions. Those in marketing aim to influence (motivate) customers to buy their products. This is all part of the management task of adding value by influencing others – understanding their needs will make it easier. The focus in this chapter is on motivating people in organisations – but you will probably be able to apply the principles more widely in your career.

All organisations need enthusiastic and committed staff whose work supports their goals. This is clearest in service organisations like Eden where customers are in direct contact with staff – Culbertson (2009) shows that satisfied employees provide better service. W.L. Gore (Chapter 14 Case study) depends on its associates to design and manufacture a stream of technology-based innovations and materials. Zara (Chapter 19), in a completely different industry, depends on its designers for innovative fashions – and then on thousands of people in the company and in their suppliers, to turn these designs into desirable clothes. Charities like the British Heart Foundation (Part 5 Case) depend on thousands of motivated volunteers. Those responsible for public services depend on the committed performance of countless professions and trades.

All want people to work well and occasionally to 'go the extra mile' – doing more than usual to fix a problem or to help a colleague – known as organisational citizenship behaviour. The challenge is to create a context in which people engage willingly with their work to add value. Motivation arises within us – so good managers aim to ensure that staff can satisfy (some of) their needs through work – see 'Key ideas' (Douglas McGregor).

Key ideas — Douglas McGregor – Theory X and Theory Y

Douglas McGregor (1960) set out two views of motivation, Theory X and Theory Y, which he believed represented managers' views about people. To find out which you agree with, complete this questionnaire. Read each pair of statements, and circle the number that best represents your view:

The average person inherently dislikes work	1	2	3	4	5	Work is as natural as rest to people
People must be directed at work	1	2	3	4	5	People will exercise self-discretion and self-control
People wish to avoid responsibility	1	2	3	4	5	People enjoy real responsibility

People feel that achievement at work is irrelevant	1	2	3	4	5	People value achievement highly
Most people are dull and uncreative	1	2	3	4	5	Most people have imagination and creativity
Money is the only real reason for working	1	2	3	4	5	Money is only one benefit from work
People lack the desire to improve their quality of life	1	2	3	4	5	People have needs to improve the quality of their life
Having an objective is a form of imprisonment	1	2	3	4	5	People welcome objectives as an aid to effectiveness

Add the numbers you circled to give you a score between 8 and 40. If you scored 16 or less, then you agree with Theory X. If you scored 32 or more, then you agree with Theory Y. So? Managers often wonder how they can motivate staff to higher performance – and use their theory of motivation to decide how to do it. Someone who agrees with Theory X will take a different approach from someone who agrees with Theory Y. McGregor's ideas are a vivid way of illustrating contrasting views. Most of us combine X and Y views, as do most jobs – requiring a mix of control and freedom.

There is more about Theories X and Y on the companion website.

Money is evidently a major motivator for many people, especially those on low incomes. Others enjoy the work itself – like Theresa Marshall, a classroom assistant in a city primary school:

> I've found my niche and couldn't be happier – it's no exaggeration to say that I absolutely love my job. My favourite part is helping the children with their reading skills and seeing the pleasure that they can get out of books.

Some enjoy working with physical things or the challenge of designing an innovative product – while others prefer working with people in advisory, sales or customer service jobs. Some are happy to use what skills they have – others stay if they feel they are learning. A manager who recruits staff with little experience or formal qualifications – and gives them skills – says:

> They feel good about themselves because they know they are learning all the time and they gain a sense of self-esteem.

In all situations, managers make assumptions about what staff want – and staff evaluate what is on offer and respond in some way. They also consider how it may affect their **work–life balance**, which is the experience of satisfaction and good functioning at work and at home (Sturges, 2012).

Work–life balance refers to the experience of satisfaction and good functioning at work and at home (Sturges, 2012, p.1540).

Figure 15.1 shows organisations interacting with their environment, which shapes what managers expect from people, who in turn have their needs and expectations. The next section introduces the psychological contract which expresses these mutual expectations. Those that follow introduce four groups of motivational theories – behaviour modification, content, process and work design. Managers implicitly or explicitly draw on their assumptions and theories to implement motivational practices – such as using work design theories to create motivating jobs – the focus of the 'Develop a skill' feature at the end of this chapter.

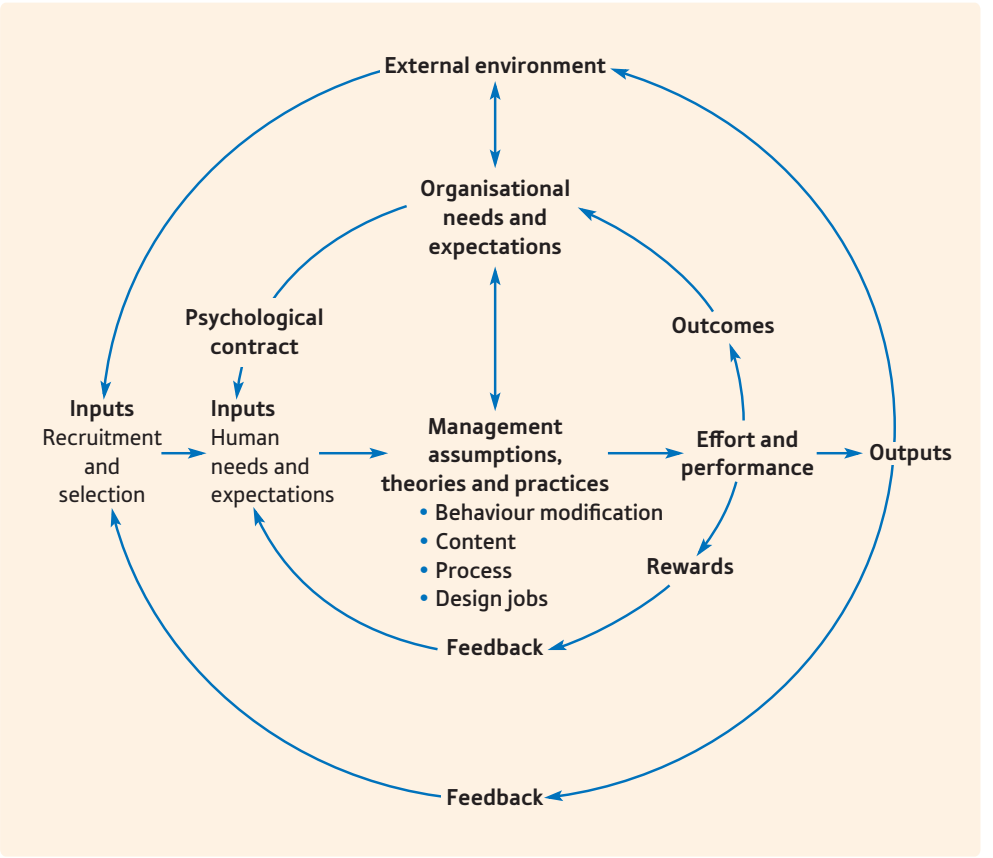


Figure 15.1 An overview of the chapter

15.2 Contexts of motivation

Much behaviour is routine, based on habit, precedent and unconscious scripts. This chapter is concerned with the larger, precedent-setting choices people make at work. For some, work is an occasion for hard, enthusiastic and imaginative activity, a source of rich satisfaction. They are motivated, in the sense that they put effort (arousal) into their work (direction and persistence). Others work grudgingly – it does not arouse their enthusiasm, and is perhaps a way to pass the time until they find something more interesting. Managers consider how to encourage the former and discourage the latter. Theories of motivation, which try to identify factors that energise, channel and sustain behaviour, can inform that consideration – but lie within a context.

Case study The Eden Project – the case continues www.edenproject.com

Gaynor Coley was, in 2015, managing director at the Eden Project, and her financial background was crucial in raising the money that the project needed.

> I left a safe, pensionable university job to join Eden in 1997, having met this crew who had no money in the bank, but who were going to build the eighth wonder of the world in a derelict Cornish clay pit. I spent the next three years raising the money: a really exciting period, using all those skills you learn in the City about having a robust business plan, together with skills you may use in fringe theatre – how to get something off the ground when nothing exists.

The art of persuasion was putting Tim in front of the right people so he could really get them behind the purpose, then following that with the real mechanics of what the business needs – a robust plan, a bank, and stakeholders prepared to come with you.

One thing that's really important about this project is teamwork – we had a horticultural director who was superb, we had an education director who could persuade anybody that education really is the route to a better world.

To get the finance we had to identify people with a similar purpose to us. The Millenium Commission wanted to put really landmark architecture into the landscape and it was obvious that there was nothing else in the South West that would meet this brief. The South West Regional Development Agency was there to generate economic activity, well-paid jobs, and a reason for people to come to the South West. They had a different agenda, and part of our task there was to say, 'well, we will fulfil that agenda'. It was research around what agendas a portfolio of stakeholders had, understanding them and making a pitch relevant to that stakeholder.

Source: Interview with Gaynor Coley.

Case questions 15.2

- What motivational skills has the managing director demonstrated in raising the funds that Eden required?
- How transferable do you think they would be to other management situations?
- From this and the previous instalment, what aspects of the context affect the Eden Project?

Figure 15.1 shows the contexts within which someone tries to motivate others (or themselves). The central transformation area shows the manager's tasks focused on motivating human effort and skill towards an output with value. To do this they can draw upon accumulated theories about human motivation to develop reasonably well-informed choices about how they manage those doing the work.

These people are part of the internal, organisational context – as are several other elements that may affect their motivation. Previous chapters have covered the organisation's culture, structure, technology and power – and the nature of those elements will shape, to some degree, people's motivation.

Some elements in the external context may do the same – such as economic or political conditions. Those with a critical perspective on management stress how these wider contexts shape manager's actions, and employees' reactions:

> workers need to be influenced to cooperate because of their essential alienation from the productive process (Thompson and McHugh, 2002, p.306).

From this view, managers try to maintain their power over employees, which the latter accept in the absence of realistic alternatives. Staff may even express satisfaction with a new arrangement as a way of coming to terms with the inherent stability of the power structure. As always in management, people see the topic from many perspectives: motivation is not a neutral or value-free subject.

Figure 15.2 illustrates a simple model of motivation from a person's point of view. We all have needs that we can try to satisfy through work: they motivate our behaviour. If our

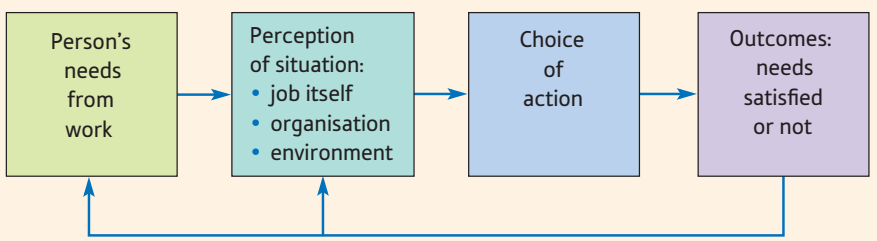


Figure 15.2 Human needs in context – the situational perspective

actions lead to a satisfactory outcome we experience a sense of reward, or otherwise if the outcome is not satisfactory. The feedback loop shows that we then decide whether the behaviour was appropriate and worth repeating.

The figure also shows that individuals act within a context with immediate and wider elements:

- job itself, supervision, colleagues – the immediate social situation
- internal environment – the culture, HR policies on pay, career prospects
- external environment – economic conditions, alternative career opportunities.

In considering this model, remember that:

- we can only infer the needs that matter to someone
- needs change with age, experience and responsibilities
- we may be able to satisfy one need only at the expense of another
- the effect of satisfying a need on the future strength of that need is uncertain.

15.3 The psychological contract

A **psychological contract** is the set of understandings people have regarding the commitments made between themselves and their organisation.

The **psychological contract** expresses the idea that each side to an employment relationship has expectations of the other – what they will give and what they will receive. Employers (or their agents, their managers) offer rewards in the expectation they will receive satisfactory performance. Employees work in the expectation that they will receive valued rewards. Both modify these expectations as contexts and individual circumstances change. There is a constant risk that a contract that satisfied both parties at one time ceases to do so – affecting attitudes and behaviour.

Rousseau and Schalk (2000) refer to psychological contracts as:

> the belief systems of individual workers and their employers regarding their mutual obligations (p.1).

Some elements in the contract are written but most are implicit: so the parties may differ about what was promised and what has been delivered. If both are content, they have a positive relationship: if either believes the other has breached the contract, the relationship will suffer.

Perception is the active psychological process in which stimuli are selected and organised into meaningful patterns.

Guest (2004) proposed the model shown in Figure 15.3 to guide research into, for example, employees' **perceptions** of the state of the psychological contract with their employer. Business pressures can prompt changes that appear to breach the contract – if so, what are the effects?

Restubog et al. (2007) measured the effects of perceived contract breaches on sales staff in the pharmaceutical industry. Relating their work to Guest's model, they assessed the state of the psychological contract by staff responses to statements such as:

- I have not received everything promised to me in exchange for my contributions.
- Almost all the promises made by my employer during recruitment have been kept thus far.

Organisational citizenship behaviour (OCB) refers to things people do beyond the requirements of their task to help others and to make things run smoothly.

The researchers assessed the effects of perceived breaches in the contract on two of Guest's outcomes (Figure 15.3) – 'Job performance' and **organisational citizenship behaviour' (OCB)**. These were assessed by supervisors' ratings of the employee on statements such as:

- Job performance:
  - Adequately completes assigned duties.
  - Fulfills responsibilities specified in the job description.
  - Performs tasks that are expected of him/her.

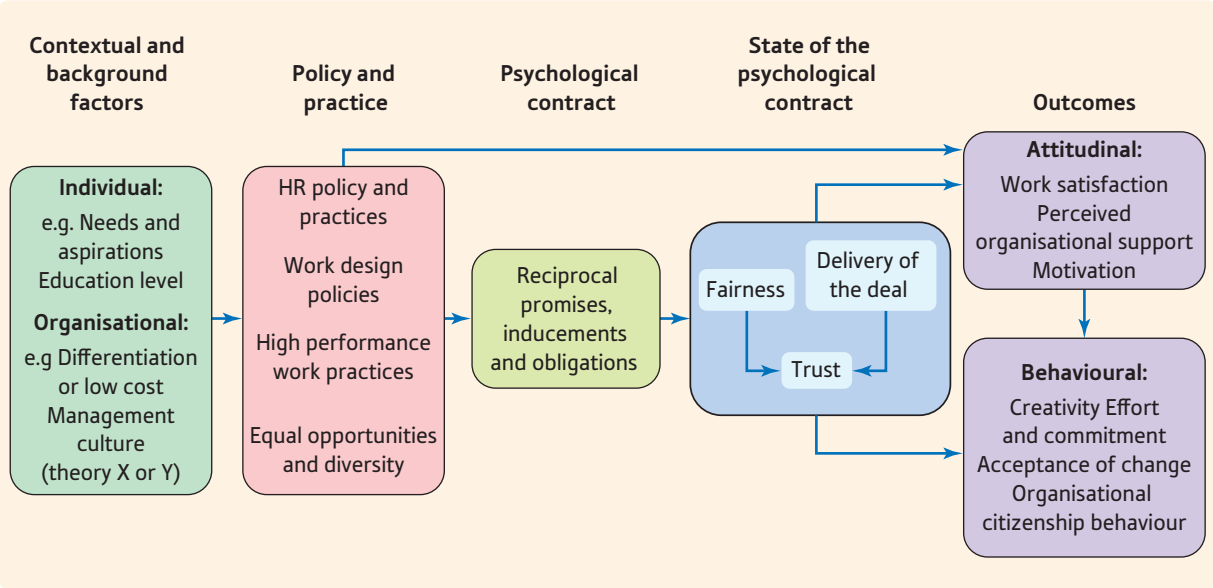


Figure 15.3 A framework for applying the psychological contract to the employment relationship

Source: Based on Guest (2004).

- Organisational citizenship (which benefits colleagues):
  - Helps others who have been absent.
  - Takes time to listen to co-workers' problems and worries.
  - Passes along information to co-workers.
- Organisation citizenship (which benefits company):
  - Attendance at work is above the norm.
  - Gives advance notice when unable to come to work.
  - Adheres to informal rules devised to maintain order.

They found that, as expected, those who believed the contract had been breached were less likely to perform well on the job, and less likely to display organisational citizenship behaviour, though some were more tolerant than others. Another useful concept is **perceived organisational support (POS)** – the beliefs an employee has about the treatment they receive, irrespective of promises made by the organisation. POS forms part of the context of the psychological contract and appears to moderate the effects of breaches by either side.

Perceived organisational support (POS) refers to the beliefs an employee has about the treatment they receive, irrespective of promises made by the organisation.

At a time of great change, previously stable psychological contracts are easily, and perhaps inadvertently, broken. The internet means radical change for the media and for staff at places like the BBC and *The Guardian* (see Chapter 18) as they adapt to new circumstances.

Management in practice — What IKEA expects and offers www.ikea.com

On the website, the company explains that working for the company is a matter of give and take:

> **IKEA co-workers enjoy many advantages and opportunities from working in such a free and open environment – but all freedoms are counter-balanced with expectations. For example, the expectation that each co-worker is able to assume responsibility for his or her actions.**

What do we expect from you?

- **You have the ambition to do a good job and the desire to take on responsibility and to take the consequences that this entails**
- **You do your best on the basis of your abilities and experience**
- **You are service-oriented and have the customers' best interests at heart**
- **You are not status minded, but rather open in your approach to others**

What do we offer you?

- **The chance to work in a growing company with a viable business idea**
- **The opportunity to further develop your professional skills**
- **The opportunity to choose between many different jobs in the company**
- **A job with fair and reasonable conditions**
- **The chance to assume responsibility following recognised good results, regardless of age.**

Source: Company website.

Psychological contract and career stage

Low et al. (2016) found that the contributions that staff (employed in administrative roles in a public body) wanted to make, and the inducements they wanted to receive, changed as their careers progressed. In the early years they typically expected to contribute creativity and initiative, under the direction of others, and to be integrating themselves quickly into the organisation: in return they expected to receive career guidance, mentoring and interesting work. More experienced respondents said they were expecting to contribute by taking on more challenging assignments, and expecting in return to be receiving recognition, and opportunities for promotion.

Activity 15.1 Mutual expectations

Identify a time when you were working in an organisation, or think of your work as a student.

- Describe what the organisation expected of you.
- What policies or practices did the organisation use to encourage these?
- What did you expect of the organisation?
- How well did the organisation meet your expectations?
- How did the 'balance' between the two sets of expectations affect your motivation?

Case study The Eden Project – the case continues www.edenproject.com

Tim Smit on the reasons for Eden:

Of course we have to give people a good day out, a cup of tea they enjoy, and all that. But I think we have actually struck a vein which has got deeper and more important to us as a society, which is people are not just looking for leisure: what many are looking for is a purpose in their lives, and I think the combination of a great day out, with something meaningful, learning about your environment, learning about your relationship with nature, was a killer proposition. That's why I think we get the numbers we do.

The mission of Eden has changed and developed over the years, but I think there's a seed of

an idea that's never gone away and that is about how important it is for us as human beings to understand our relationship with nature. We aren't independent of it: we are dependent on it and part of it. So we give visitors a narrative which is about 'let's protect the habitat of the plants we rely on: coffee, tea, sugar, the things we use in everyday life'. It's about understanding humans' place in nature, understanding that human ingenuity is going to be the thing that provides really good solutions to challenges as well as to some of the poor behaviour.

We think about how we operate, how we do business, and we believe that what you do is really, really important. So the authenticity of the welcome that you get when you come here, the authenticity of how we treat our suppliers, is what I think lies behind the strength of the Eden brand.

Source: Interview with Tim Smit.

Case questions 15.3

- What human needs is Eden seeking to satisfy?
- How attractive do you think you would find Eden if you worked there, and for what reasons?

15.4 Behaviour modification

Behaviour modification refers to a range of techniques developed to treat psychological conditions such as heavy smoking: some practitioners use them to deal with issues such as lateness or safety. The techniques developed from Skinner's (1971) theory that people learn to see relationships between actions and their consequences, and that this guides behaviour. If we receive a reward for doing something, we tend to do it again: if the consequences are unpleasant, we do not.

Behaviour modification is a general label for attempts to change behaviour by using appropriate and timely reinforcement.

Behaviour modification techniques focus on observable behaviours, not attitudes and feelings. This includes specifying what people should do, measuring actual behaviour and identifying the consequences that people experience. If the influencer sees the behaviour as undesirable, he or she tries to influence the person to change by making the consequence undesirable.

Management in practice — Behaviour modification in a call centre

In our call centre staff are rewarded when behaviour delivers results in line with business requirements. Each month staff performance is reviewed against a number of objectives such as average call length, sales of each product and attention to detail. This is known as Effective Level Review and agents can move through levels of effectiveness ranging from 1 to 4, and gain an increase in salary after six months of successful reviews. Moving through effective levels means that they have performed well and can mean being given other tasks instead of answering the phone. The role can become mundane and repetitive so the opportunity to do other tasks is seen as a reward for good performance. Thus it reinforces acceptable behaviour.

Conversely staff who display behaviour that is not desirable cannot move through these levels and repeated failure to do so can lead to disciplinary action. This can be seen as punishment rather than behaviour modification. People can become resentful at having their performance graded every month, particularly in those areas where it is their line manager's perception of whether or not they have achieved the desired results.

Source: Private communication from the call centre manager.

Advocates of behaviour modification stress the need to *reward* desirable behaviours, not take them for granted. Rewards can take the form of individual action (a word of praise or thanks) or organisational practices (shopping vouchers for consistently good timekeeping). Supporters believe the approach encourages management to look directly at what makes a person act in a desirable way, and to ensure those rewards are available. It depends on identifying rewards the person will value (or punishments they will try to avoid). 'Content theories' try identify the rewards people value.

CWS More on behaviour modification

Existence (material) needs reflect a person's requirement for material and energy.

15.5 Content theories

Relatedness needs involve a desire for relationships with significant other people.

Table 15.1 summarises factors (variables) that prominent twentieth-century practitioners and writers believed would affect a person's motivation at work: the companion website gives more information about their respective theories, and of some other sources of ideas.

Growth needs are those that impel people to be creative or to produce an effect on themselves or their environment.

CWS More on content theories

Table 15.1 Factors that twentieth-century observers believed affected motivation

Motivating factor (or variable)	Source(s)	Comments	Implications for practice
Money	Taylor (1917)	Financial inducements encouraged staff to accept new practices, and to increase output	Adequate pay in return for compliance, incentive payment systems
Quality of supervision	Mayo (1949)	Supervisors could create positive atmosphere to increase satisfaction	Train supervisors to be approachable, listen, solve working difficulties
Group loyalty	Mayo (1949)	Loyalty to the group could lead members to limit output	Acknowledge that groups can challenge management authority. They can also be very productive
Existence (material) needs	Alderfer (1972)	Empirical test of Maslow's (1970) theory	Adequate pay Safe working Secure employment
Relatedness needs, including the esteem of others	Alderfer (1972)	As above – similar to Mayo's groups. Relationships with significant others	Able to relate to others Acknowledge skills and achievements
Growth needs, including achievement	Alderfer (1972)	As above – being creative, having an effect on events	Offer responsible, challenging work Scope for making decisions Career prospects

Motivating factor (or variable)	Source(s)	Comments	Implications for practice
Power	McClelland (1961)	To have control over one's environment. Also identified 'affiliation' ('relatedness') and 'achievement'('growth')	Created psychological tests that can identify the relative strength of the three needs in a person
Independence	Barringer and Ireland (2016)	Many entrepreneurs cite this as the reason for creating a business	Not applicable

Activity 15.2 Reflect on what motivates you

Recall when you were working in an organisation, or think of your work as a student.

- Which of the variables in Table 15.1 do you recognise as having affected your attitude to the work?
- Did the organisation satisfy these, or not?
- Compare what you have found with others on your course.
- How does that compare with Lynda Gratton's research at Tesco (see 'Key ideas' below).

Table 15.1 provides a summary (more detail on the companion website) of the range of variables that practitioners may be able to manipulate to motivate themselves and others.

Key ideas Acknowledge the variety of human needs and aspirations

Lynda Gratton (2011) recalls a study conducted by Tesco that revealed the variety of needs that their employees brought to work:

> **Once they had collected data about individual employees, they began to combine people with similar aspirations into segments. [They found that] employees' aspirations for work were highly individual … Of course some wanted to ascend the corporate hierarchy and to bask in the status of money. However, others wanted more than anything else to have flexible working arrangements that allowed them to occasionally spend time with their children or ageing parents during the day. Some came to work to play and have as much fun as possible, while others didn't much care what they did as long as they got paid fairly.**
>
> **What is crucial is that we both acknowledge and celebrate the variety of human needs and aspirations … By understanding this, we can begin to shift our view of working lives towards [being] more accepting of unique needs, and towards the idea that work can be crafted to acknowledge and meet these needs (p.310).**

Source: Gratton (2011).

Douglas McGregor sought to identify the assumptions that guide managers as they work out how to influence their employees – see companion website.

CWS More on Douglas McGregor

15.6 Process theories

Process theories try to explain why people choose one course of action to satisfy a need rather than another. A person who needs a higher income could satisfy it by moving to another company, applying for promotion or investing in training. How do they decide what to do?

Expectancy theory

Expectancy theory states that motivation depends on a person's belief in the probability that effort will lead to good performance, and that good performance will lead to them receiving an outcome they value (valence).

Vroom (1964) tried to answer that question with what he termed the **expectancy theory** of motivation. Suppose Stuart Roberts is studying Chemistry and has to submit the last assignment. He wants an A for the course, and has an average of B+. Expectancy theory predicts that his motivation to put effort into the assignment will be affected by (a) his expectation that hard work will produce a good piece of work, and (b) his expectation that it will receive a grade of at least an A. If he believes that (even if he puts in the effort) he cannot do a good job, or that the grading system is unclear, his motivation will be low.

The theory assumes that individuals:

- have a unique pattern of needs, and so value them accordingly
- make conscious choices about their actions
- choose the action most likely to achieve an outcome they value.

It has three components:

Subjective probability (in expectancy theory) is a person's estimate of the likelihood that a certain level of effort (E) will produce a level of performance (P) which will then lead to an expected outcome (O).

- a person's expectation (or **subjective probability**) that effort (E) will result in some level of performance (P):

$$(E \rightarrow P)$$

Instrumentality is the perceived probability that good performance will lead to valued rewards, measured on a scale from 0 (no chance) to 1 (certainty).

- their expectation that performance will be **instrumental** in leading to an outcome (O):

$$(P \rightarrow O)$$

Valence is the perceived value or preference that an individual has for a particular outcome.

- the **valence** (or value) they attach to a particular outcome:

$$(V)$$

In summary:

$$F = (E \rightarrow P) \times (P \rightarrow O) \times V$$

in which F represents the force exerted – the degree of motivation a person has towards an activity. Expectations reflect their personality and their understanding of organisational practices, which Figure 15.4 shows.

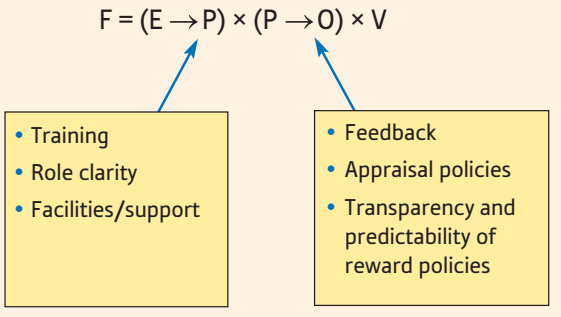


Figure 15.4 Organisational practices affecting subjective probabilities

The theory appears to require a highly rational and calculative approach – which few people will do. The practical value is in acknowledging that people vary in the rewards they value, and in predicting that their beliefs about the observable factors in Figure 15.4 will shape what they do. Managers can affect these beliefs by how they design these factors. If people are untrained and receive no helpful feedback on their performance, the theory predicts lower motivation than if they are well-trained and receive helpful feedback on how they can improve performance.

Management in practice

Employee ownership at Child Base Nurseries www.childbasepartnerships.com

Mike Thompson established Child Base Nurseries 1989, and the company now operates (in early 2016) 450 nurseries in Midlands and South of England. Being a network helps staff development, as the nursery nurses can move up a career change – the company's operations director began as a nursery worker. The company is privately owned by the employees, who can buy shares from the Thompson family holding – which is now down to about 28 per cent. The family can only sell their shares to the Employee Benefit Trust which administers the share scheme. The company's legal rules make it clear that Child Base is established for the benefit of employees – past, present and future. In 2015 it was recognised as one of the *Sunday Times* '100 Best Companies to work for.'

Mr Thompson believes strongly in the principle of employee ownership – he could have made more money by selling his shares in the business to external investors. He says:

> **You get where you are in business because of other people. Why not put the business back in the hands of the people who helped build it?**

FT Source: *Financial Times*, 22 April 2009.

The theory predicts that managers can influence motivation by these practices:

- Establishing the rewards people value.
- Identifying and communicating performance requirements.
- Ensuring that reasonable effort can meet those requirements.
- Supporting the person's effort.
- Ensuring a clear link between performance and reward.
- Providing feedback to staff on performance.

Equity theory

Equity theory, developed by Adams (1963), proposes that people like to be treated fairly and compare what they put into a job (effort, skill, knowledge) with the rewards they receive (pay, recognition, satisfaction). They think of this as a ratio of their input to their reward. They expect management to reward people fairly, so their ratios should be roughly equal.

Equity theory argues that perception of unfairness leads to tension, which then motivates the individual to resolve that unfairness.

If people believe (rightly or wrongly) that someone else is putting in less effort, but receiving higher rewards, they will feel this is unfair – and experience tension and dissatisfaction. They try to reduce this by, for example, reducing their inputs, by putting in less effort or withholding good ideas. Such comparisons are highly subjective, although the theory has an intuitive appeal. There is abundant anecdotal evidence that people compare their effort/reward ratio with that of other people or groups.

CWS More on equity theory

Case study The Eden Project – the case continues www.edenproject.com

Tim Smit on work at Eden:

To work at Eden you've got to be interested in a lot of stuff. You've got to be prepared to catch people when they fall, because people are trying stuff all the time, and you've got to be prepared for the unexpected because part of the way we work is almost deliberately create chaos by doing more stuff than we've possibly got time to do, which means more junior members have more chance to become leaders because the senior ones can't do it all.

One of the things I think is very special about Eden is that the letters after your name don't make any difference. It's what you can do … Sure the finance director's got to be an accountant and all that sort of stuff, but in the wider scheme of things, to be an Eden person you've got to be optimistic and smiley and damned hard working.

Gayle Conley adds:

We try not to be prescriptive about defining talent and we try to encourage people to take individual responsibility for their own career path here as much as we can help them to a career path.

Jess Ratty speaks about her work:

I began at Eden as a waitress when I was 16 years old with no qualifications: I'm now 24 and the press officer. I've worked in about eight departments and worked my way up through the company. I think Eden's been a fantastic opportunity for me – the ethos and the way you don't have to have a degree – you know they'll give people a chance … after working as a waitress I moved to the Stewards team where I learnt a lot about dealing with people. I worked in plant sales, learning a lot about different plants, which was great to learn at 18. Then I worked in retail, the product side of things, and was then picked up by the design team … and after a few more jobs one of the managers said 'Do you want to go for the job of communications assistant?' And I thought, 'People actually believe in me, they want me to do a job they think I'll be good at!'

Source: Interviews with the staff members.

Case questions 15.4

- Consider how the company has helped to generate positive attitudes amongst members of staff.
- Analyse these accounts using Table 15.1 – which of the motivating factors do staff refer to?

Goal-setting theory

Goal-setting theory argues that motivation is influenced by goal difficulty, goal specificity and knowledge of results.

The best-known advocates of **goal-setting theory** are Locke and Latham (Locke, 1968; Locke and Latham, 1990, 2002), and the theory has four propositions:

1. **Challenging goals** lead to higher levels of performance than easy goals. Difficult goals are sometimes called 'stretch' goals because they encourage effort, stretch ourselves. Beyond a point this effect fades – if people see a goal as being impossible, their motivation declines.
2. **Specific goals** lead to higher levels of performance than vague goals. We find it easier to adjust behaviour when we know exactly what the objective is, and what others expect us to do.
3. **Participation in goal setting** can improve commitment to those goals, since people have a sense of ownership and are motivated to achieve them. If management explains and justifies the goals, without inviting participation, that can also increase motivation.

4 **Knowledge of results of past performance** – receiving feedback – is necessary to motivation. It is motivational in itself, and contains information that may help people attain the goals. Seijts and Latham (2012) advocate that managers should set learning goals as well as task goals, to help staff develop.

An attraction of goal-setting theory is the directness of the practical implications, including:

- **Goal difficulty**: set goals that are hard enough to stretch employees, but not impossible.
- **Goal specificity**: set goals in clear, precise and, if possible, quantifiable terms.
- **Participation**: allow employees to take part in setting goals, to increase ownership and commitment.
- **Acceptance**: if goals are set by management, explain and justify them.
- **Feedback**: provide information on performance to encourage employees to adjusting.

Individual and contextual variables moderate the relationship between goal difficulty and performance. A confident person with a high need for achievement will respond more positively to a challenging goal than someone with less confidence or a lower need for achievement.

The degree of perceived organisational support will also affect how people respond – as does the degree of trust that staff have in their manager: see Crossley et al. (2013).

While challenging goals often lead to higher performance, tying pay to pre-set targets for sales and profit has, on occasion, led to poor and/or fraudulent behaviour. This can include booking sales that have not been made, gaining sales by price-cutting that means the business loses money, or persuading customers to make investments that are against their interests (see Chapter 5).

Activity 15.3 Reflect on goal-setting theory

- If you have played competitively for a team, can you recall any occasions on which someone (captain, coach, other team members) tried to encourage you to achieve better results?
- Did what they said have any resemblance to goal-setting theory?
- Do you think the theory could apply to sporting situations like that?

15.7 Designing work to be motivating

People value both **extrinsic** and **intrinsic rewards**. Extrinsic rewards are those that are separate from the task, such as pay, security and promotion. Intrinsic rewards are those that people receive as they do the task itself – using skills, sensing achievement, doing satisfying work. Recall that a central element in scientific management was the careful design of the 'one best way' of doing a piece of manual work. Experts analysed how people did the job and identified the most efficient method, usually breaking the job into many small parts. Such work provided few if any intrinsic rewards – and Taylor's system concentrated on providing clear extrinsic rewards.

Extrinsic rewards are valued outcomes or benefits provided by others, such as promotion, a pay increase or a bigger car.

Intrinsic rewards are valued outcomes or benefits that come from the individual, such as feelings of satisfaction, achievement and competence.

Fragmented work bores many people, who become dissatisfied, careless and frequently absent. Ideas from Maslow, Herzberg and McGregor prompted attempts to design work on the assumption that people work more productively if they receive intrinsic rewards as well as extrinsic ones – often called 'job enrichment'.

Job characteristics theory

Job characteristics theory predicts that the design of a job will affect internal motivation and work outcomes, with the effects being mediated by individual and contextual factors.

Hackman and Oldham (1980) built on these ideas to develop and test empirically an approach to the design of work that focused on characteristics of employees' jobs. Their aim was to build into jobs the attributes that offer intrinsic motivation, and so encourage effort. **Job characteristics theory** predicts that the design of a job will affect internal motivation and work outcomes, with the effects being mediated by individual and contextual factors. Figure 15.5 shows the model, with the addition of implementing concepts in the left-hand column. The model provides guidance in how to design enriched jobs that satisfy employees' higher-level needs.

The model identifies three *psychological states* that must be present to achieve high motivation. If any are low, motivation will be low. The three states are:

- **Experienced meaningfulness**: the degree to which employees perceive their work as valuable and worthwhile. If workers regard a job as trivial and pointless, their motivation will be low.
- **Experienced responsibility**: how responsible people feel for the quantity and quality of work performed.
- **Knowledge of results**: the amount of feedback employees receive about how well they are doing. Those who do not receive feedback will care less about the quality of their performance.

Management in practice — Enriching the work of a software engineer

A skilled software engineer found that others were expecting him to help them out on too many routine tasks, and this was preventing him from developing new skills – so he became disengaged from the work he enjoyed. He discussed the problem with his manager, who responded effectively in that he:

- made the engineer responsible for two junior engineers who could share the load
- assigned him to visit customers (previously done by a customer engineer)
- authorised him to plan how to meet customers' needs.

The engineer said:

After these changes, I experienced total fulfillment. I was aware of the customers' problems. And by contacting them directly I knew what they needed. I also saw directly how our solutions helped them.

Source: Private communication from the engineer.

These psychological states are influenced by five *job characteristics*:

- **Skill variety**: the extent to which a job uses a range of skills and experience.
- **Task identity**: whether a job involves a complete operation, with a clear beginning and end.
- **Task significance**: how much the job matters to colleagues and/or the wider society.
- **Autonomy**: how much freedom a person has in deciding how to do the work.
- **Feedback**: the extent to which a person receives feedback.

The extent to which a job contains these elements can be calculated using a tested instrument, and then using the scores to calculate the *motivating potential* score. How an individual responds to this is predicted to depend on three moderating influences:

- **Knowledge and skill**: a person's ability to do the work.
- **Growth need strength**: the extent to which an individual desires personal challenges, accomplishment and learning on the job.
- **'Context' satisfaction**: pay and other conditions.

Figure 15.5 presents the model schematically.

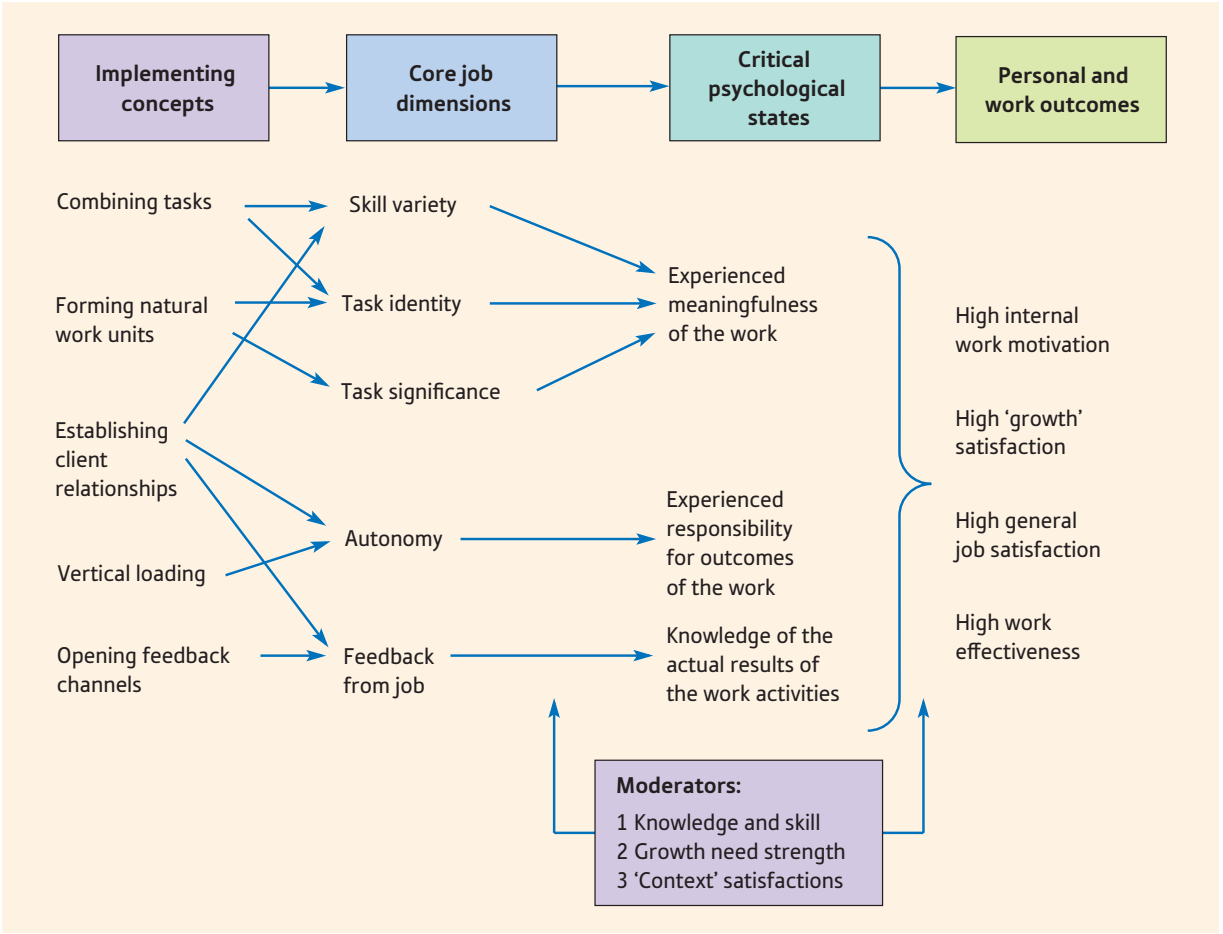


Figure 15.5 The job characteristics model

Source: Adapted from Hackman and Oldham (1980).

Key ideas — Research into job design practice

Research teams continue to test and refine the job characteristics model, learning from experience of job design in a widening range of industries. Here are two examples:

- Humphrey et al. (2007) conducted a meta-analysis of 259 such studies, which confirmed that the five motivational characteristics shown in Figure 15.5 were positively related to job satisfaction, growth satisfaction, internal work motivation, and positive job performance; and were negatively related to absenteeism. They also found that experienced meaningfulness was a particularly significant mediating factor – if people feel that their work is valuable, this has a positive effect on their motivation.
- Chae and Choi (2018) examined how jobs (520 employees in eight organisations in various industries) with high scores on each of the five core task dimensions led to highly creative outcomes, and in turn to high scores on task performance. This effect was strongest in situations where staff perceived that their supervisors supported creativity, especially when the work required employees to interact frequently with their colleagues. This adds a further contextual factor (supervisor support) to the original model.

Sources: Humphrey et al. (2007), Chae and Choi (2018).

Many managers, such as those at Gamma Chemical (see 'Management in practice' below), have changed the kind of work they expect employees to do by, for example, combining tasks to make a job more interesting, introducing team working, giving staff more responsibilities, enabling them to be in touch with customers and providing feedback. Such changes are not necessarily intended to make work interesting, but to cut costs. Whatever the motive, they may have the motivational effect that theory predicts. A quantitative analysis by Wood et al. (2012) of data from the UK's Work Employment Relations Survey, found that:

> enriched job design had significantly positive effects on financial performance, productivity [and] quality. [It also had a significant negative effect on absenteeism] (p.435).

Management in practice — Gamma Chemical – change and motivation

Gamma Chemical took control of a smaller, failing company with about 30 employees. The latter had become very de-motivated while working for the previous company, and at first showed little more enthusiasm working for Gamma, even though they now had secure jobs and higher pay.

The company made these changes to their working arrangements, to bring them into line with those of existing Gamma employee. It:

- introduced a cross-training programme to improve job diversity and individual growth
- created problem-solving teams from natural work units to give operators a sense of ownership and achievement
- expected operators to make more decisions, increasing individual authority and accountability
- introduced an appraisal system that shows operators how their function affects company performance.

Management believed that within six months these changes had resulted in 20 per cent more output and 50 per cent less wastage.

Source: Private communication and discussions with the manager.

Management in practice — Managing nurses at Western General Hospital

A nurse manager at the Western General Hospital in a large city commented on managing their staff:

> **The service has been trying to be more responsive to the needs of patients by delegating power and responsibility to local level. Nurses have recognised the benefits to patients if they work by patient allocation rather than by task allocation. This has developed into the 'named nurse' concept, which incorporates four of the five core dimensions of the job characteristics model. The nurse assesses needs, plans, implements and evaluates the care of their patients – offering skill variety, task identity, task significance and autonomy. Perhaps even the feedback element is provided from the evaluation stage of each patient's care.**
>
> **The recently appointed nurse managers are enthusiastic, and this has filtered down to staff. They are gradually becoming aware of the move from Theory X to Theory Y style of management. They appreciate that at last their skills and experience are being recognised and used.**
>
> **Information flows more freely and openly. Decisions are made only after discussion with the staff who will be affected by the outcome. Nurses in the wards are aware of their allocated budgets and what they are spending. Recruitment of staff is now done by existing staff, where previously managers decided whom to appoint.**

Source: Private communication from a senior nurse in the hospital.

Activity 15.4 **Reflect on 'work design' theories**

- Think of work you have done (including in education), and identify something that you found most enjoyable.
- Why do you think that was?
- Does it connect with any of the theories or examples in this section?
- Consider the practical implications (if any) for you of this connection between experience and theory.

15.8 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column of Table 15.2 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and what variables they assumed would help achieve them) and about process (how they tried to gain the support of stakeholders). *These are examples only – not a comprehensive analysis.* You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows some points you may want to include if you were writing an assignment or examination question on an aspect of theory in this chapter. For example:

> *Outline the main structure of the job characteristics theory (include a diagram if you wish). Evaluate the potential value of the theory to a manager, illustrating your answer with examples.*

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the requirements and presentation of your answer as a whole.

Table 15.2 'Clear thinking' questions about practice and theory

Clear thinking elements	From the Chapter Case study – Eden's recruitment criteria	Theory – a question about job characteristics theory (Section 15.7)
Check assumptions about key variables	**Focus** Eden recruitment practices, stressing limited role of qualification and significant role for personal characteristics • Dependent variables – what is the intended outcome? People who are committed to Eden; willing to grow into a job; and work very hard; take individual responsibility for their career • Independent – *not* formal qualifications, optimistic, smiley, hardworking, willing to take responsibility	**Introduction** • Outline the context – extrinsic or intrinsic motivation. JC model a way of satisfying the latter • Present the theory, possibly including the features of Figure 15.5 • Dependent, independent and mediating variables Assumptions to consider could be: **Task** • Workers are motivated by intrinsic factors

(continued)

Table 15.2 (*continued*)

Clear thinking elements	From the Chapter Case study – Eden's recruitment criteria	Theory – a question about job characteristics theory (Section 15.7)
	Assumptions to consider could be: • that enough people keep coming forward • the Eden philosophy continues to attract • there will be some structured jobs where qualifications do matter – how to ensure these fit with customer-facing ones?	• Workers able and willing to accept responsibilities of larger jobs • Contextual factors are supportive (pay, etc. acceptable, not a distraction) **Process** • Degree of involvement by staff in re-designing jobs?
Recognise contexts	**External** • Widening global interest in Eden philosophy will continue to attract staff, and also offer widening job opportunities for some (working with an increasingly international company) • Limited alternative work in Cornwall • Good reputation of Eden helps recruitment **Internal** • They have worked hard to create an attractive and supportive work culture, with high expectations	(External) 1 Is the theory more suited to some contexts than others? Or will it be useful anywhere? (Internal) 2 What other changes in the organisation would a plan to re-design work using this theory imply? (Historical) 3 How might previous events in a firm affect the practical value of the theory?
Imagine alternatives	Not applicable	Any evidence that some of the five factors are more influential than others? Might other approaches to employee engagement be just as effective? (e.g. W.L. Gore's approach?)
Acknowledge limitations	May omit/discourage some who would be able to contribute, but in a more structured way Expectations of those selected will be high – can they be met?	The moderating factors in the model imply limitations to its applicability

Skill

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of designing a motivating job.

Develop a skill: design a motivating job

Being able to shape the nature of someone's job (in quite small, day-to-day activities) can help to motivate the person, and so improve your work as well.

- **Assessment**. Assess how much consideration you give to adjusting the elements of a person's job – which can happen as you and some friends design an outing together, when planning a charity event, or perhaps

in your part-time job. Do you think deliberately about the job, or do you just leave it to them, or follow the way it has always been done?

- **Learning**. Section 15.7 introduced ideas on designing jobs to be motivating. Read that section again, paying especial attention to the 'Management in practice' feature on page 394 which shows how a nurse manager in a hospital was able to relate recent changes to these theories. Summarise the ideas in these sections. Why is paying attention to practices like combining tasks, or forming natural work units likely to enhance motivation?
- **Analysis**. Do you or people you know have experience of working at a boring or, alternatively, satisfying job? Can you identify what factors in the job caused that? From what you now know, what opportunities were there to have made a boring job more satisfying? What, if anything, prevented that?
- **Practice**. Think about your current job, or a recent one. Describe it using the five core job dimensions. If you cannot describe a job of your own, use one with which you are familiar, such as that of a friend or family member.
  - Now think about the personal and work outcomes as described in Figure 15.4, and consider how the job dimensions affected the work outcomes.
  - Finally, record in some way which of the core dimensions of the job you have studied could be re-designed to improve work outcomes (even if these were already quite positive).
- **Application**. When you have completed the work, review how you worked, and whether your ideas would be likely to make a difference. Reflect on what you can learn. If possible share your work with a colleague on the course, and note what you have learned.

Decide on another opportunity to practise this skill within the next week.

Summary

1 **Explain why managers need to understand and use theories of motivation**

- People depend on others within and beyond the organisation to act in a particular way, and understanding what motivates them is critical to this. Motivation includes understanding the goals that people pursue (content), the choices they make to secure them (process) and how this knowledge can be applied to influence others (including through work design).

2 **Show how the context, including the psychological contract, affects motivation**

- Social changes affect the people managers try to motivate, so they may need to adapt their approach to suit.
- The relationship between employer and employee is expressed in the psychological contract, which needs to be in acceptable balance for effective performance.

3 **Understand behaviour modification, content and process theories of motivation**

- Behaviour modification theories attempt to explain that people can influence the behaviour of others by using appropriate and timely reinforcement.
- Content theories seek to understand the needs that human beings may seek to satisfy at work and include the work of Maslow, Alderfer and Herzberg as well as of earlier observers such as Taylor and Mayo.
- Expectancy theory explains motivation in terms of valued outcomes and the subjective probability of achieving those outcomes.
- Equity theory explains motivation in terms of perceptions of fairness by comparison with others.
- Goal-setting theory believes that motivation depends on the degree of difficulty and specificity of goals.

4 **Use work design theories to consider how to design jobs that are intrinsically motivating**
   - People are only motivated if the job meets a need that they value – providing appropriate content factors leads to satisfaction and performance.
   - Herzberg suggests that motivation depends on paying attention to motivating as well as hygiene factors.
   - Jobs can be enriched by increasing skill variety, task identity, task significance, autonomy and feedback.

5 **Use clear thinking to evaluate these practices and theories, and as you begin to develop the skill of designing a job that is motivating**
   - Evidence is accumulating that jobs consistent with work design theories can satisfy human and financial criteria (the 'Develop a skill' feature is an opportunity to practise designing a motivating job).
   - Developing the skill of designing a motivating job may be more effective in practice if a practitioner questions their assumption that, for example, everyone values a motivating job, and especially to ask if it matters in their immediate context or situation. Practitioners may also benefit if they are alert to alternative ways of designing jobs, and are conscious of the limitations of the skill in some situations.

Test your understanding

1 Outline the basic assumptions of McGregor's Theory X and Theory Y.
2 Describe the psychological contract. What are you expecting (a) from an employer in your career; (b) from an employer who provides you with part-time work while you are studying?
3 What is meant by the term 'organisation citizenship behaviour'?
4 Which three things are pinpointed when using behaviour modification?
5 Give three examples of factors that researchers have identified as affecting motivation.
6 What did Linda Gratton's research amongst staff at Tesco reveal about motivation?
7 Name one practice that goal-setting theory predicts will enhance motivation.
8 Name an organisational practice that could affect E – P, and another that could affect P – O, in expectancy theory.
9 What are the five job design elements that may affect a person's satisfaction with their work, according to the job characteristics theory?

Read more

Gratton, L. (2011) *The Shift: The Future of Work is Already Here*, Collins, London.

A challenging synthesis of many contemporary ideas about the changes affecting working lives.

Locke, E.A. and Latham, G.P. (2002) 'Building a practically useful theory of goal setting and task motivation – A 35-year odyssey', *American Psychologist*, vol. 57, no. 9, pp.705–17.

Review by the founders of goal-setting theory, including the results of many empirical studies.

Culbertson, S.S. (2009) 'Do satisfied employees mean satisfied customers?', *Academy of Management Perspectives*, vol. 23, no. 1, pp.76–7.

Shows the link between employee satisfaction and customer responses – also relevant to marketing.

Chae, H. and Choi, J.N. (2018) 'Contextualizing the effects of job complexity on creativity and task performance: Extending job design theory with social and contextual contingencies', *Journal of Occupational and Organizational Psychology*, vol. 91, no. 2, pp.316–39.

Valuable empirical study of the job characteristics theory, citing many other studies of this influential theory.

Go online

These websites have appeared in the chapter:

www.edenproject.com
www.greatplacetowork.co.uk
www.gore.com
www.timpson.co.uk
www.ikea.com
www.dsm.com
www.childbasepartnerships.co.uk
www.irisnation.com

Navigate to the pages dealing with 'about the company' or 'careers'.

- What do they tell you about working there? What seem to be the most prominent features?
- What motivational needs do they seem to be aiming to meet? Would they meet your needs?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



CHAPTER 16
COMMUNICATING

Aims

To describe and illustrate the processes of communicating in organisations.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Explain the role of communicating in adding value
2. Identify and illustrate the elements and stages in the communication process
3. Use the concept of information richness to select a communication channel
4. Compare communication networks (CW)
5. Outline some essential interpersonal communication skills
6. Identify some contextual factors that affect communication
7. Think clearly to evaluate these management practices and theories, and as you begin to further develop your skills of presenting ideas to an audience

Key terms

This chapter introduces these terms:

communication
message
encoding
decoding
noise
feedback
non-verbal communication
selective attention
stereotyping
channel
information richness
information overload

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

Facebook's internal communications in the early years

Communication networks

Case study

Facebook www.facebook.com/facebook

In late 2018, Facebook was the world's largest online social network with over 2 billion users, who post over 65 million updates a day and share more than four billion pieces of content every week. It has expanded far beyond its American roots, with 70 per cent of users being outside the United States. The 2012 sale of shares in the company signalled clearly that what had begun as a university stunt was now influencing how people and businesses communicate: it was moving from entrepreneurial business start-up to a mature corporate power.

In March 2018, *The Observer* reported that more than 50 million (eventually 87 million) Facebook profiles, mainly of US citizens, were passed to Cambridge Analytica and used to build a system that may have influenced voters in the 2016 US Presidential election. Facebook (through a third party) had provided Cambridge Analytica with an anonymised, aggregate data-set of every friendship formed in 2011 in every country in the world. Facebook sought to play down the data's significance:

> **The data that was shared was literally numbers – of how many friendships were made between pairs of countries ... There was no personally identifiable information included in this data.**

The company also claimed that it had ended its relationship with (the third party) once it became aware that he had violated Facebook's terms of service. US and UK politicians both began to investigate the implications of this serious breach of citizens' data security.

Mark Zuckerburg founded the site to allow users to create a profile page about themselves and what they were doing, and to share this information with friends and acquaintances. Other students at Harvard claim the original idea, and that they hired Zuckerburg to write the software: the contestants reached a legal settlement with the company.

Facebook opened the site to the public in 2007. Mr Zuckerberg's goal was, and remains, to connect as much of the world's population as possible via the network and then to persuade them to use it as their main route to the internet. As users and their 'friends' share information about themselves, they create data that is of great interest to companies who wish to sell goods and services to this relatively young group of consumers. A manager at one brand said:



© Geoff Smith/Alamy Stock Photo

> **Facebook is now much bigger than a social network – it's a communication platform.**

Facebook earns revenue by meeting advertisers' requirements, but knows that users may object to intrusive advertising that has breached their privacy. It seeks a balance between hoarding data that advertisers crave and ensuring users are still willing to share information online. These issues also interest governments – the US Congress and the European Commission are both observing the company's activities in relation to privacy and competition issues.

Sources: Kirkpatrick (2010); *Financial Times*, 17 May 2013, p.19, 6 August 2018, p.11, 29/30 September 2019, p.11; *The Guardian* 19 March 2018, p.1 and p.6, 23 March 2018, p.1; *The Observer*, 8 April 2018.

Case questions 16.1

- If you use Facebook, what changes, if any, has it made to the way you communicate?
- What aspects of using Facebook to communicate with close friends (a) enhance the process, (b) diminish it?
- Which aspects of the context were probably important to Facebook when it started, and which are important now?

16.1 Introduction

Facebook (and similar sites) have become widely accepted tools for communicating, representing a dramatic and permanent change in people's ability to communicate. They make people's personal relationships more visible and quantifiable, and have become channels for news and influence. Managers at Facebook themselves face communication challenges – they need (amongst other things) to communicate the attractions of working at the company to potential staff, ensure rapid and accurate communication amongst their software developers and between them and other functions, and to understand what people want and expect from Facebook. They also watch for information on developments at potentially competing sites.

Stewart (1967) and Mintzberg (1973) both found that managers spend most of their time communicating by one or more of several means. Pharmaceutical company GlaxoSmithKline (Chapter 10) depends on intense communication between research teams, clinical trial staff, regulators and marketers as they develop new drugs. Those in service organisations such as The Eden Project want staff to communicate ideas and suggestions – and to understand company policy. Professionals caring for the sick need to communicate accurate and timely information, often in stressful conditions; failure is often due, at least in part, to poor communication.

Even with the technologies now available, people continue to experience ineffective communication. Computer-based tools do not replace the need for human interaction. Enterprise-wide information systems make it easy for geographically separate people to exchange messages – but how they interpret them depends on their relationship. People understand messages more fully if they have worked or socialised with the sender, and have some knowledge of who they are. Until people meet, within a context, they cannot develop the mutual trust and shared knowledge essential for effective communication.

It is easy to underestimate communication problems. A professional in a utility business wrote to the author:

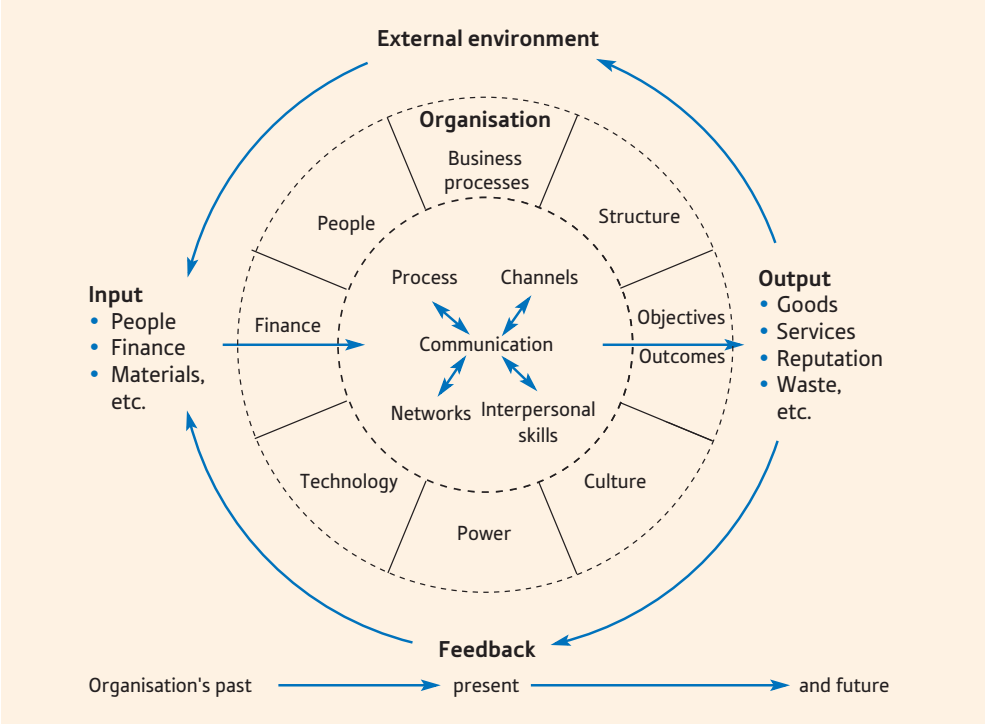


Figure 16.1 An overview of the chapter

The majority of managers within [the business] consider themselves to be effective communicators. Staff have a different perspective, and a recent staff survey rated communications as being very poor, with information being top down, no form of two-way communications and managers only hearing what they want to hear.

The chapter begins by exploring the idea that communication is intended to add value, and then outlines the generic steps in any communication process. People communicate through one or more channels (or media), whose usefulness depends on the situation: the same is true of communication networks. Interpersonal communication depends on using identifiable skills to present ideas, so the 'Develop a skill' feature at the end of the chapter is a chance to work on this. Figure 16.1 provides an overview.

16.2 Communicating to add value

We base our understanding of the world on information and feelings that we receive and send. People at all levels of an organisation communicate about:

- **inputs**– e.g. the availability of materials or equipment
- **transformation**– e.g. about capacity or quality
- **outputs**– e.g. customer complaints or advertising policy.

Information about an order needs to flow accurately to all the departments that will help to satisfy it – and then between departments as the task progresses. People communicate information up and down the vertical hierarchy, and horizontally between functions, departments and other organisations. Figure 16.2 shows how communication happens within and between internal and external contexts, to support these value-adding processes.

What is communication?

Communication happens when people share information to reach a common understanding. Managing depends on conveying and interpreting messages clearly so that people can work together. Speaking and writing are easy: achieving a common understanding is not. Background and personal needs affect our ability to absorb messages from those

Communication is the exchange of information through written or spoken words, symbols and actions to reach a common understanding.

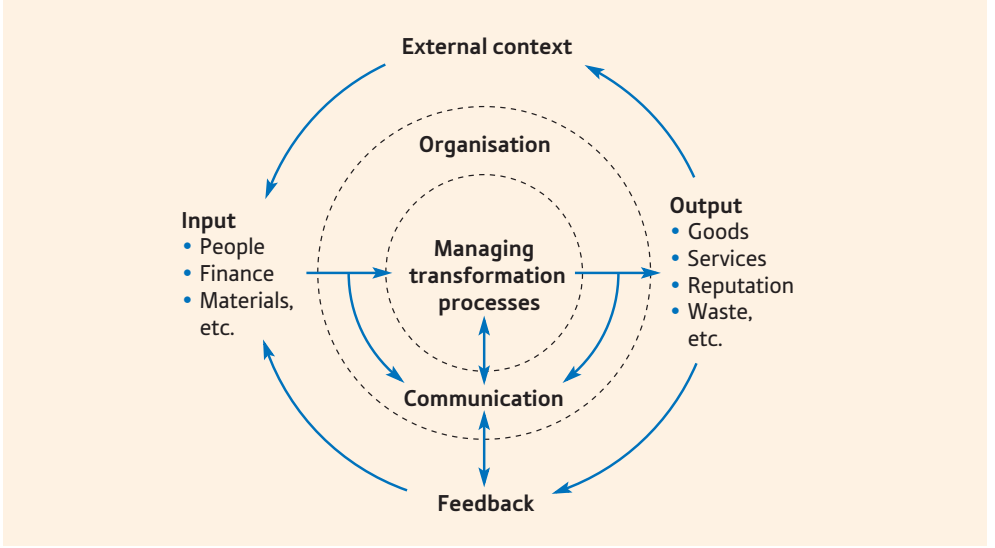


Figure 16.2 The role of organisational communication

with different histories, but until people reach a common understanding, they have not completed the communication episode.

Activity 16.1 Collecting symbols and actions

The definition of communication refers to words, symbols and actions. Try to identify examples of symbols and actions that communicate a message to you. Some clues:

- **Symbols:** someone's style of dress or manner, or the appearance of the entrance to your college or university,
- **Actions:** someone taking time to offer directions to a visitor or looking bored during a meeting; interrupting someone.

How communicating adds value

Communication features in every chapter – planning, making decisions, giving market information to a designer, posting a job vacancy on the website, working in teams. People add value as they deal with innovation, quality, delivery and cost. *Innovation* depends on good information about customer needs and relevant discoveries – communicated by the scientific community. Embodying ideas in products requires communication within cross-functional teams, and with suppliers and customers. Enhancing *quality* depends on everyone understanding what quality means to the customer – which comes from communication. Another performance measure is *delivery* – supplying customers with what they expect, when they expect it. That depends on people communicating accurate, reliable and timely information up and down the supply chain.

Management in practice Communication failure in a small Dutch company

The company was founded in 1881 and the present owner is one of the fourth generation of the family. The company trades and manufactures packaging machines and employs 16 people. Someone who has recently joined the company said:

> **Last year was difficult. Five people left the company and took with them much knowledge and experience. The company really consists of one person – the owner. He does not delegate much and there is little communication between him and the rest of the organisation. The only part of the company that interests him is the game of selling machines. He describes the rest of his tasks as annoying. The result is that, for example:**
>
> 1 **When we sell a machine, Operations do not know exactly what Sales has promised a customer. The customer expects the machine they specified, but do not always get it.**
> 2 **There is lack of internal communication – people in the company do not know their precise responsibilities or who is responsible for which tasks.**
> 3 **There is no time planning for ordered machines. No one knows the delivery date that we have promised a customer.**
> 4 **There is no budget system for a machine project. When we sell a machine, we do not know if we will make a profit or a loss.**
>
> **Altogether, the company faces serious problems because of a lack of policy, management, information and communication.**

Source: Private communication from the manager.

The performance of modern communication systems depends on an adequate fit between the system and its context (structure, culture). Technically sophisticated systems only add value if those responsible manage familiar human issues – see 'Management in practice' feature below.

Management in practice

Can staff benefit from an electronic pause? www.helloalfred.com

Hello Alfred offers an app which customers use to arrange concierge services such as grocery shopping and cleaning, in many US cities. Its founders Marcela Sapone and Jessica Beck believe their employees will benefit if they are able to pause and reflect in the middle of the working week. The growing young business uses intuitive technologies, and the human intuition of carefully selected and well-trained staff to deliver a wide range of domestic and related services. The founders depend on committed staff – so made every Wednesday 'recovery day' for those delivering the services: once clients knew the reasons, they adapted and arranged to have work done on other days.

More recently the founders realised employees were trapped on an electronic treadmill: they considered introducing a tech-free day, but considered that a bit heavy – they are after all a technology company. Instead, they went 'tech-light', encouraging staff not to use their phones, and turning off email and other instant messaging programmes. All staff were discouraged from using Slack, the internal messaging system, and were asked to prepare social media posts the day before.

One observer:

> **In a time of increasing artificial intelligence we all need to develop our emotional intelligence ... You won't do that by constantly checking your phone for email alerts and status updates like some sort of work automaton.**

FT Source: From an article in the *Financial Times* by Emma Jacobs, 19 February 2018, p.13.

16.3 The communication process

We communicate whenever we send a **message** to someone, and as we think about what they say in return. Whenever someone says: 'That's not what I meant' or 'I explained it clearly, and they still got it wrong', communication has failed. We waste time when we misunderstand directions, or cause offence when we say something the listener misinterprets.

The **message** is what the sender communicates.

We infer meaning from words and gestures and then from the person's reply. We continually interpret their messages and create our own. As colleagues talk, each listens to the other's words, sees their gestures, reads the relevant documents or looks over the equipment to understand what the speaker means. When they understand each other, they have communicated. Figure 16.3 shows a model of the process (Berlo, 1960), which identifies the potential sources of communication success or failure.

Communication requires at least two people – a sender and a receiver. The *sender* initiates the communication when they try to transfer ideas, facts or feelings to the *receiver* – the person to whom they send the message. The sender **encodes** the idea they wish to convey into a message by using symbols – words, actions, expressions. Deciding how to encode the message is an important choice, and depends in part on the purpose – is it to:

Encoding is translating information into symbols for communication.

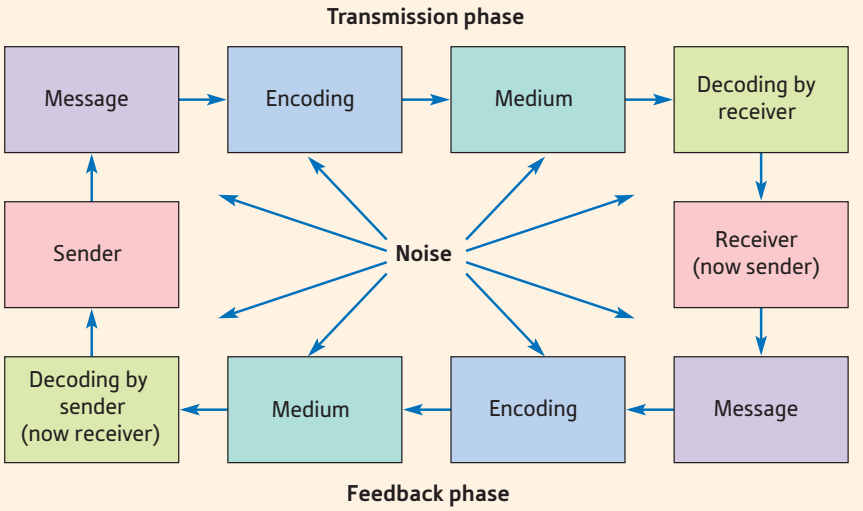


Figure 16.3 The communication process

- convey specific and unambiguous information?
- share an unfamiliar problem, and request ideas to fix it?
- pass on routine data?
- inspire people?
- sell the receiver an idea or product?

Case study

Facebook – the case continues www.facebook.com/facebook

About 85 per cent of the company's revenue comes from advertising (much of it on mobile devices), so a major challenge was to persuade enough advertisers to use the site. Initially these were major global brands like Unilever, Nestlé, Ford and Coca-Cola, but a much wider range of consumer goods companies now use it. Advertisers track the connections between the site's users – and then aim appropriate advertisements based on the information users reveal.

A company wanting to attract users to notice their brand will typically:

1 Set up a Facebook page containing messages about the brand.
2 Buy advertisements on Facebook to encourage people to visit the company's page, click on the 'like' button, and become 'fans' who then receive updates on the brand's products and the comments of other fans through their personal newsfeeds.
3 Install a game or other activity on the page that fans will play with their friends, so they too visit the page – if they become 'fans' they will in turn draw their friends to the page.
4 The company then has information about the preferences, activities and attitudes of each member of this growing network, to whom it can send precisely targeted adverts.

This information about social connections and affinities excites advertisers:

> **'They have a consumer database of interests and actions and feelings and thoughts, Nichola Mendelsohn', president of the Institute of Practitioners of Advertising, an industry grouping, says about the company. 'It gives us a huge amount of scope'.**
>
> **The ability to tailor and target marketing messages so finely is something of which advertisers had only dreamt ... and could be the key to keeping them spending (from an article by April Dembosky, *Financial Times*, 31 January 2012, p.11).**

The company's business model depends on collecting and sharing as much personal information as it is allowed to, and on encouraging users to engage with content in a way that benefits advertisers. Social media management companies help with this,

showing advertisers how to target their messages so that they appear in people's news feeds, or between updates from friends and family.

As well as these 'strong ties', between people who know each other, Facebook also enables people to exchange information with people they do not know, but who post comments – these are known as 'weak ties'. Exposure to the latter can be more problematic than exchanges between those with strong ties.

Case questions 16.2

Use Figure 16.3 to analyse how advertisers try to ensure they communicate messages effectively on Facebook (the medium).

- How do they ensure accurate encoding?
- How do they gather feedback as receivers respond to their messages?

Key ideas Accurate encoding

Five principles help to encode a message accurately:

- **Relevancy:** make the message significant by carefully selecting the words, symbols or gestures.
- **Simplicity:** make it simple by using as few words, symbols and gestures as possible.
- **Organisation:** organise it into clear points, and complete each one before starting the next.
- **Repetition:** repeat key points twice when speaking – people often do not hear or understand the first time.
- **Focus:** concentrate on essentials and avoid unnecessary detail.

The message is a tangible expression of the sender's idea. The sender chooses the communication medium – social media, face-to-face meeting, letter – to transmit the coded message. The receiver **decodes** the symbols contained in the message, and tries to reconstruct the sender's idea. Coding and decoding are sources of communication failure when sender and receiver have different knowledge, experience and interests. Receivers evaluate a message by their knowledge of the sender. These 'filters' interfere with the conversion of meaning to symbols and *vice versa* and, along with other distractions and interruptions, are referred to as **noise**. Dimbleby and Burton (2006) identify three filters – within individuals (psychological filters), within the message (semantic filters) and within the context (mechanical filters).

Decoding is the interpretation of a message into a form with meaning.

Noise is anything that confuses, diminishes or interferes with communication.

The final stage is when the receiver responds to the message by giving **feedback** to the sender. This turns one-way communication into two-way. The flow of information between parties is continuous and reciprocal, each giving feedback which allows the sender to know that the receiver has received and understood the message as intended.

Feedback (in communication) occurs as the receiver expresses his or her reaction to the sender's message.

Effective communicators understand it is a two-way process, and positively encourage feedback. They do not rely only on making their message clear, but also encourage the receiver to respond – a nod, a question that implies understanding, a quick email acknowledgement. Without that, the sender cannot know if they have communicated effectively.

Assume your communication will fail, and put time and effort into preventing that.

Key ideas Quality of information

The quality of information depends on three criteria:

1. **Accuracy.** People need to know they can rely on information – that a sales report is an accurate account of sales, that a report of a conversation is true.
2. **Timeliness.** Information is only useful if it is available in time. A manager who needs to keep expenditure within a budget requires cost information frequently enough to be able to use it.
3. **Relevance.** Modern technologies give us more information than we can use, so we need to evaluate critically which of it we take time to use, and which is a dangerous (if sometimes interesting) distraction.

Non-verbal communication

Non-verbal communication is the process of coding meaning through behaviours such as facial expression, gestures and body postures.

Interpersonal communication includes **non-verbal communication**, sometimes called body language – tone of voice, eye movements, facial expression, posture, shuffling papers: the receiver may pay more attention to these signals than to the sender's words. Conversely, a stifled yawn, an eager nod, a flicker of anxiety tells the sender about the receiver's reaction. Gestures and body position give strong signals: leaning forward attentively, moving about in the chair, hands moving nervously, gathering papers or looking at the clock – all send a message. Skilled communicators use non-verbal cues to detect that someone is worried, even if they do not speak out.

Positive non-verbal feedback helps to build relationships. A smile or wave to someone at least acknowledges they exist. Related to a task it indicates approval in an informal, rapid way that sustains confidence. Negative feedback can be correspondingly damaging. A boss who looks irritated by what the staff member sees as a reasonable enquiry is giving a negative signal, as is one who looks bored during a presentation.

Management in practice — Virtual teams at Cisco www.cisco.com

Cisco Systems supplies much of the physical equipment that supports the internet, and most design teams contain staff working in facilities across the world. One team member said:

> **It means you have to be a bit more careful when it comes to communication. Most of the time you have to use email and instant messaging to discuss issues, which means there can be misunderstandings if you're not careful. When you interact in person you use things like facial expression and hand gestures – none of these is available when emailing so you have to state your arguments more clearly.**

Source: Private communication.

The sender of a spoken message should watch for the non-verbal responses. If they seem doubtful (raised eyebrows, an anxious look), the speaker should pause to check the receiver has received the message intended.

Perception

Selective attention is the ability, often unconscious, to choose from the stream of signals in the environment, concentrating on some and ignoring others.

Perception is the process of selecting and interpreting information to make sense of our environment. We receive more information than we can absorb, and **selective attention** keeps us sane. We actively notice and attend to a fraction of the available information, filtering it according to the strength of the signal and our knowledge of the sender. This 'perceptual organisation' arranges incoming data into patterns that give it meaning by relating it to our interest, the status of the sender or whether we can use it. Experience, social class and education affect this process.

Activity 16.2 — Understanding communication practices

- Think of an example where communication between two or more people failed. Note down why you think that happened, using the model in Figure 16.3.
- Use Figure 16.3 to analyse the communication process of someone using Facebook. Note how it differs from face-to-face communication.
- Email is still widely used: list the advantages and disadvantages of that medium compared with face-to-face communication.

A common form of perceptual organisation is **stereotyping**. 'They always complain' or 'You would expect people from marketing to say that' are signs that someone is judging a message by their assumptions about the group to which the sender belongs. If these are not accurate the person may misinterpret the message. Perceptual differences interfere with communication: senders cannot assume that receivers attach the same meaning to a message as the sender intended.

Stereotyping is the practice of consigning a person to a category or personality type on the basis of their membership of some known group.

16.4 Selecting communication channels

Figure 16.3 shows the steps that people take to communicate effectively. The process fails if either sender or receiver does not encode or decode the symbols of the message in the same way. Selecting the wrong communication **channel** also leads to failure – such as sending a message that requires subtle interpretation as a written instruction, with no chance for feedback.

A **channel** is the medium of communication between a sender and a receiver.

Lengel and Daft (1988) developed the idea of **information richness** to compare the capacity of channels to promote common understanding: see Figure 16.4.

Information richness refers to the amount of information that a communication channel can carry, and the extent to which it enables sender and receiver to achieve common understanding.

The richness of a medium (or channel) depends on its ability to:

- handle many cues at the same time
- support rapid two-way feedback
- establish a personal focus for the communication.

Face-to-face communication

Face-to-face discussion is the richest medium, as both parties can pick up many cues (concentration, eye contact, body movements, facial expression) in addition to spoken words. This brings a better understanding of the nuances of meaning – someone who had started a business:

> I find the best way to communicate with people is very simply to talk to them and to be upfront and honest and forthright with as much information as you possibly can.

Managers spend much of their time in face-to-face communication – quick, spontaneous and enriched by non-verbal signals. It takes place in one-to-one conversation (face-to-face), through meetings of several people, or when someone addresses an audience at a conference.

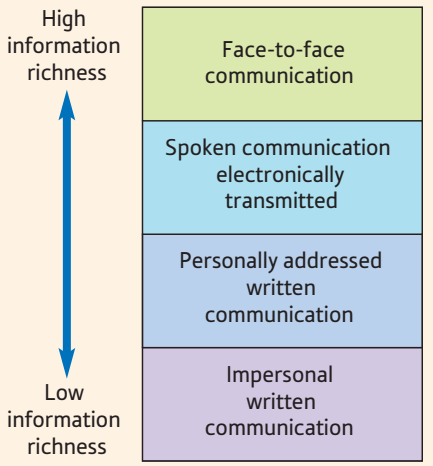


Figure 16.4 The Lengel–Daft media richness hierarchy

Source: Lengel and Daft (1988).

'Management by wandering around' is a widely used and effective communication technique as managers gain direct insights into what is happening, which supervisors may filter from their reports. He et al. (2017) tested experimentally three reasons why many people prefer face-to-face meetings:

- reduces the 'social distance' – the other people are identifiable individuals
- enables cooperation – people believe others will keep promises made in person
- easier to distinguish those who are likely to cooperate from those who are not.

The last turned out to be the most pervasive reason for preferring face-to-face over other methods.

Despite the benefits, face-to-face communication is often not practical, when people are physically distant. The 'Management in practice' feature shows how technology can help.

Management in practice — A communications app at BA

Maria da Cunha, director of people and legal, says staff engagement is at the heart of the recovery in performance and profits at BA since 2014:

> **We are challenging people to find different ways of doing things, and to improve productivity and efficiency. And for that we need highly engaged staff – people who, in times of disruption, are willing to [go the extra mile]. The research shows that a good relationship between someone and their manager is the greatest driver of that.**

The company is putting these ideals into practice with a communications app used by about 3,000 front-line managers, guiding them on some essential communication practices that easily get lost in the bustle of a global business. The initial users were managers in charge of airport teams – driving passenger buses or refuelling aircraft. With teams mobile, and alternating day and night shifts, it is difficult for managers and staff to communicate face-to-face.

The app, held on the manager's iPad, shows (with other information) who is on the team, and working that day. A prompt alerts the manager to an event they should know about – an employee's birthday, or a long-service anniversary. These are simple things, but they prompt a conversation between people, and show a basic recognition. The app makes people more visible, and ensures managers talk with their team regularly.

Source: *People Management*, December 2015, pp.20–2.

Spoken communication electronically transmitted

This is the second highest form of communication in terms of media richness. Although when we use a telephone or mobile device we cannot see the non-verbal expressions or body language, we can pick up the tone of voice, the sense of urgency or the general manner of the message, as well as the words themselves. Feedback is quick so both parties can check for understanding.

Voicemail systems and answering machines supplement telephone systems. Message recording systems pass customers to the right department, offering options. Such systems reduce costs but annoy customers, especially when they want to speak to a human being.

Personally addressed written communication

Personally addressed written communication has the advantage of face-to-face communication in that, being addressed personally, it tends to demand the recipient's attention. The sender can phrase the message in a way that they think best suits the reader. If both parties

express their meanings accurately, and seek and offer feedback, they can reach a high level of (recorded) mutual understanding.

Emails and text messages have replaced much paper-based communication, having the 'permanent record' advantage of the letter, while enabling people to complete in minutes an exchange that could take days. Mobile texting is overtaking email, though both have snags:

- lack of body language
- adding many recipients to the 'copy' box, leading to (unintentional) junk messages
- some use them to send intentional junk messages.

Activity 16.3 **Reflect on your communication**

Think of a task you have done with a small group of people, either at work or during your studies. How did you communicate with each other? List all the methods used, noting the advantages and disadvantages of each.

Impersonal written communication

This is the least information rich medium as it sends one message to many people. Newsletters, emails, company websites and routine computer reports are lean media because they are impersonal and do not encourage response. Practitioners use them to send a simple message about the company to widely dispersed employees and customers. They also use them to disseminate rules, procedures, product information and news about the company. The medium also ensures the message is sent in a standard form to people in different places, and that there is a record. New technologies lead to **information overload**, when people receive more information than they can read, let alone deal with adequately.

Information overload arises when the amount of information a person has to deal with exceeds their capacity to process it.

The choice of channel depends heavily on the nature of the communication, and the context in which it takes place. If the message is to go to many people and there is a significant possibility of misunderstanding, a structured medium is likely to work best. If it is an unusual problem that needs the opinion of several other people, then a face-to-face discussion will be more effective. Lengel and Daft (1988) found that:

> Managers used face-to-face [communication] 88 per cent of the time for non-routine communication ... When they considered the topics [were] routine and well-understood, 68 per cent preferred written modes (p.227).

Management in practice **Communicating during change at Provident**

Provident is a long-established insurance company that depends heavily on agents who visit people in their homes to discuss their needs, deliver cash and collect repayments. It has had to make major changes in the business, and knew it was essential to gain staff support. New communication methods helped to achieve this. They included a regular radio chat show with the managing director and other senior leaders answering staff questions, and weekly in-office 'huddles' to keep staff up to date on how the business is doing and what their immediate goals should be to keep improving performance.

Source: *People Management*, February 2015, pp.18–19.

Activity 16.4 **Assessing university communications**

List the communications channels that your university or college uses to send you information about these aspects of your course:

- changes to rooms, timetables, or dates
- reading lists and other study materials
- ideas and information intended to stimulate your thinking and to encourage learning
- your academic performance
- advice on what courses to take.

Were the methods appropriate or not? What general lessons can you draw?

Online communities

Online communities use electronic systems to enable communication between geographically dispersed individuals with mutual interests. Some of the forms they take include:

- social exchange, to share personal and family news, e.g. Facebook
- individual creativity and self-promotion, e.g. YouTube
- open source software developments, e.g. Linux
- company-supported user interaction, e.g. innocent drinks, Zara
- offering information to others, and updating others' contributions, e.g. Wikipedia
- media-hosted news and commentary sites, e.g. BBC or Financial Times blogging
- internal/knowledge management, e.g. used within companies to share information.

Social network sites represent a shift from vertical to horizontal communication on the web. Organisational communication has often been transmitted downward from sender to receiver, but the receivers – individual web users – now have tools they can use to talk to each other. These consumer-focused devices hold threats and opportunities. Chapter 12 has more about online communities in relation to management.

CWS More on Facebook's internal communications in the early years

The grapevine

The grapevine is the spontaneous, informal system through which people pass gossip and rumour. It happens throughout the organisation and across all hierarchical levels as people meet in the corridor, by the photocopier, at lunch, on the way home. The information that passes along the grapevine is usually well ahead of the information in the formal system. Grosser et al. (2012) define gossip as evaluative (positive, negative or neutral) comments about other individuals known to the gossipers. They distinguish it from rumour, which is communication about actual or anticipated events – what orders the company has won or lost, who has applied for another job, who has been summoned to explain their poor results to the directors.

The grapevine does not replace the formal system, but passes a different kind of information – qualitative rather than quantitative, ideas rather than agreements. As it is uncensored and reflects the views of individuals (rather than of those in charge), it probably represents the diversity of opinions quite well. The gossip and rumours might be wrong, as those passing gossip and news of disasters in department X may have their own agenda, especially if

they are in department Y. The grapevine is a vehicle for political intrigue – and a source of information about what is happening.

16.5 Interpersonal skills for communicating

If communication was perfect the receiver would always understand the message as the sender intended. That rarely happens, as people interpret information from their perspectives, and their words fail to express feelings or emotions adequately. Power games affect how people send and receive information, so we can never be sure that the message sent is the message received. Breakdowns and barriers can disrupt any communication chain.

Communication skills for senders

The ideas presented in this section suggest some practices that are likely to improve anyone's interpersonal communication skill.

Send clear and complete messages

The subject, and how the sender views it, is as much part of the communication process as the message itself. The sender needs to compose a message that will be clear to the receiver, and complete enough to enable both to reach a mutual understanding. This implies anticipating how others will interpret the message, and eliminating potential sources of confusion – providing a specific example usually helps to make the point more clearly.

Encode messages in symbols the receiver understands

Senders need to compose messages in terms that the receiver will understand – avoiding the specialised language (or jargon) of a professional group when writing to an outsider. Similarly, something that may be read by someone whose native language is different should be written in commonplace language, and avoid the clichés or local sayings that will confuse them.

Select a medium appropriate for the message

The sender should consider how much information richness a message requires, and then choose the most appropriate medium, taking into account any time constraints. The main factor in making that choice is the nature of the message, such as how personal it is or how likely it is that the receiver will misunderstand it.

Select a medium that the receiver monitors

Receivers prefer certain media and pay more attention to messages that come by a preferred route. Some dislike over-formal language, while others dislike casual terms in written documents. Putting a message in writing may help understanding, but others may see it as a sign of distrust. Some communicate readily by email, others are reluctant.

Avoid noise

Noise refers to anything that interferes with the intended flow of communication, which includes multiple – sometimes conflicting – messages being sent and received at the same time. If nonverbal signals are inconsistent with the words, the receiver may see a different meaning in your message from what was intended. Noise also refers to the inclusion in a message of distracting or minor information that diverts attention from the main business. Communication suffers from interruptions that distract both parties and prevent the concentration essential to understanding.

Key ideas Seven practices for effective presentations

- **Be clear about who the receiver is.** What is their state of mind? What assumptions are they likely to bring? What are they feeling in this situation?
- **Know your objective – what do you want to accomplish by the end of the meeting?** (see Chapter 14 Key ideas feature 'To influence, focus on the end of the event' for ideas on this). Decide what you want them to do, and work back from there.
- **Make time to practise.** Practise until you can confidently deliver it in a conversational way, ready to improvise if a good opportunity arises.
- **Review the message before you say it.** Think about it from the receivers' point of view. Do you need to clarify some elements?
- **Use words that are familiar to the audience.** Use examples and illustrations that come from their world.
- **If they do not seem to understand you, clarify the message.** Ask questions, repeat your message using different words and examples.
- **Use specific examples and stories to illustrate your presentation.** You will sense interest rising as soon as you enter into a good example.

Communication skills for receivers

Pay attention

Busy people are often overloaded and have to think about several things at once. Thinking about their next meeting or a forthcoming visit from a customer, they become distracted and do not attend to messages they receive. In face-to-face communication the sender will probably notice this, and that in turn will affect their further actions.

Be a good listener

Communication experts stress the importance of listening. While the person sending the message is responsible for expressing the ideas they want to convey clearly, the receiver also has responsibilities for the success of the exchange. Listening involves actively attending to what is said, and gaining as accurate a picture as possible of the meaning the sender wished to convey.

Many people are poor listeners. They concentrate not on what the speaker is saying but on what they will say as soon as there is a pause.

Key ideas Six practices for effective listening

- **Stop talking.** Especially that internal, mental, silent chatter. Let the speaker finish. Hear them out. It is tempting in a familiar situation to complete the speaker's sentence and work out a reply. This assumes you know what they are going to say: you should instead listen to what they are actually saying.
- **Put the speaker at ease by showing that you are listening.** The good listener does not look over someone's shoulder or write while the speaker is talking. If you must take notes, explain what you are doing. Take care, because the speaker will be put off if you look away or concentrate on your notes instead of nodding reassuringly. Remember that your aim is to understand what the speaker is saying, not to win an argument.
- **Be aware of your personal prejudices.** Make a conscious effort to stop them influencing your judgement.
- **Be alert to what the speaker is not saying as well as what they are.** Very often what is missing is more important than what is there.
- **Ask questions.** This shows that you have been listening and encourages the speaker to develop the points you have raised. It is an active process, never more important than when you are meeting someone for the first time – when your objective should be to say as little and learn as much as possible in the shortest time.

Be empathetic

Receivers are empathetic when they try to understand how the sender feels, and try to interpret the message from the sender's perspective, rather than from their own position. A junior member of staff may raise a problem with a more senior colleague, which perhaps reflects their inexperience. The senior could be dismissive of the request, indicating that the subordinate ought to know how to deal with the situation. An empathetic response would take account of the inexperience, and treat the request with a greater understanding.

Supportive communication

Whetten and Cameron (2011) propose that people learn the skills of supportive communication – that which seeks to preserve a positive relationship between the communicators while still dealing with the business issues. There are eight principles, shown in the 'Key ideas' below.

Key ideas **Whetten and Cameron – supportive communication**

- **Problem-oriented, not person-oriented**
  A focus on problems and issues that can be changed rather than people and their characteristics.

  Example: 'How can we solve this problem?' Not: 'Because of you there is a problem.'

- **Congruent, not incongruent**
  A focus on honest messages in which verbal messages match thoughts and feelings.

  Example: 'Your behaviour really upsets me.' Not: 'Do I seem upset? No, everything's fine.'

- **Descriptive, not evaluative**
  A focus on describing an objective occurrence, your reaction to it, and offering an alternative.

  Example: 'Here is what happened, here is my reaction, here is a suggestion that would be more acceptable.' Not: 'You are wrong for doing what you did.'

- **Validating, not invalidating**
  A focus on statements that communicate respect, flexibility and areas of agreement.

  Example: 'I have some ideas, but do you have any suggestions?' Not: 'You wouldn't understand, so we'll do it my way.'

- **Specific, not global**
  A focus on specific events or behaviours, avoiding general, extreme or vague statements.

  Example: 'You interrupted me three times during the meeting.' Not: 'You're always trying to get my attention.'

- **Conjunctive, not disjunctive**
  A focus on statements that flow from what has been said and facilitating interaction.

  Example: 'Relating to what you've just said, I suggest ... ' Not: 'I want to say something (regardless of what you have just said).'

- **Owned, not disowned**
  A focus on taking responsibility for your statements by using personal ('I') words.

  Example: 'I have decided to turn down your request because ... ' Not: 'Your suggestion is good, but it wouldn't get approved.'

- **Supportive listening, not one-way listening**

  A focus on using a variety of responses, with a bias towards reflective responses.

Example:	'What do you think are the obstacles standing in the way of improvement?'	Not:	'As I said before, you make too many mistakes: you're just not performing.'

Source: Whetten, D.A. and Cameron, K.S., *Developing Management Skills*, 8th edition (2011), © 2011. Reprinted by permission of Pearson Education, Inc., Upper Saddle River, NJ.

They believe that following these principles ensures greater understanding of messages, while at the same time making the other person feel accepted and valued. As such they can be effective tools for achieving the mutual understanding.

16.6 Communicating in context

Organisations are typically divided into units that focus on their particular part of the task. In hierarchical, mechanistic structures (see Chapter 10) most information passes vertically between managers and subordinates. This sometimes creates a 'silo' mentality, in which people focus too much on local interests and priorities and not enough on other players. They forget that others may be affected by what they are doing – and fail to communicate with them.

Structural factors also affect the ability of staff to use technology to support information flow between organisations, or between professional groups. The units within, say, a care system are separated by boundaries that distinguish and protect them from others. Functional boundaries are particularly apparent between health and social care – communications between health and social care are often problematic as separate information systems hinder information about a patient passing between them.

In February 2016, the BBC published the report by Dame Janet Smith into the Corporation's culture and practices during the era when late presenter Jimmy Saville was sexually abusing children. This found that the BBC culture at the time made it difficult to complain or rock the boat, and that an atmosphere of fear existed that stopped people reporting upwards, particularly where it related to talent – see 'Management in practice' feature below.

Management in practice — Speaking out at the BBC

As part of a wider programme of change within the BBC, its HR director has been working to improve the way people in the organisation communicate. One of her priorities after the publication of Dame Janet Smith's report was to:

> **make the BBC a more open and transparent place to work – one where people felt they could raise any issues in an open, safe environment.**

Campaigns on speaking out, better management visibility, greater recognition of good work, tighter collaboration between teams and the simplification of complex processes have all had a significant impact on culture, she explains:

> **In the past there was a perception the people weren't raising concerns as readily as we'd like them to, so we've done lots of work on speaking out and feeling free to talk. We welcome people discussing issues; if they've got concerns, we want to hear about them and address them.**

Source: *People Management*, June 2017, p.22.

Case study

Facebook – the case continues www.facebook.com/facebook

By 2019, the company was facing several challenges. The Cambridge Analytica scandal prompted regulators in many countries to press for more oversight of the company and how it operates. The Information Commissioner in the UK fined the company £0.5 million (the maximum possible) for failing to protect users' personal information, by passing it to Cambridge Analytica. Facebook executives may see personal data as a commodity to be sold to advertisers, with little concern for customers' privacy.

Some major advertisers were putting pressure on Facebook (and other social media sites) to be more transparent about their advertising practices. Companies like Unilever were asking whether consumers can trust what they see online, pointing out that digital platforms promise that companies' ads will appear next to appropriate content, yet they have not always been able to ensure this is the case. Advertisers were also concerned at appearing next to possible fake news stories, or posts inciting hatred. Observers doubted if there would be a sustained move by advertisers: advertising on Instagram (owned by Facebook) was growing strongly.

Facebook claimed it had responded to some of these concerns, by changing the newsfeed to give priority to interactions with friends and family, and less to news stories and videos. The company was also responding to concerns that users were spending too much time being overwhelmed by fake-news, political propaganda or mentally-damaging content. People close to the plans said that more changes would follow, as the group tries to prioritise 'trustworthy' news content. David Kirkpatrick (author of *The Facebook Effect*, 2010) commented that part of the company's problem was the scope and scale over which it operates – in many places it is the central distribution point for [news].

Zuckerburg warned investors:

> **I want to be clear: by making these changes, I expect the time people spend on Facebook, and some measures of engagement, will go down. If we do the right thing, I believe that will be good for our community and our business over the long term too.**

Investors were also critical about its wider strategy. Several large investors are public pension funds and are becoming impatient that the commercial success has not yet led to significant dividend payments upon which they depend. They also note that there have been no changes in the senior management team since the company invited the public to buy shares in 2010. This includes Sheryl Sandberg, chief operating officer since 2008. She oversees the advertising business and the policy and communications operations, and was recruited as an experienced executive to work alongside Mr Zuckerburg.

Many were also critical of its unusual (though not unique) structure – Mr Zuckerburg is chairman and chief executive, and has 60 per cent of the voting rights, though he owns only 14 per cent of the shares. This allows him and insiders to win all board votes.

FT Sources: *Financial Times*, 14 January 2018, p.13, 13 February 2018, p.10, 26 October 2018, p.19; *The Guardian*, 30 June 2018, p.12.

Case questions 16.3

- Reflecting on the case as a whole, how has Facebook's communications practices changed aspects of its context?
- How have elements in the context begun to respond?
- Find examples showing how Facebook has responded.

Power

Information has great value. Those who possess it have something others do not have and may need or want. Sole ownership of information can also be used to boost or protect a person's status or the significance of his or her role. Access to information and the means

of communicating it to others is a source of power. People may hoard it rather than share it, and use it at the most opportune moment. Those with access to inside information have both prestige and power.

16.7 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 16.1 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and what variables they assumed would help achieve them) and about process (how they tried to gain the support of stakeholders). *These are examples only – not a comprehensive analysis*. You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *Consider how you communicate with people you know. How helpful is the model in Figure 16.3 to you in understanding your communication successes, and failures?*

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 16.1 'Clear thinking' questions about practice and theory

	From the Chapter Case study – Facebook's relations with advertisers	Theory – a question about using Figure 16.3 to understand success and failure in interpersonal communications
Check assumptions	(About objectives) Probable assumptions: • Site depends on advertising income • Users will accept use of personal information in return for access to the site • Facebook monitoring will block unsuitable posts • Facebook will protect data from uses that people have not agreed to • Public will see the site as promoting free speech and defending democratic values How true is each of these assumptions?	**Introduction** Set scene – established model, widely used to understand communication. Use it see if it helps explain examples of success and failure Set out two examples briefly – one a success (as a sender) the other a failure (as a receiver) Consider each example separately. First, reflect on your assumptions about the message, encoding it, medium, etc. Did your/their assumptions affect the outcome either way?

	From the Chapter Case study – Facebook's relations with advertisers	Theory – a question about using Figure 16.3 to understand success and failure in interpersonal communications
Recognise contexts	It has grown from being a social exchange site to a major source of content and news for many Unsuitable content, and breaches of data privacy have exercised politicians in many countries, who are proposing checks and restrictions; the same also worries advertisers, who fear reputational damage from unsuitable material near their ads; either could reduce ad revenue	Context could include: • 'Noise' of some kind that helped or hindered the event? • Previous knowledge of the other person • Relative power/status of each party?
Imagine alternatives	Facebook is trying to segment users into 'close' and 'distant', and varying the newsfeed page accordingly Likely to reduce time a user spends on site, and lower revenue Instagram and WhatsApp largely separate from Facebook – but company is beginning to integrate them – which some insiders oppose	On reflection, can you think of alternative ways you could have dealt with each stage of the process? Have you observed how other people handle them? Outcomes will also depend on the cognitive and interpersonal skills of senders and receivers
Acknowledge limitations	Impossible to monitor all user pages closely, so bound to be unsuitable content, with regulatory and advertiser implications	Did using the model help your understanding, or not?

Skill

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of presenting ideas to an audience.

Develop a skill: present ideas to an audience

Being able to make an effective presentation is a vital management skill – during the selection process and thereafter throughout your career. This exercise should help you develop that.

- **Assessment.** Assess how well you make a presentation to an audience. Do you, for example, find that an audience is evidently interested in what you are saying, and becomes actively involved by asking questions? Or do they seem to lose interest before you have finished? Recall a presentation that seemed to work well – what did the speaker do?
- **Learning.** Read again Section 16.5, especially the 'Key ideas' feature on 'Seven practices for effective presentations'.

- **Analysis.** Consider the possible implications for you of these ideas. Why should preparation help what should seem spontaneous and relaxed? Think of a good (or poor) presentation you have seen. Which of the ideas in Section 16.5 were present, or absent?
- **Practice.** Identify (preferably with one or two colleagues on your course) a presentation you are likely to have to make, either during your course ('Make a presentation on the strengths and weaknesses of X's Theory'), or when you attend an interview (such as 'Explain in five minutes why you want to work here').
  - Follow the steps in 'Key ideas', and make your presentations to each other.
  - Reflect on your presentations when you have finished, and note what you have learned.
- **Application.** Decide on another opportunity to practise this skill within the next week.

Summary

1 **Explain the role of communicating in adding value**

- People at all levels of an organisation need to add value to the resources they use, and to do that they need to communicate with others – about inputs, the transformation process and the outputs. It enables the tasks of planning, organising, leading and controlling.
- It also enables managers to perform their informational, decisional and interpersonal roles.

2 **Identify and illustrate the elements and stages in the communication process**

- Sender, message, encoding, medium, decoding receiver and noise.

3 **Use the concept of information richness to select a communication channel**

In descending order of information richness, the channels are

- face-to-face communication
- spoken communication electronically transmitted
- personally addressed written communication
- impersonal written communication.

4 **Outline some essential interpersonal communication skills**

- Send clear and complete messages.
- Encode messages in symbols the receiver understands.
- Select a medium appropriate for the message.
- Include a feedback mechanism in the message.
- Pay attention.
- Be a good listener.

5 **Identify some contextual factors that affect communicating**

Any of the contextual factors in Chapter 3 can affect communication, and three are mentioned here:

- structural
- cultural
- political.

6 **Think clearly to evaluate these management practices and theories, and as you begin to further develop your skills of presenting ideas to an audience**

- The chapter outlined practices that help make an effective presentation, and the 'Develop a skill' feature offers a chance to practise that skill.

Test your understanding

1 Explain why communication is central to managing.
2 Draw a diagram of the communication process, showing as many of the stages and elements as you can.
3 Name any two things to think about when encoding.
4 How does feedback help or hinder communication?
5 What is non-verbal communication, and why is it important to effective communication?
6 What do you understand by the term 'information richness', and how does it affect the choice of communication method?
7 Name three practices that can improve interpersonal communication skill.
8 Name four practices of effective listeners.
9 Describe two elements in Whetten and Cameron's theory of supportive communication.
10 State, with an example, one of the contextual factors that can influence communication.

Read more

Kirkpatrick, D. (2010) *The Facebook Effect*, Virgin Books, New York.

Detailed account of the early years, with good insights into the management issues that members of the company had to resolve as it grew.

Goffman, E. (1959) *The Presentation of Self in Everyday Life*, Doubleday, New York.

A classic (and short) work that gives many insights into interpersonal communications.

Whetten, D.A. and Cameron, K.S. (2011) *Developing Management Skills*, Prentice Hall International, Upper Saddle River, NJ.

Extended discussion of interpersonal communication skills, with useful exercises.

Adair, J. (2009) *Effective Communication*, Macmillan, London.

Practical advice from the best-selling author.

Burton, G. (2013) *Presenting: Deliver Presentations with Confidence*, Collins, London.

Detailed introduction to all aspects of making a good presentation.

Finkelstein, S. (2003) *Why Smart Executives Fail: and What you can Learn from their Mistakes*, Penguin, New York.

Fascinating account of the sources of communication failure in public and private organisations.

Trought, F. (2017) *Brilliant Employability Skills*, Prentice Hall, Harlow.

Used in this chapter as a guide to presentation skills, the book is practically valuable in other ways.

Go online

These websites have appeared in the chapter:

www.facebook.com/facebook
www.cisco.com
www.helloalfred.com
www.bbc.co.uk

Visit two of the sites, or others that interest you, and navigate to the pages dealing with recent news, press or investor relations.

- In what ways is the company using the website to communicate information about inputs, outputs and transformation processes?
- Is it providing a one-way or a two-way communication process?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



CHAPTER 17

TEAMS

Aim

To outline the significance of teams at work, and some theories about how they develop and perform.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Distinguish the types of teams in organisations
2. Use a theory to analyse the composition of a team
3. Identify the stages of team development and explain how they move between them
4. Identify specific team processes and explain how they affect performance
5. Evaluate the outcomes of a team for the members and the organisation
6. Outline the contextual factors that influence team performance.
7. Think clearly to evaluate these management practices and theories, and as you begin to further develop your skills of observing a team

Key terms

This chapter introduces these terms:

formal teams
informal groups
self-managing team
virtual teams
structure
working groups
team
preferred team role
observation
content
concertive control
team-based rewards

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

Groups and teams
Mary Parker Follett and Rensis Likert
Concertive control

Case study

Cisco Systems www.cisco.com

Cisco Systems is a company at the heart of the internet. It develops and supplies the physical equipment and software that allow data to travel over the internet, and also provides support services to companies to improve their use of the network. A group of scientists from Stanford University founded Cisco in 1984 and its engineers have focused on developing internet protocol (IP)-based networking technologies. The core areas of the business remain the supply of routing and switching equipment, but it is also working in areas such as home networking, network security and storage networking.

The company employs over 70,000 staff around the world, developing new systems and working with customers to implement and enhance their network infrastructure. Most projects are implemented by staff from several sites working as virtual teams, in the sense that they are responsible for a collective product but work in physically separate places.

The company created a team to coordinate the testing and release of a new version of a complex piece of software that monitors the performance of the many elements in a network. When the product was released a few months later, the members of the team were free to work on other projects. The team had eight members, drawn from four sites and three countries:

Name	Location	Role
Steve	Raleigh, North Carolina	Project coordinator
Richard	Cumbernauld, Scotland	Development manager
Graham	Cumbernauld, Scotland	Development engineer
Eddie	Cumbernauld, Scotland	Development engineer
Rai	Austin, Texas	Test engineer
Silvio	Austin, Texas	Test engineer
Jim	Raleigh, North Carolina	Network architect
Gunzal	Bangalore, India	Release support engineer

The role of the coordinator was to ensure the smooth operation of the team and to monitor actual progress against the challenging delivery schedule. The software was developed in one of their European plants – development engineers wrote the code and passed it to test engineers. They were responsible for rigorous testing, and reporting problems so that the development engineers could fix them.



© Jordi Boixareu/Alamy Stock Photo

The network architect has extensive knowledge of the network hardware that the software would manage, and supervised the development and testing of the software to ensure it worked efficiently with the hardware. The release support engineer dealt with the logistics of software release, such as defining each version and ensuring deliverables are available to the manufacturing departments at the appropriate times.

Each member worked full-time on the project, though they never met physically during its lifetime. All members took part in a weekly conference call, and also a daily call attended by the coordinator, development manager and a member of the test team. Communication throughout the team was mainly by email, with some instant messaging.

Source: Communication from members of the project team.

Case questions 17.1

- What challenges would you expect a team that never meets to face during its work?
- In what ways may it need to work differently from a conventional team?
- What kinds of team does Cisco use, in Hackman's typology? (See Section 17.2)

17.1 Introduction

Managers at Cisco use teams extensively to deliver products and services to customers. The people with the skills it needs to deliver a unique customer's project are widely dispersed around the organisation but need to work together. Teams bring them together for the duration of a project – they then disperse and re-form in different combinations to work on their next project. The company also uses teams for internal projects, where staff from several functions and locations work together to solve an operational problem, such as improving a financial or marketing system.

People at work have always developed loyalties amongst small groups of fellow workers and there are well-documented examples of industries where work was formally organised in small, self-managing teams (Trist and Bamforth, 1951). Teams are common in research-based organisations such as Dyson or GlaxoSmithKline where scientists and engineers from several disciplines work together on a common project. Building Terminal 5 at London Heathrow provided the airport's owner, BAA, with an opportunity to set new standards in environmental sustainability. At the start they created an environmental assessment team of external professionals to help the project team develop a robust sustainability framework. This included challenging targets (requirements) for the terminal in areas such as energy, water, pollution control and waste management. These then became part of the brief of the teams created to deliver the 16 projects, and 147 separate sub-projects, to design and build the terminal – which they did, on time and in budget (Wolstenholme et al. 2008).

Teams bring together those with different experiences and perspectives to solve difficult problems – see 'Key ideas' below.

Key ideas Teams at work

A review of research on teams by Salas et al. (2008) sets the scene:

> **Teams have become the strategy of choice when organizations are confronted with complex and difficult tasks. Teams are used when errors lead to severe consequences; when the task complexity exceeds the capacity of an individual; when the task environment is ill-defined, ambiguous and stressful; when multiple and quick decisions are needed; and when the lives of others depend on the collective insight of individual members. Teams are used in aviation, the military, healthcare, financial sectors, nuclear power plants, engineering problem-solving projects, manufacturing and countless other domains.**

Source: Salas (2008).

Forming a team does not mean it will work well. Some, such as that at Cisco, work to high standards and levels of achievement while others waste time and other resources, destroying rather than adding value. Figure 17.1 helps to explain this variation, showing teams as an open system. The main inputs are the team members themselves – so composition affects performance. Members need to learn to work together: the processes they use will affect performance, as will aspects of their context.

The chapter begins by outlining the types of team you may encounter (including 'virtual' teams), which leads to a definition. You will then learn about the composition of teams, their stages of development, internal processes, and how context also affects performance. A final section examines the outcomes of teams. Learning to observe a team helps you to be a more effective member, so the 'Develop a skill' feature at the end of the chapter is a chance to practise.

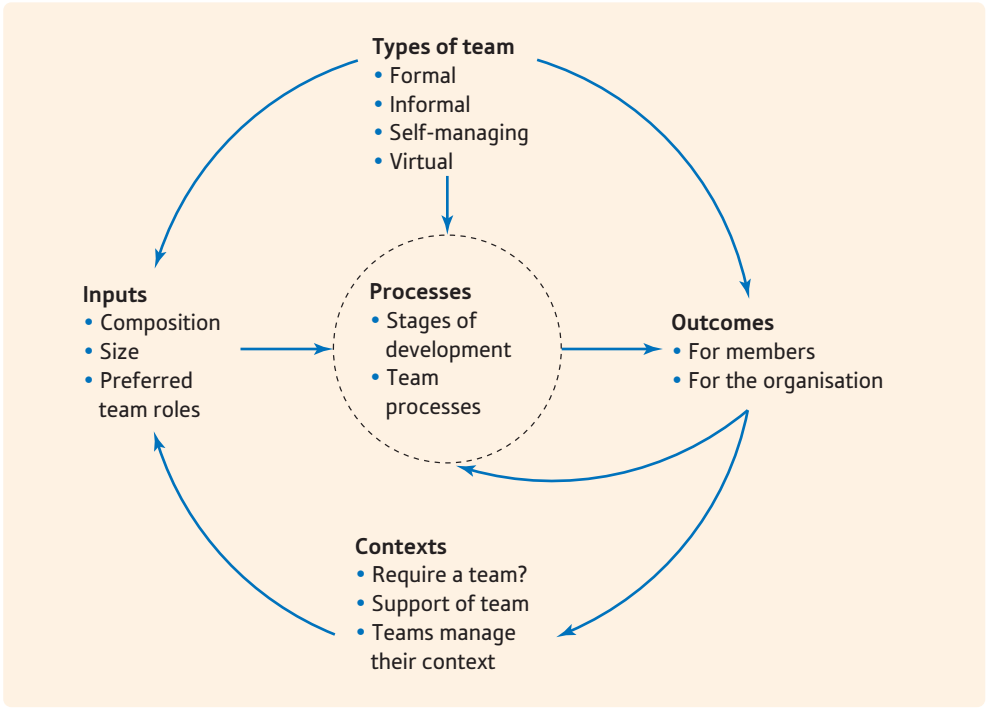


Figure 17.1
An overview of the chapter

Activity 17.1 Gathering data on teams

Gather information from an organisation you know on how it uses teams. Use the questions below as a starting point. The data you collect may be useful in tutorials, as well as in your career.

- What is the main task of the organisation or department?
- How are staff grouped into teams?
- What type of team are they? (Use Section 17.2)
- Use the definition of a team to describe the main features of one of the teams.
- What do management and team members see as the benefits of teams?

17.2 Tasks and types of teams

Hackman (1990) identified seven distinctive tasks that teams perform, with diverse implications for their members – see Table 17.1.

Some of these functions (performing groups, task forces) imply the teams (like that at Cisco) are likely to be temporary, while the others may be relatively stable and long-lived. Temporary teams embody unique challenges relating to the pace of team development and divided loyalties. These are becoming common in new product development, media production and R&D, which frequently rely on temporary creative teams to perform the organisation's primary process.

The types of team identified by Hackman take several forms: formal or informal; self-managing; or virtual.

Table 17.1 Hackman's classification of teams, with examples of associated risks and opportunities

Type	Risks	Opportunities
Top management teams – to set organisational directions	Strong personalities giving priority to their objectives	Influence policy, and also visible to other players
Task forces – for a single unique project	Team and work both new – risk of failure	Clear purpose and deadline - success will be visible
Professional support groups – providing expert assistance	Dependency on others for work	Applying and improving professional expertise
Performing groups – playing to audiences	Resources and support often limited, insecure	Intrinsic benefits of engaging an audience
Human service teams – taking care of people	Emotional drain; competing professional interests	Inherent significance of helping people
Customer service teams – selling products and services	Managing conflicts between interests of customer and parent organisation	Satisfaction of meeting customer and organisational needs
Production teams – turning out the product	Focus on system and process, forget end users	Scope to continually improve knowledge and product design

Source: Based on Hackman (1990), p.489.

Formal teams

A **formal team** is one that management has deliberately created to perform specific tasks to help meet organisational goals.

Managers create **formal teams** as they shape the organisation's basic structure, and allocate specific tasks to them. Vertical 'teams' consist of a manager and his or her subordinates within a single department or function. The manager and staff in the treasury department of a bank, or the senior nurse, nursing staff and support staff in a unit of the Western General Hospital, are formally constituted into (possibly several) vertical teams, as is a team leader and his or her staff in a BT call centre. In each case, senior managers created them to support their goals.

Horizontal teams consist of staff from roughly the same level, but from several functions. The Cisco team is an example, formed to release new software. In Hackman's typology, these task forces (often called cross-functional teams) deal with non-routine problems that require knowledge from several professions.

Informal groups

An **informal group** is one that emerges when people come together and interact regularly.

Informal groups are a powerful feature of organisational life. They develop as day-to-day activities bring people into contact – and they discover common sporting or social interests. Work-related informal groups arise when people exchange information and ideas: staff using a software package may begin to share problems or tips. Those in separate departments dealing with the same customer may pass information to each other to avoid misunderstandings, even though this is not a requirement. Informal groups may develop in opposition to management – people who believe they are being unfairly treated may come together to express their dissatisfaction.

Self-managing teams

A **self-managing team** operates without an internal manager and is responsible for a complete area of work.

Self-managing teams are responsible for a complete area of work, and operate without close supervision. Members are responsible for doing the work but have a high degree of autonomy in how they do it: they manage themselves, including planning, scheduling, and

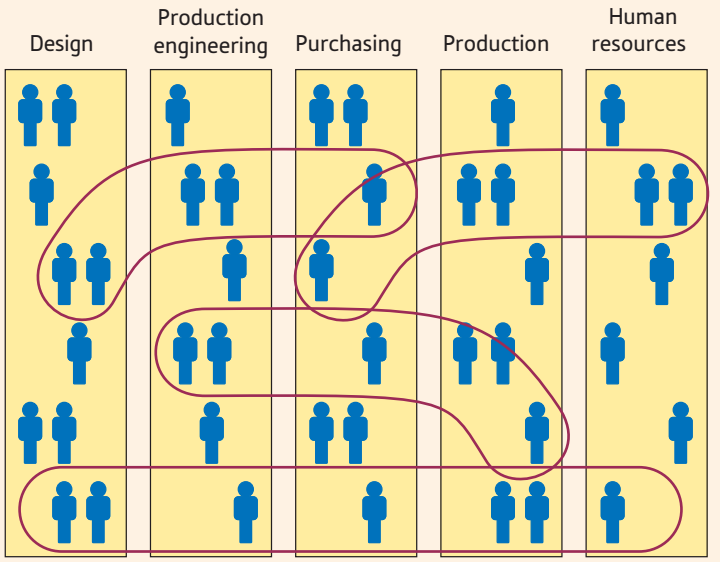


Figure 17.2 Horizontal and vertical teams in an engineering company

assigning tasks amongst members. They also establish the pace of work, make operating decisions, work out how to overcome problems and manage quality. They are also likely to have a considerable influence over selecting new employees – as happens at BMW.

Key ideas **Informal networks: the company behind the chart**

According to Krackhardt and Hanson (1993):

> **If the formal organization is the skeleton of the company, the informal is the central nervous system. This drives the collective thought processes, actions and reactions of the business units. Designed to facilitate standard modes of production, management create the formal organization to handle easily anticipated problems. When unexpected problems arise, the informal organization becomes active. Its complex web of social ties form every time colleagues communicate and solidifies over time into surprisingly stable networks. Highly adaptive, informal networks move diagonally and elliptically, skipping entire functions to get work done.**

The authors suggest that these informal networks can either foster or disrupt communication processes. They recommend that managers acknowledge their strengths, and possibly adjust aspects of the formal organisation to complement the informal.

Source: Krackhardt and Hanson (1993), p.104.

Virtual teams

Technology enables people to create **virtual teams** in which the members are physically distant for most of the time, even though they will deliver a collective outcome. Virtual teams use computer technology to link members – smartphones, email, videoconferencing and online discussion. They can perform all the functions of a team in one place, but lack the face-to-face interaction that helps working relationships. Practices that can support their performance include ensuring that some regular (or at least initial) face-to-face contact

Virtual teams are those in which the members are physically separated, using communications technologies to collaborate across space and time to accomplish their common task.

occurs, and that members deliberately resolve issues of roles, working methods and conflict management.

Many of the teams in Cisco are like this, with the added challenge that they work across national boundaries. The growth of international business means that people frequently work in teams drawn from different nations and cultures, and this form of remote working raises new challenges (Zander et al. 2013). Time zones create problems of managing working hours, lunch breaks and holiday cycles. Larger difficulties can arise from members coming from several national cultures (Chapter 4) and differences in their respective 'home' units regarding the goals of a project.

Much of the technology that enables the growth of virtual teams is also supporting teams whose members work in the same place – and who are also members of several collocated and virtual teams. The technologies can both reduce local face-to-face interactions (sending an email instead of walking next door) while at the same time increase connectivity and interaction with geographically dispersed colleagues.

Activity 17.2 Reflect on an experience of team working

Recall times when you have been part of a team.

- Which of the seven types listed by Hackman have you experienced? Do you agree with his comments on the risks and opportunities of those types? If not, what were they?
- Which of the other types have you experienced? Record the circumstances, as you will be able to use this during the chapter.
- Try to compare your notes with other members of your course.

17.3 Crowds, groups and teams

The teams described in the previous section were not random collections of people. A crowd in the street is not a team: they are there by chance, and will have little if any further contact. What about the staff in a supermarket or in the same section of a factory? They are not a crowd: they have some things in common, and people may refer to them as a team. Compare them with five people designing some software for a bank, each of whom brings distinct professional skills to their collective discussions of the most suitable design, or with seven students working together on a group assignment. They have a **structure** to handle the whole process, work largely on their initiative, and move easily between tasks, helping each other as needed.

Structure is the regularity in the way a unit or group is organised, such as the roles that are specified.

Activity 17.3 Crowds, groups and teams

- Note down a few words that express the differences between the examples given. Do some sound more like a group or a team than others?
- Consider a Davis Cup tennis or Ryder Cup golf team, in which most of the action takes place between individual participants from either side. No significant coordination occurs between the members during a match.

- In what ways would such teams meet the above definition?
- Can you think of other examples of people who work largely on their own but are commonly referred to as a team?

In normal conversation we use the words 'group' and 'team' to mean the same thing, and this book follows that usage. Katzenbach and Smith (1993) distinguish between the two, and you may find it is useful to be aware of this to avoid confusion – see companion website.

CWS More on 'groups' and 'teams'

The essential point is that whether we use the term **working group** or **team**, they differ in their outcomes – some will perform well, and others will fail. The practical task is to understand the causes of differences in performance. Their definition of a team as 'a small number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable' suggests features of a team that may affect performance.

A **working group** is a collection of individuals who work mainly on their own but interact socially and share information and best practice.

A **team** is 'a small number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable' (Katzenbach and Smith, 1993).

Small number

More than about 12 people find it hard to operate as a coherent team. It becomes harder to agree a common purpose, and the practicalities of where and when to meet become tricky. Most teams have between two and ten people – with between four and eight probably being most common.

Complementary skills

Teams benefit from having members who, between them, share *technical*, *functional* or *professional skills* relevant to the work. A team implementing a computer network requires at least some members with technical skills: one developing a retail strategy needs some with strategy or marketing backgrounds.

A team needs people with *problem-solving* and *decision-making skills*. These enable members to approach a task systematically, using appropriate techniques. Finally, a team needs people with *interpersonal skills* to hold it together. Members' attitudes and feelings towards each other and to the task change as work continues. This may generate conflict so the team needs someone who can manage this.

Common purpose

Teams cannot work unless members invest time and effort to clarify and understand their common purpose. They need to express this in clear performance goals upon which members can focus their time and energy. A common purpose helps members to communicate, since they can interpret and understand their contributions more easily.

Common approach

Teams need to decide how they will work together to accomplish their purpose. This includes deciding who does what, how the group should make decisions and how to deal with conflict. The common approach includes integrating new members into the team, and generally working to promote the mutual trust necessary to success.

Mutual accountability

A team cannot work as one until its members willingly hold themselves to be collectively and mutually accountable for the outcomes. As members work towards a common purpose, commitment and trust usually follow. If one or more members are unwilling to accept this collective responsibility, the team will be less effective.

Activity 17.4 Using the definition to analyse a team

Recall a team of which you have been a member. Alternatively arrange to gather information for this activity from someone who has experience of team working.

- To what extent do you feel the team was effective?
- To what extent did it meet the five criteria listed in the definition?
- Can you identify how meeting these criteria, or not doing so, affected performance?
- If possible, compare your evidence with other members of your course.

Team composition

Figure 17.1 shows that one factor in team performance is its composition – the balance of members' attributes such as their abilities, demographics, personalities, values and attitudes. Bell's (2007) review of 89 studies showed that the attributes of agreeableness, conscientiousness, experience and a preference for teamwork all had positive effects on team performance. A team of self-centred stars will be a disaster.

As team members work on the task, their unique attributes lead them to take on distinct roles. Teams need balance, and two relevant ideas are the distinction between task and maintenance roles, and Belbin's research on team roles.

Task and maintenance roles

Some people focus on the task, on doing the job, on meeting deadlines. Others put their energy into keeping the peace and holding the group together. Table 17.2 summarises the two: teams need both roles, and it is worth trying to ensure that both are present.

Meredith Belbin – team roles

Meredith Belbin and his colleagues systematically observed several hundred teams performing a task, and concluded that each member tended to behave in a way that corresponded to one of nine roles. The balance of these roles affected how well a team performed.

Table 17.2 Summary of task and maintenance roles

Emphasis on task	Emphasis on maintenance
Initiator	Encourager
Information seeker	Compromiser
Diagnoser	Peacekeeper
Opinion seeker	Clarifier
Evaluator	Summariser
Decision manager	Standard setter

Key ideas Belbin's research method

Henley School of Management based much of its training on inviting managers to work in teams of up to ten on exercises or business simulations. The organisers had observed that some teams achieved better objective results than others – irrespective of the abilities of the individual members as measured by standard personality and mental tests. The reasons were unclear – why did some teams of individually able people perform less well than teams composed of less able people?

Belbin conducted a study in which observers, drawn from course members, used a standard procedure to record the types of contribution that members made. Team members voluntarily took psychometric tests, and team performance led to a quantifiable result. The researchers formed teams of members with above-average mental abilities, and compared their performance with the other teams. The 'intelligent' teams usually performed less well. Of 25 such teams only 3 were winners, and the most common position was sixth in a league of 8. The explanation lay in the way they behaved, typically spending time in debate, arguing for their point of view to the exclusion of others. These highly intelligent people were good at spotting flaws in others' arguments, and became so engrossed in these that they neglected other tasks. Failure led to recrimination. The lesson was that behaviour (rather than measured intelligence) affected group performance.

Source: Belbin (1981).

The researchers noted that some people were creative, full of ideas and suggestions. Others were concerned with detail, ensuring the team dealt with all aspects of the job, while others kept the team together. Table 17.3 lists the nine roles identified in Belbin (2010), who saw that winning teams had members who took on a balance of roles that differed from the balance in less successful ones.

Table 17.3 Belbin's team roles

Role	Typical features
Implementer	'We've talked enough, let's get on with it'; 'Harry, can you deal with that job first, please?'
Coordinator	'Are you both clear about what you have to do?' 'Make sure they all know what we want out of this.'
Shaper	'I don't want any argument, just get on with the job.' 'Do whatever it takes to get it done on time.'
Plant (or ideas person)	'I've been thinking about a completely different approach to get us out of this mess.'
Resource investigator	'I know a couple of people who have done something similar: I'll talk to them.'
Monitor evaluator	'I'd like you talk us through our plan again – I'm not sure it includes everything we need to do.'
Teamworker	'Jim, you're looking uneasy about this, what's worrying you? Alice, can you please help (a new member) for a while?'
Completer	'Can we be clear about where we are and how much there is left do by Friday?'
Specialist	'I've done some more research on this, and the best way for us to deal with it is…'

Source: Belbin (2010).

Winning teams had an appropriate balance, such as:

- a capable coordinator
- a strong plant – a creative and clever source of ideas
- at least one other clever person to act as a stimulus to the plant
- a monitor–evaluator – someone to find flaws in proposals before it was too late.

Ineffective teams usually had a severe imbalance, such as:

- a coordinator with two dominant shapers – since the shapers will not allow the coordinator to take that role
- two resource investigators and two plants – since no one listens or turns ideas into action
- a completer–finisher with monitor–evaluators and implementers – probably slow to progress, and stuck in detail.

Preferred team roles are the types of behaviour that people display relatively frequently when they are part of a team.

Belbin did *not* suggest that all teams should have nine people, each with a different **preferred team role**. His point was that team composition should reflect the task:

> The useful people to have in a team are those who possess strengths or characteristics that serve a need without duplicating those that are already there. Teams are a question of balance; what is needed is not well-balanced individuals but individuals who balance well with one another. In that way human frailties can be underpinned and strengths used to full advantage (Belbin, 1981, p.77).

Trainers use the model widely to enable members to evaluate their preferred roles. Managers can use it when filling vacancies. A personnel director joined an organisation and found it employed few 'completer–finishers'. People started initiatives but left them unfinished as they switched to something else. She resolved that in recruiting new staff she would try to bring at least one 'completer–finisher' to the senior team.

Management in practice — Using Belbin's roles in film-making teams

Hollywood had experienced a shift from long-term jobs to short-term project teams. With their highly skilled freelance staff who come together for a brief period to carry out specific tasks and then disband, film making offers a model for the future of work in the wider world. Angus Strachan has been using Belbin's model to help film directors manage expensive production teams more effectively:

> **Managing film teams requires a mature coordinator who can handle creative people with delicate egos and strong opinions ... A good unit production manager is a strong monitor–evaluator, someone who can carefully analyse the overall situation and make the big calls. The second assistant director needs to be a strong completer–finisher, passing on accurate information that enables the unit production manager to keep abreast of the situation ... A successful assistant director also needs to be a good communicator and organizer who has the flexibility to adjust schedules – in Belbin's terms to take on the resource investigator role.**

Source: Angus Strachan, 'Lights, camera, action', *Personnel Management*, 16 September 2004, pp.44–46.

There is no evidence that practitioners use the model when forming teams from existing staff. They typically use criteria of technical expertise, departmental representation, or who is available. How the team will work is a secondary consideration. This is understandable, but in doing so managers make the implicit assumption that people will be able and willing to cover roles if one seems to be lacking. Whether managers use the theory or not, it implies that anyone responsible for a team may find the work goes better if they put effort into securing the most suitable mix of members.

The performance of a team is also affected by how well it moves through distinct stages of development, and by the team processes they establish.

Case study — Cisco Systems - the case continues www.cisco.com

Recalling the roles within the team, Steve said:

> **My job was mainly to ensure that everything in the virtual team runs smoothly – often just a matter of arranging and coordinating meetings, but also encouraging some kind of creative spark that'll help discussion along. Gunzal takes his time to make decisions, but when he does, he's usually correct. Eddie is very systematic in his work, and very hard working.**

Another commented:

> **I'd say Graham is often the one who comes up with original ideas, while Jim has an incredible range of contacts within the company, and can usually find the right person to go to. Rai is very precise in everything he does and it's very important that he receives the correct information from the engineers. If they don't explain something properly he's good at going back to ask for more information.**

Source: Communication from members of the project team.

Case questions 17.2

- Which of the Belbin roles can you identify amongst the members of the team?
- Are any of the roles missing, and how may that have affected team performance?

Activity 17.5 — Reflect on team composition

- Evaluate a team in which you have worked, using Belbin's team roles.
- Which roles were well represented, and which were missing?
- Did that affect how the team worked?
- Which of the roles most closely matches your preferred role?
- What are the likely strengths and weaknesses of Belbin's model for practitioners?

17.4 Stages of team development

Putting people into a team does not mean they perform well immediately, as teams need to learn to work together. Some never perform well. Tuckman and Jensen (1977) developed a theory that groups potentially pass through five stages of development, shown in Figure 17.3.

Forming

Forming is the stage at which members choose, or are told, to join a team. Managers may select them for their functional and technical expertise or for some other skill. They come together and begin to find out who the other members are, exchanging fairly superficial information about themselves, and beginning to offer ideas about what the group should do. People are trying to make an impression on the group and to establish their identity with other members.

Storming

Conflicts may occur at the storming stage, so it can be an uncomfortable time for the group. As the group begins the actual work members begin to express differences of interest that they withheld, or did not recognise, at the forming stage. People realise that others want different things, have other priorities and, perhaps, have hidden agendas.

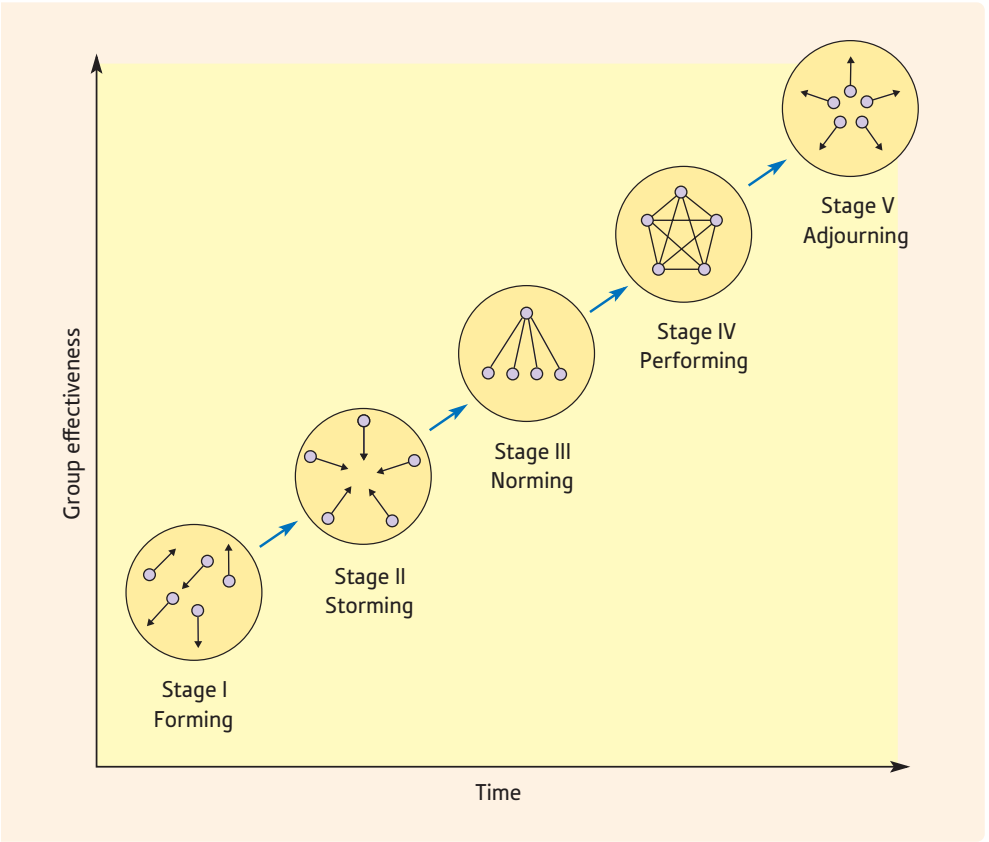


Figure 17.3
Stages of team development

Different personalities emerge, with contrasting attitudes towards the group and how it should work. Some experience conflicts between their time with the group and other duties. Differences in values and norms emerge.

Some groups never pass this stage. There may be little open conflict and members may believe the group is performing well – but may be deluding themselves. If the group does not confront disagreements it will remain at the forming or storming stage and do no significant work. Performance depends on someone doing or saying something to move the group to the next stage.

Norming

Here the members begin to accommodate differences and establish adequate ways of working together. They develop norms – expected ways to behave – about how they should interact, handle the task, deal with differences. People create or clarify roles and responsibilities. They may establish a common language to allow members to work effectively.

Performing

Here the group is working well, gets on with the job to the required standard and achieves its objectives. Not all groups get this far.

Adjourning

The team completes its task and disbands. Members may reflect on how the group performed and identify lessons for future tasks. Some groups disband because they are clearly not able to do the job, and agree to stop meeting.

A team that survives will go through these stages many times. As new members join, as others leave, or as circumstances change, tensions arise that take the group back to an

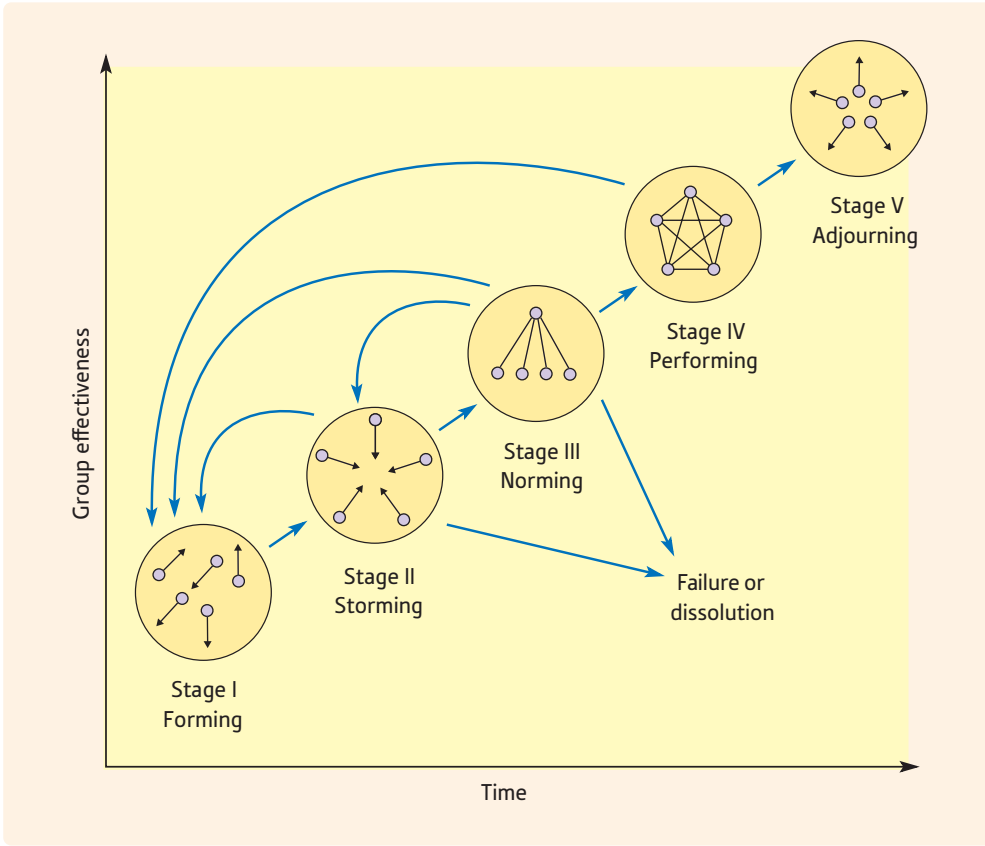


Figure 17.4
Modified model of the stages of team development

earlier stage. A new member implies that the team should revisit, however briefly, the forming and norming stages to bring the new member psychologically into the team and communicate how they should behave. The process will be more like Figure 17.4 than the linear progression implied by the original theory.

Case study

Cisco Systems - the case continues www.cisco.com

Members of the team commented on the way the team developed. A common issue was the problem of scheduling meetings:

> I've always found in virtual teams that when the team is first formed it isn't really getting any serious work done (unless we're under severe time pressure), it's about getting everyone together so they at least have some knowledge of the others in the team. (Steve)

Another said:

> It was strange when we first started working together, because we didn't push on and get any testing or fixing done straight away. Steve was really pushing for us all to spend a few hours in conference calls getting to know each other and how we were all going to work together. We took our time to get into the actual work that was required. (Graham)

Other reflections included:

> I had a few discussions with Steve ... he wanted us to spend most of our time in conference meetings with the rest of the team, while my engineers already had a good understanding of the work that was needed and just wanted to get on with it. But Steve is the team lead so we had to go along with his approach. (Richard)

> It's weird having to form such a close relationship with someone [when] you don't even know what they look like. But as we're using IM [Instant Messenger] just about every day you get used to it. I think you sometimes have to make an extra

effort to talk directly to people, just to keep the relationship going. Sometimes it'd be easier for me to email Rai, but I phone him, just so we can have a bit of a chat. (Eddie)

It means you have to be a bit more careful when it comes to communication. Most of the time you have to use email and IM to discuss issues, which means there can be misunderstandings if you're not careful. When you interact in person you use things like facial expression and hand gestures – none of these are available when emailing so you have to state your arguments more clearly. (Jim)

Source: Communication from members of the project team.

Case questions 17.3

- Relate these accounts to the stages of team development.
- What examples of forming, storming and norming does it contain?

17.5 Team processes

Effective teams, often with the help of coaches, develop processes that help them complete their tasks. These include a common approach, patterns of communication, and observing team practices.

Common approach

The outcome of an effective 'norming' stage is that members agree both the administrative and social aspects of working together. This includes deciding who does which jobs and how the group should make decisions. The common approach includes:

- agreeing the purposes of the team, and the outputs they will deliver
- how to achieve that purpose – gathering information, deciding what has to be done, creating a plan
- integrating new members
- setting, and keeping to, agendas and timetables
- recording what has been agreed
- specifying who is to do what
- agreeing dates and times of team meetings.

Team members need to control their meetings effectively – whether face-to-face or at a distance – conducting them in a way that suits the task and the setting. Table 17.4 is an example of advice widely available about effective and ineffective meetings.

Table 17.4 Five tips for effective meetings

Meetings are likely to succeed if:	Meetings are likely to fail if:
they are scheduled well in advance	they are fixed at short notice (absentees)
they have an agenda, with relevant documents available in advance	they have no agenda or papers (no preparation, lack of focus, longer discussion)
they have a start and finish time, and follow a schedule (approximate) of times for each item	they are of indefinite length (talk drifts), time is lost and important items are not dealt with (delay, and require a further meeting)
decisions and responsibilities for action are recorded and circulated within 24 hours	decisions lack clarity (misunderstanding what was agreed, delay, reopening issues)
they keep subgroups or members of related teams informed of progress	the team is not aware of work going on in other teams that is relevant to its work

Management in practice **Winning teams in the Premier League**

As people interact with one another to do a task, they develop skills and knowledge about what works, and what doesn't. This 'collective asset' is most valuable when people use it in the context in which they developed it. Gerrard and Lockett (2018) explored the effect of this idea on the performance of football teams in the English Premier League. They suggested that while people are together in a team they receive team-specific training, come to understand more deeply their role, and develop shared knowledge relevant to the team: they refer to this as team-specific human capital (TSHC).

Using data about the tenure in their teams of players and head coaches, and their teams' league performance over ten years they found that TSHC (represented by matches played) had a positive effect on their team's performance – and that the head coaches' TSHC also had a positive moderating influence on performance. The authors concluded that head coaches ('management' in this context) play a key role both in imparting codified knowledge, and in shaping the team's tacit knowledge of the game, and of practices that give the team an edge in competition.

Source: Gerrard and Lockett (2018).

Categories of communication

Group members depend on information and ideas from others to do task; a useful skill is to identify the kind of contribution that people make and whether this helps performance. Table 17.5 shows six categories of group communication, which enables an observer to analyse how a group uses time, and how this affects performance. A group that devotes most of its time to proposing ideas and disagreeing with them will not perform well. A group that spends time proposing and building, using their listening skills, will perform better.

Observing the team

Members can develop the skill of assessing how well a team is performing a task, and an especially useful skill is to develop the ability to **observe** a group. This means concentrating on what members the process (what people say or do) rather than on the **content** of the immediate task. They work slightly apart from the team for a short time and keep a careful record of what members say or do, how other members react, and how that affects performance. At the very least, members can reflect on these questions at the end of a task:

- What did people do or say that helped or hindered the group's performance?
- What went well during that task that we should try to repeat?

Observation is the activity of concentrating on how a team works rather than taking part in the activity itself.

Content is the specific substantive task that the group is undertaking.

Table 17.5 Categories of communication within a group

Category	Explanation
Proposing	Putting forward a suggestion, idea or course of action
Supporting	Declaring agreement or support for an individual or their idea
Building	Developing or extending an idea or suggestion from someone else
Disagreeing	Criticising another person's statement
Giving information	Giving or clarifying facts, ideas or opinions
Seeking information	Seeking facts, ideas or opinions from others

- What did not go well, which we could improve?
- With practice, members are able to observe what is happening as they work on the task. They can do this more easily if they focus on specified behaviours, perhaps adapted from those in Table 17.5.

17.6 Outcomes of teams – for members and organisations

Members

Being accepted as part of group meets a widely held human need, and this is as true at work is it is any other aspect of life. One of the earliest writers on management – Mary Parker Follett (Chapter 2) – observed the social nature of people and the benefits of cooperative action. In the 1960s, Rensis Likert saw that effective managers encouraged the willing participation by group members in all aspects of the job, including setting goals and budgets, controlling costs and organising work. Individuals became members of a team who were loyal to each other and who had high levels of team-working skills.

CWS More on Follett and Likert

Many people clearly enjoy working in teams, especially those in which they have a degree of autonomy and/or when they work on larger and more creative tasks than they could probably experience as an isolated individual. As members overcome problems they build mutual trust and confidence. They benefit from the buzz of being in a team, and of 'being part of something bigger than myself'. Ellemers et al. (2013) confirm the many positive outcomes of teams. They show that people who feel they are included in a team, and that their contribution is valued, have positive feelings about the team: they willingly contribute to the common task.

Bear in mind that not everyone would be happy in a close-knit team. Some prefer their own company for most of the time, and are happy working alone – like many craft workers and artists.

There are also counter-views to those stressing the virtues of teams. One is that some teams have been shown to subject their members to what Barker (1993) refers to as a system of **concertive control**. This was not imposed by management, but arose as workers negotiated a consensus amongst themselves. A similar point arose in Chapter 7 (decision making) which introduced 'Groupthink', which happens when members become so committed to being accepted by a group that they are reluctant to express views that run against the current orthodoxy. Limiting discussion like this can damage the quality of decisions.

Concertive control is when workers reach a negotiated consensus on how to shape their behaviour according to a set of core values.

CWS More on Barker and concertive control

Organisations

Teams can bring together professional and technical skills beyond those of any individual. In health and social care there is a growing interest in teamwork to deliver care, since patients frequently have conditions that require inputs from health, social work and housing

professionals. More generally, the ability to deal with a customer may require exchanging ideas amongst several professionals, which is easier if they are part of a recognised team:

> When representatives from all of the relevant areas of expertise are brought together, team decisions and actions are more likely to encompass the full range of perspectives and issues that might affect the success of a collective venture. Multidisciplinary teams are therefore an attractive option when individuals possess different information, knowledge, and expertise that bear on a complex problem (Van Der Vegt and Bunderson, 2005, p.532).

Such a philosophy is similar to that which has long been at the centre of W.L. Gore's approach to adding value, as shown by these extracts from the Chapter 14 Case study – see 'Management in practice' below.

Management in practice **Teamwork at the centre of W.L. Gore & Associates**

The company has a tradition of close and direct personal contact amongst people, which it sees as essential to this kind of innovative business. There are almost no job titles – all employees being termed 'Associates', whom the company hires for a broad area of work at one of its sites. With guidance from their sponsors, and a growing understanding of the business and opportunities at their site, they commit to work on projects that match their skills. Teams organise around opportunities and leaders usually emerge based on the needs of a business unit – some providing technical leadership, others business leadership.

In 2019, the company website included a statement of the company's fundamental beliefs.

Our beliefs are the basis of our strong culture, which connects Gore Associates worldwide in a common bond.

We believe in *the individual* and each Associate's potential to help Gore grow and succeed. We also believe in the *power of small teams* who can communicate freely to assemble talents and diverse perspectives to quickly make good decisions to produce good quality work that helps us deliver on our promise to our customers.

Source: Chapter 14 Case study.

Teams can bring both high efficiency and high-quality jobs by:

- providing a structure within which people work together
- providing a forum in which issues can be raised and dealt with – rather than being ignored
- enabling people to extend their roles, perhaps increasing responsiveness and reducing costs
- encourage acceptance and understanding by staff of a problem and the solution proposed
- promote wider learning by encouraging reflection, and spreading lessons widely.

CWS Teams and entrepreneurship

Teams can also obstruct performance. The discussion that generates new perspectives takes longer than it would take for an individual to make a decision. If a team strays onto unrelated issues or repeats a debate it loses time. Opponents of a decision can prolong discussion to block progress. Some teams allow one member to dominate, such as the formal leader in an organisation where people do not challenge authority. A technical expert may take over if others hesitate to show their lack of knowledge or to ask for clear explanations. If any of these things happen, being on the team will probably be a dissatisfying and unproductive experience. It may produce a worse result, and be more costly, than if one person had dealt with the issue.

Table 17.6 Criteria for evaluating team effectiveness

Criteria	Description
Has it met performance expectations?	Is the group completing the task managers gave to it – not only the project performance criteria, but also measures of cost and timeliness?
Have members experienced an effective team?	Is it enhancing their ability to work together as a group? Have they created such a winning team that it represents a valuable resource for future projects?
Have members developed transferable teamwork skills?	Are members developing teamwork skills that they will take to future projects?

As J. Richard Hackman, an authority on teams, told an interviewer:

> I have no doubt that a team can generate magic. But don't count on it (quoted in Coutu and Beschloss, 2009, p.100).

Table 17.6 shows three criteria against which to evaluate a team's performance.

17.7 Teams in context

Does the task require a team approach?

Despite their potential benefits, teams are not always worth the cost, since they may represent an expensive solution to a simple problem. The usefulness of teams depends on the task:

- *Simple puzzles of a technical nature* can be done effectively by competent staff working independently.
- *Familiar tasks with moderate degrees of uncertainty* need some sharing of information and ideas, but the main requirement is reasonable cooperation and coordination between people.
- *A high degree of uncertainty and relatively unknown problems* requires high levels of information sharing and deep interpersonal skills to cope with the 'shared uncertainty'.

If the task requires people to work together to create joint work products beyond what an individual could do, then the cost of creating a team will be worthwhile.

Is the team leader a positive influence?

Hu et al. (2018) showed empirically how the team leader's management style affected the outcome – in this case 'team creativity'. They proposed that a team's creativity depends on members being willing to spot flaws in their work, to be open to sharing and discussing ideas with others, and to be willing to learn from others. Their suggestion was that the team leader's style – whether they were conscious of their shortcomings and of others' strengths, and their own openness to new ideas – would affect the team's creativity. A study of 72 project management and customer service teams in 5 Chinese IT companies found that the leader's style did indeed affect creativity as expected, but only when the team itself had a 'low power distance score'. This is based on Hofstede's use of the term in Chapter 4, and adapted by the researchers to refer to a situation in which people accept that power should be widely shared in a group. If a team had a high power-distance score they expected the

leader to make decisions, and regarded sharing ideas with the team as a sign of weakness, with negative effects on team creativity.

Does the context support the team?

Aspects of a team's context affect how it performs. The 'Management in practice' feature below gives an example of a team in trouble, partly because of contextual factors.

Management in practice — A community mental health team

The management of a healthcare unit decided to reduce the number of hospital places and increase resources for community care. As part of the change, a resource centre was established containing multidisciplinary teams, each with about 30 staff, to provide a 24-hour service for the severely mentally ill in the community. The service would use a team approach with a flattened hierarchy and greater mutual accountability, and this was supported by many team-building and similar activities.

It soon became clear that many staff could not cope with the extra responsibility and shared decision making. The job is difficult and sometimes dangerous, since people's lives are at stake. Management therefore changed the system to clarify the role of each member of staff and to give a clearer structure of authority and management. It also recognised that, while team working may be an ideal, it needs to be supported by broader management structures and practices.

Source: Communication from a manager in the service.

For a team to meet the criteria in Table 17.6 it needs to deal with all the areas of Figure 17.1 – composition, internal processes and contextual support. The latter matters because otherwise it will depend too much on internal team practices and personal enthusiasm – which may not be sufficient in a hostile context. A manager can also attend to wider organisational conditions such as:

- the availability of **team-based rewards**
- an information system to support the task and provide feedback on progress
- available education and training, including coaching and guidance.

These will often strengthen the benefits of skilled and enthusiastic members.

Team-based rewards are payments or non-financial incentives provided to members of a formally established team and linked to the performance of the group.

Activity 17.6 — Reflection on teams

Recall some teams of which you have been a member.

- Which of the advantages and disadvantages have you observed?
- When teams have performed well, or badly, can you relate that to ideas in this chapter, such as the stages of development, or to team roles?

17.8 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column of Table 17.7 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and

what variables they assumed would help achieve them) and about process (how they tried to gain the support of stakeholders). *These are examples only – NOT a comprehensive analysis*. You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows some points you may want to include if you were writing an assignment or examination question on a topic in this chapter. For example:

> *Being able to observe a team is believed to help a team improve its performance. Suppose you have been asked to observe a meeting of a team of which you are a member. Outline your plan for doing this (70 per cent). Evaluate the potential value of observation to the development of a team (30 per cent).*

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide further guidance on the requirements and presentation of your answer as a whole.

Table 17.7 Examples of thinking clearly about the Chapter Case study and a theory

Clear thinking practices	From the Chapter Case study – forming a virtual team	Theory – a question on 'Observing a team' (Section 17.6 and others)
Check assumptions (Task and process)	What assumptions will people in Cisco probably make as they select staff to form a new virtual team: • about their abilities to perform the tasks? • about their abilities to perform them in a virtual team?	**Introduction** Brief comment on teams, and why observing them may help performance Assumptions that could guide your plan • Focus not on task, but the processes • Identify processes you will especially look for (as being the important ones) • How you would feed your observations to the team • Process not only influence on performance – see also context Are these assumptions valid? Explain your choice
Recognise contexts	Will differences in national cultures affect the way the teams work? How likely is that to matter in this context of high-tech task-focused project teams? Will the corporate Cisco culture, and/or the intrinsic challenges of the task be the main influence on team behaviour? Past experience of working together is likely to build useful ties – is this recognised as a factor when selecting people to join teams? Or is it based on location or technical skills?	Recall section on contexts of teams, note (hypothetically) which may be relevant to your answer, and say how you would include that perspective in your answer plan. Explain what possible contextual factors may be affecting the team

Clear thinking practices	From the Chapter Case study – forming a virtual team	Theory – a question on 'Observing a team' (Section 17.6 and others)
Imagine alternatives	A system that gives some weight to previous experience of working together on a team when building a new one Any formal system for reviewing and recording members' reflections on team processes at the end of the task? Could help spread knowledge about good and not-so-good virtual team practices	Be aware that several contextual factors could influence performance as well as what members do or say. These are probably beyond the scope of an observer, but mentioning some possibilities alongside your observations would add value to your answer
Acknowledge limitations	Most likely may be one hinted at in the case – some want to get straight on with the task, while others want to spend time working out their processes; such different perspectives could be quite serious on a virtual team	Value of practice depends on skills of observer *and* on willingness of team to spend time considering observations and planning how to use them to improve practice. This will require deliberate investment of time, before people see a benefit

Skill

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skill of observing team processes.

Develop a skill: observing team processes

Observing the processes that affect the performance of a team or any other meeting is a widely-useful management skill, and this exercise will help you develop it.

- **Assessment.** Make an assessment of how well you observe what goes on in a meeting. Do you focus entirely on completing the task (content) or do pay at least as much attention to what people say and do (process), and how this affects the team's progress?
- **Learning.** Sections 17.4 (stages of team development) and 17.5 (team processes) are both relevant to this skill. Read them again, paying special attention to the sub-sections on 'categories of communication'; and 'observing the team'. Summarise the ideas about how teams work in these sections. Why may understanding team process (by being able to observe them accurately) help your career?
- **Analysis.** Consider the possible implications for you of this evidence in Sections 17.4 and 17.5. Recall the work you did on Activity 17.4, as it is an example of the topics you may want to note when observing a team.
- **Practice.** Identify a team or group (such as tutorial or project group) of which you are a member. Use the next suitable meeting (e.g. *not* one where you are responsible for the main presentation) and concentrate not on the task, but on observing the processes. Use Table 17.5 as a template, and as you listen to the discussion, allocate each comment to one or other of the categories, by placing a tick or other mark in that category.
  - When the task is finished, add up the number of contributions in each category. Can you identify how that distribution helped or hindered the group's progress? Also make notes on the three questions in the section 'Observing the team'. If possible, share what you have observed with the group members.
  - Reflect on the experience of observing, and consider what you can learn from the experience.
- **Application.** Decide on another opportunity to practise this skill within the next week.

Summary

1 **Distinguish the types of teams in organisations**
- As management faces new expectations about cost and quality, many see teams as a way of using the talents and experience of the organisation more fully to meet these tougher objectives.
- Hackman's typology shows the opportunities and challenges faced by top teams, task forces, professional support, performing, human service, customer service and production teams respectively.

2 **Use a theory to analyse the composition of a team**
- Belbin identified nine distinct roles within a team and found that the balance of these roles within a team affected performance. The roles are: implementer, coordinator, shaper, plant, resource–investigator, monitor–evaluator, teamworker, completer, specialist.

3 **Identify the stages of team development and explain how they move between them**
- Forming, storming, norming, performing and adjourning. Note also that these stages occur iteratively as new members join or circumstances change.

4 **Identify specific team processes and explain how they affect performance**
- Effective teams develop a common approach and working methods, develop skills in several types of communications and are skilled in observation and review, enabling them to learn from their experience.

5 **Evaluate the outcomes of a team for the members and the organisation**
- Members benefit from being part of a social group, from meeting performance expectations, from experiencing an effective team, and developing transferable teamwork skills.
- The organisation can benefit from the combination of skills and professions, though the evidence of the links to organisational success are mixed.

6 **Outline the contextual factors that influence team performance**
- Teams are not necessary for all tasks.
- Teams need to be supported by suitable payment systems, by training, and by relevant technologies.
- Teams themselves can act to manage their boundaries.

7 **Think clearly to evaluate these management practices and theories, and as you begin to further develop your skills of observing a team**
- Observing the processes that affect the performance of a team or any other meeting is a widely-useful management skill, and the chapter has provided an opportunity to develop this.

Test your understanding

1 What are the potential benefits of teamwork to people and performance?
2 Evaluate Belbin's model of team roles. Which three or four roles are of most importance in an effective team? What is your preferred role?
3 Compare the meaning of the terms 'task' and 'maintenance' roles.
4 How many stages of development do teams go through? Use this model to compare two teams.

5 List the main categories of behaviour that can be identified in observing a group.
6 Illustrate two of these from your experience of being in a team.
7 What are the potential disadvantages of teams?
8 Explain the meaning of 'concertive control'.
9 Give examples of the external factors that affect group performance. Compare the model with you experience as a group member.

Read more

Belbin, R.M. (2010) *Team Roles at Work*, (2nd edition) Butterworth/Heinemann, Oxford.

A new edition of the book about the experiments that led Belbin to develop his model of team roles – with many more useful observations on teamworking.

De Rond, M. (2012) *There is an I in Team*, Harvard Business Review Press, Cambridge, Mass.

Draws on examples from sport and business to explore the challenges of managing teams made up of highly ambitious creative individuals.

Coutu, D. and Beschloss, M. (2009) 'Why Teams DON'T Work', an interview with J. Richard Hackman, *Harvard Business Review*, vol. 87, no. 5, pp.98–105.

An interview with Hackman, whose work features in the chapter, in which he develops the point made here that teams require members to put in effort and develop skills if a team is to work.

Gerrard B. and Lockett A. (2018) 'Team-specific human capital and performance', *British Journal of Management*, vol. 29, no. 1, pp.10–25.

Clear empirical study of a significant topic, carried out on coaches and players in a Premier League football club.

Go online

These websites have appeared in the chapter:

www.cisco.com
www.gore.com
www.dyson.com
www.bmw.com
www.gkn.com

Each has tried to develop new approaches to using teams – encouraging staff to share ideas and experience, as well as gaining personal satisfaction from them. Try to gain an impression from the site (perhaps under the careers/working for us section) of what it would be like to work in an organisation in which teams are a prominent feature of working.

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



CHAPTER 18
MANAGING CHANGE

Aim

To outline theories of change in organisations, which can each support practice.

Objectives

By the end of your work on this chapter you should be able to outline the key terms below in your words and:

1. Explain, with examples, why change can add or destroy value, depending on how people manage it
2. Use Kurt Lewin's 'force-field' theory to diagnose a potential change
3. Explain the interaction of change and contexts
4. Show how those managing change can draw on four theories of the process:
   a. rational
   b. participative
   c. negotiated
   d. adaptive
5. Take account of stakeholders and interest groups in relation to a change
6. Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of identifying stakeholders and their interests

Key terms

This chapter introduces these terms:

perceived performance gap
organisational change
receptive contexts
non-receptive contexts
models of change
rational (life cycle)
participative models
adaptive models
Negotiated (or political) model

Each term is defined within the text and in the Glossary at the end of the book.

Case study

Amazon www.amazon.com

Amazon received its first order in April 1995 – a few months after founder Jeff Bezos had seen the apparently boundless possibilities of the internet, and began to create an 'everything store'. This was not yet practical, so he decided to start with books. With his own, and some family, money he persuaded other young skilled technology graduates to join his venture.

Their creation is now a daily presence for millions of people around the world, far beyond its initial role as an online bookseller. Demand rapidly exceeded expectations and for several intense years he raised capital, developed the software, hired more staff and built fulfilment centres. Bezos also started building an editorial group – writers and editors who would craft a literary voice for the site and give customers a reason for coming back. Above all, the company focused on perfecting the complexities of its distribution network – which enabled it to extend the range of products far beyond books.

Eric Schmidt, chairman of Google (a competitor – as well as being a member of Amazon Prime):

> **To me, Amazon is a story of a brilliant founder who personally drove the vision. There are almost no better examples. [There were many doubters and sceptics, and for years] it lost hundreds of millions of dollars. But Jeff was very garrulous, very smart. He's a classic technical founder of a business, who understands every detail and cares about it more than anyone (Stone, 2013, pp.17–18).**

In 2019, the company had over 500,000 full-time staff (known as associates), most of whom work in 175 fulfilment centres around the world. These receive products from manufacturers which they store, sort, pick, pack and despatch to meet a customer's order.

According to Brad Stone (2013):

> **Bezos has proved quite indifferent to the opinions of others. He is an avid problem solver and applies the focus of an obsessive-compulsive to pleasing customers and providing services like free shipping. He has vast ambitions – not only for Amazon, but to push the boundaries of science and remake the media ... [He] acquired the ailing Washington Post newspaper company in 2013 in a deal that stunned the media industry … As many of his employees will attest, Bezos is extremely difficult to work for. He is a micromanager with a limitless spring of new ideas, and he reacts harshly to efforts that don't meet his rigorous standards (p.18).**



© Mike Mareen/Shutterstock

As sales of books rose and they fell behind with deliveries, Bezos and the others involved in the start-up would go down to the basement at night to assemble customer orders. This was arduous work, as they assembled them on the floor, wrapping books in cardboard and taking them to the post office. After a few weeks, someone suggested adding packing tables to the warehouse. Bezos still enjoys telling the story: 'I thought that was the most brilliant idea I had ever heard in my life' (p.56).

By 2019, these processes had changed beyond recognition. As the business grew, management invested heavily in advanced robotic technologies to create collaborative automated systems in its fulfilment centres.

Sources: Stone (2013); company website.

Case questions 18.1

- Visit the company website for information about recent developments in the company.
- What examples of change has the case mentioned?
- Did they come from ideas within the business, or from outside?

18.1 Introduction

Amazon has changed beyond recognition since Jeff Bezos founded it in 1995. Management and employees chose the industry into which to launch their business and worked out the practicalities of dealing with online book orders. That experience confirmed Bezos' vision of the potential of the world wide web to change the way many people live and work, and the business has evolved quickly as they applied the underlying system to new products and markets, causing difficulties for many established retailers. That has led some to propose legal measures to protect local industries from Amazon and other online traders.

Change of some sort is inherent in organisations. As people at all levels work, they find new methods – and if they seem better than earlier ones they repeat them, so they become the accepted practice. If others spot the new method and adopt it in their unit, with or without formal management recognition, the change gradually spreads. Organisations that encourage employees to be proactive in suggesting improvements gain from their expertise and local knowledge.

More visible changes arise when someone (rightly or wrongly) perceives a need for change, and persuades others to support them in making a case to those in authority. Figure 3.1 (repeated here as Figure 18.1) shows why this happens. Any or all of the PESTEL factors in the external environment are likely to be changing in ways that affect a company's position. To take just one (socio-cultural) example, young people in the UK are much more likely than older people to watch films on a mobile device than on TV. This has huge implications for established broadcasters like the BBC (Chapter 3 Case), who need to find new ways to engage with this audience. Responding to this external change will bring significant changes to the Corporation's internal context – the technology they use, the type of people they employ

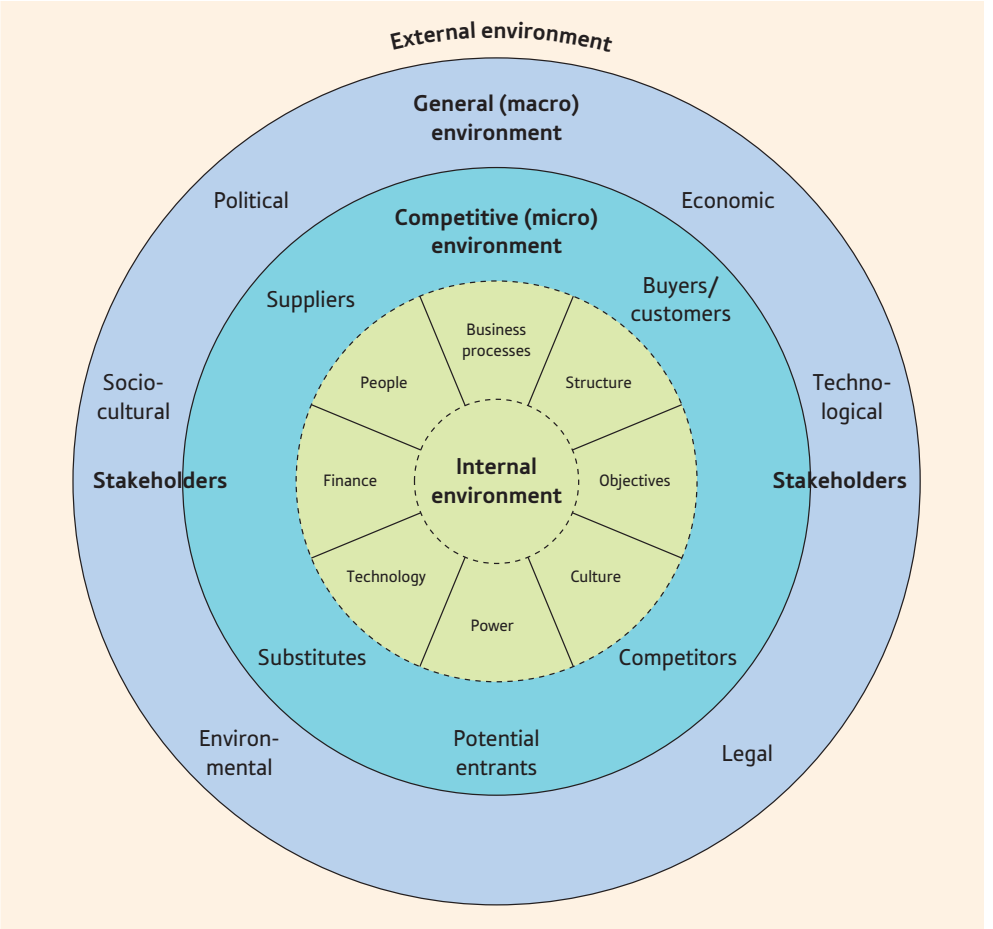


Figure 18.1 Environmental influences on the organisation

and how they organise them. External change is so pervasive that few are immune – most practitioners deal with change (creating it and/or reacting to it) much of the time.

Pressure for change also comes from events in the competitive environment – online retailers challenge physical ones, while more people are understood to be spending money on experiences, than on physical possessions: good news for holiday and travel companies, less so for makers of consumer goods and passenger cars.

Formal attempts to bring change to an enterprise happen when enough influential members become dissatisfied with performance – they observe a **perceived performance gap** between the actual performance of a unit or business and that which they expect. If those responsible for transforming resources into outputs do not meet customer expectations, there is a performance gap. This may lead to other performance gaps emerging – revenue from sales will be insufficient to secure new resources. If uncorrected, the business will fail – and to avoid this management can respond by making **organisational changes**. There is example of this in *The Guardian* (see Pages 455–456).

A **perceived performance gap** arises when people believe that the actual performance of a unit or business is out of line with the level they desire.

Organisational change is a deliberate attempt to improve organisational performance by changing one or more aspects of the organisation, such as its technology, structure or business processes.

Management in practice

Royal Mail finds change difficult www.royalmail.com

In September 2018 Royal Mail reported that profits had halved in the first six months of the financial year. Revenue had fallen at its core UK business and it had failed to meet productivity and cost-savings targets. The number of letters sent in the UK continued to decline, although parcels traffic was growing. The company has been investing in new technology to automate the way it handles letters and 90 per cent are now sorted automatically. It has so far only automated 10 per cent of the parcels traffic.

Management needs to improve productivity (the number of items processed by each member of staff) to meet the costs of a 2017 agreement with the trade unions: this increased pay and pension benefits, and reduced working hours. These will increase staff costs, so to remain viable management productivity must rise.

FT Source: *Financial Times*, 18 October 2018, p.20.

The next section introduces ideas from Kurt Lewin which are highly relevant to modern practice. Two sections show how internal and external contexts respectively are sources of change, and affect how an organisation introduces it. Section 18.5 outlines four theories about the nature and practice of organisational change, which leads to a section about the influence of stakeholders and interest groups on change: there is an opportunity to consider that in the 'develop a skill' feature at the end of the chapter.

Figure 18.2 shows the themes.

Activity 18.1 Recording a change

Try to identify someone who is familiar with a major change in an organisation, which they are willing to discuss with you. Make notes on these questions and refer to them as you work on the chapter.

- What was the change?
- What were the objectives?
- How did management plan and implement it?
- How well did it meet the objectives?

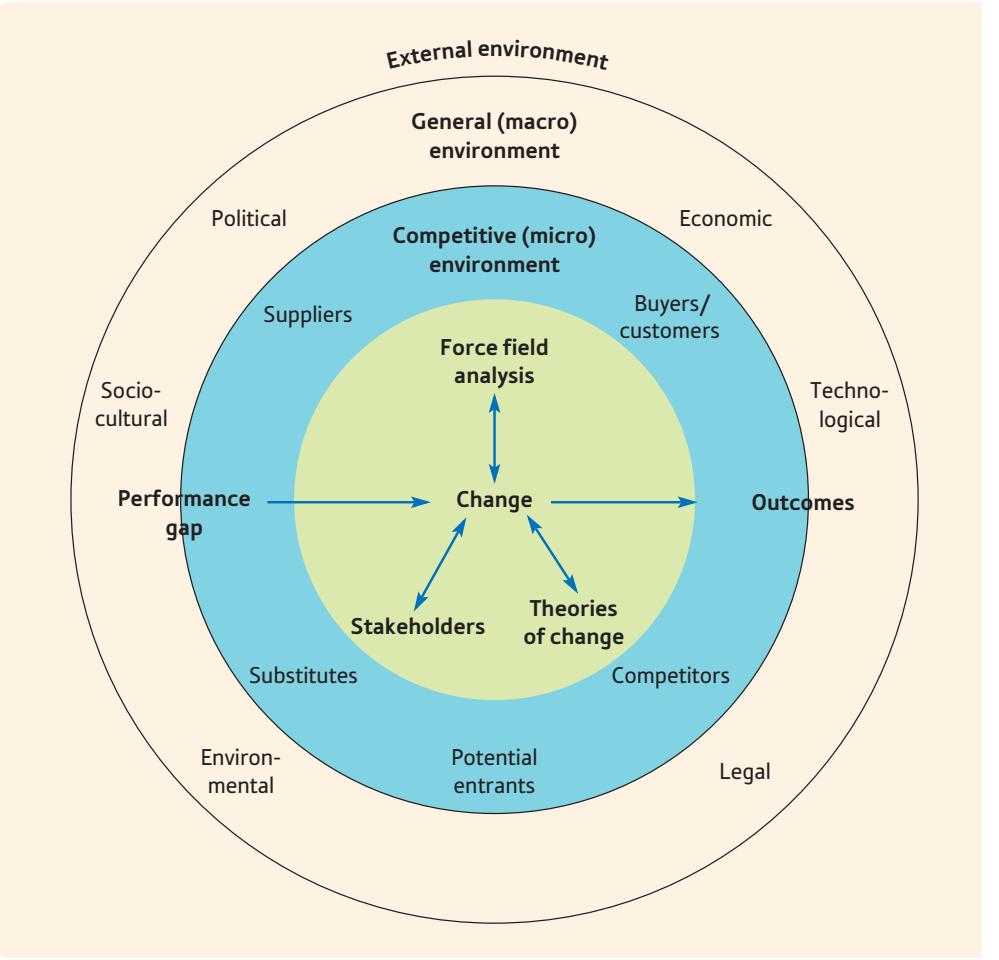


Figure 18.2 An overview of the chapter

Not all changes are challenging – those that are marginal alterations to established methods are routinely made without comment. At the opposite extreme are those that are at the core of the business, and require a novel solution: these will be difficult to achieve, and especially on time and within budget. When TSB tried, in 2018, to integrate its computer operations with that of its parent company, the (temporary) inability of thousands of customers to access their accounts for several days did lasting reputational damage, cost over £150 million in compensation, and led the chief executive to resign.

18.2 Change and the social group – Kurt Lewin

In considering how to move a change forward, practitioners can draw on the wisdom of Kurt Lewin, probably the earliest scholar to consider the matter. He focused especially on the group, believing that when studying change the unit of analysis must be the group, not the individual, the organisation or the wider society. He believed this enables the observer to analyse the many variables related to a group and its members (including its goals, standards, values, perceptions of the situation, and of other groups) as a system that influences the group's response to a change.

He also advised paying close attention to circumstances surrounding a change:

> including the total social field: the groups and sub-groups involved, their relations and their value systems (Lewin, 1947, p.14).

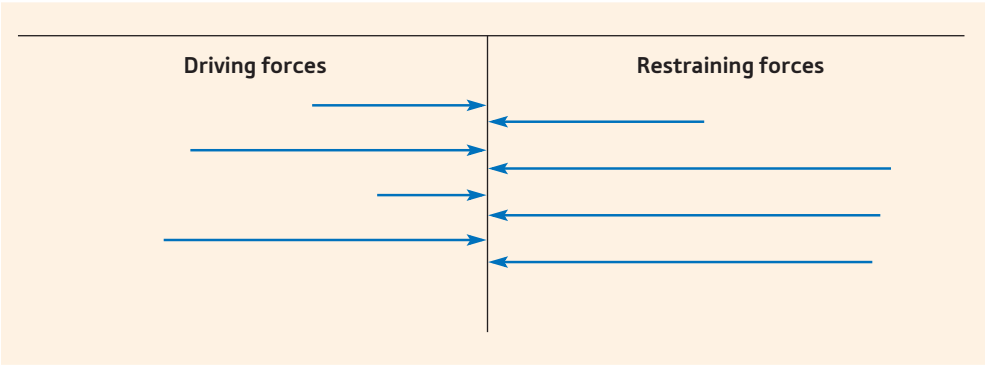


Figure 18.3 Force-field analysis

Source: Boddy (2002), p.16, based on Lewin (1947).

Understanding this 'force field' of elements prompting change and constancy is essential to effective action. He observed that any social system is in a state of temporary equilibrium. Driving forces are trying to change the situation in directions that they favour. Restraining forces push the other way to prevent change, or to move it in another direction (see Figure 18.3). Someone leading a change project faces this equilibrium,

> which can be changed either by adding forces in the desired direction, or by diminishing the opposing forces (p.26).

Driving forces encourage change from the present position. They encourage people and groups to give up past practice, and to act in ways that support the change. Examples are a newly available technology, a severe competitive threat, or the support of an influential person. On the opposite side, a system that people know well, a shortage of finance, or opposition from an influential person can be restraining forces: they encourage delay, inertia and retaining current practice.

Case study

Amazon – the case continues www.amazon.com

The company continually looks for ways to offer new services, and make the experience of online shopping as easy as possible. Examples include 'Similarities' – which points customers towards books they may not notice – and the 1-Click ordering system. Both brought an immediate rise in sales.

The company generates many new business proposals, and the website gave an account of the questions staff must ask of a proposal, in all areas of the business:

- How big is the opportunity? Is it big enough to matter to a company of our size?
- Can it succeed? Trying big thigs that we can't do because we don't have the right skills is a waste of time.
- And if we succeed, is it worth it?

In 2004, an engineer used an employee-suggestion scheme to make a proposal. The company already ran 'Super Saver Shipping' which catered for customers who were in no rush for their purchase: for a lower fee they got a slower delivery. This was a success: the new suggestion was to cater for the opposite type of customer – those who would pay extra for quicker delivery. Enough associates liked the idea that it came to Bezos' attention, who immediately approved it. He convened a group of engineers and told them to have the programme ready to launch in about three months.

The head of operations at the time recalled:

> **Marketing wanted us to offer one-day. As leader of operations, I had to intervene and say it should be two – we could have made it one, but would have probably killed the company paying for one-day shipping (company website).**

The team fixed the name 'Prime', and fee – $79 a year. Stone writes that Prime was an act of faith. The company had little idea how it would affect orders. If each shipment cost the company $8 and if a Prime

member placed 20 orders a year it would cost the company twice the fee. Someone involved in Prime:

> **We made this decision even though every single financial analysis said we were completely crazy to give two-day shipping for free (p.235).**

But Bezos was going on gut and experience. He knew that Super Saver Shipping had changed customers' behaviour, placing bigger orders in new categories. He also knew from 1-Click ordering that when friction was removed from online shopping, customers spent more. That increased Amazon's volumes, so it could lower shipping costs and save money – which would help pay for Prime. The company continued to refine the fulfilment process so it became better at combining multiple orders into a single box, which cut costs. Prime lost money for years, but eventually justified the decision (Stone, 2013, pp.235–6).

The purchase of Kiva Robotics enabled it to further speed up the already highly automated fulfilment centres (FCs). They have so far (2019) introduced them in 26 FCs where they work together with the associates to pick, sort, move and send packages. Amazon claims they are not using robots to replace labour, but to make life easier by, for example, lifting heavy items and moving them long distances.

> **Teams of roboticists and engineers have worked closely with associates to incorporate new technologies to streamline processes and improve safety. The associates are playing a significant part in shaping the future of this aspect of our business (company website).**

Sources: Stone (2013); company website (accessed 14 February 2019).

Case questions 18.2

These are some examples of the many changes in the company.

- What do they suggest about the way the company decides on change?
- How have these changes added value?

Those promoting a change can add to the driving forces by stressing the advantages to individuals as well as the organisation, or showing positive examples of how others have made a similar change. They can seek to diminish the opposing forces by showing that problems will not be as great as people fear, or that they will be temporary.

When the forces for change are stronger than those resisting, change will occur: when the forces against are stronger than those for, change will not occur.

External events can trigger and drive change: new competition, a change in legislation, a noisy pressure group, a chance conversation. People with sufficient power can use these and countless other external signs to justify a proposal. Lewin observed that while increasing the driving forces could produce change in the desired direction, it could also increase tension amongst those 'forced' to change. If they then lack motivation the change may fail to deliver the expected benefits. He concluded that trying to understand and reduce the restraining forces is usually the wiser route.

Management in practice — An external force revitalises a change

A manager in a social work department proposed investing in a Social Work Information System (SWIS) which staff could use to record information about their workload, clients' status and so on. She had made some progress, but a reorganisation, budget cuts and a head of social work who had little enthusiasm for the change stopped the project. Two years later the need for such a system became urgent. Legal changes required the local authority to provide much more detail on clients seen, staff workload and overall performance before they would receive extra funds. The old system was unable to provide the information now required. This became a new driving force – head of social work now supported the project, and was able to persuade the authority to provide funds to establish a new SWIS.

Source: Personal communication.

They can also use internal triggers to promote change: awkward questions from the Board, evidently poor performance of the existing processes, or growing customer complaints – people use such events to build a case that becomes a driving force for change. Forces only drive change if someone sees them, judges them to be significant, and is willing *and* able to make something happen. Perceptions matter, as what is a clear and urgent signal to one person is a distant problem to another. Information that is from a good authority to one may seem superficial and biased to another.

Understanding driving forces helps a practitioner to see why a project has come to life at this time. They can use this to communicate the urgency of the change to those they are trying to influence. Being alert to possible restraining forces will help them anticipate resistance: understanding why people are less committed than the promoters would like may suggest practices that would help it move forward. In the course of a major project in a manufacturing company, Lewin concluded that change happened more easily if the promoter communicated with, and involved, the group. The most successful practice was for stakeholders to 'workshop' (try out, experiment with) specific processes and alternatives before agreeing the way forward (Lewin, 1947).

18.3 The wider internal context

While Lewin stressed the significance of understanding the group, Andrew Pettigrew used his extensive research into major strategic and technological changes to draw attention to other elements of the internal context that shape, and are shaped by, change. Drawing on his long-term study of ICI (then one of the UK's greatest businesses (Pettigrew, 1985)), Pettigrew showed that:

> An important feature of managerial action in strategic change is the necessity to alter the structural context in which strategy changes are being articulated. These attempts [at ICI] to change inner context included ... setting up management-development programmes to focus attention on the need for new skills, and creating ... administrative mechanisms and groups to build energy and commitment around particular ... solution (Pettigrew, 1987, p.665).

External factors also matter: Figure 18.1 shows the internal, competitive and external contexts, and the presence of stakeholders. All can be the source and stimulation for change – which is then mostly (not exclusively) directed at modifying aspects of the internal context.

The figure shows the internal elements that influence behaviour. Change begins to happen when sufficient people believe, say, that outdated technology or a confusing structure is causing a performance gap, by inhibiting flexibility or innovation. They notice external or internal events and interpret them as threatening the performance that they, or other influential stakeholders, expect. This interpretation encourages them to propose changing the organisation – see 'Management in practice' below.

Management in practice — Change at *The Guardian* www.theguardian.com

In 2018, *The Guardian* announced major changes to its strategy and ways of working – moving to a tabloid format, updating the logo and masthead – and above all starting the journey to become a 'supporter-led' organisation. The person leading the change:

> **We've learnt so much and I feel we are just beginning to build the science of a really supporter-led organisation ... The first stage was [experimentation and discovery] and to some extent convincing people internally and externally that we could make it work and it was viable. Now we are building the science around it.**

The company did not want to put a paywall round its online content, but realised that convincing readers to pay would be crucial if it was to meet its goal to break even by 2019. So the company began to ask readers if they would consider making a payment to support the content they were reading.

By later that year (2018), it was making more money from readers than advertisers. The membership scheme had grown from 75,000 to 300,000 and there were 200,000 digital subscribers. There have also been a further 300,000 donations from people responding to appeals at the end of artices and within live blogs to support its journalism.

It has been a long journey to understand its readers, who would pay and what they would pay for. All this has depended on close collaboration between the editorial, product, commercial and marketing teams to ensure it meets the needs of those three groups of readers and convince all of them to give again.

Source: Based on an article in *Marketing Week*, 14 March 2018.

They then have to persuade enough other people that the matter is serious enough to earn a place on the management agenda. Some colleagues will be open to proposals for change, others will ignore them – how the promoters overcome this will depend partly on the respective power, and influencing skills, of the players. Boddy et al. (2000) give an example of creating a new structure to support a major organisational change. This concerned a desire by a major computer manufacturer to build a close working partnership with one of its suppliers. Initially, the substantial cultural and other differences between them caused severe difficulties. Both sides persevered, and acted to change aspects of the internal context to support cooperation.

They created a joint team that met monthly to resolve any outstanding issues about costs due to changes in requirements. In a rapidly changing industry, engineers from both companies would face a problem, agree a solution – and then face a delay until finance staff worked out the cost and who should pay: delaying production. The parties agreed that once the engineers had a solution, work would proceed – and the joint team would deal with the money at the next meeting. This change in structure supported the goal of close working between customer and supplier.

Change is often more difficult than promoters expect – see 'Management in practice' below.

Management in practice

Driving and restraining forces at Rolls-Royce www.rolls-royce.com

In June 2018, Warren East, chief executive of Rolls-Royce aero-engines announced a new bid to transform the leading engineering company, mainly by cutting back-office and middle management jobs, to save cash which could be re-invested to make the business more productive.

Many inside the business were sceptical – it was the seventh such announcement in five years. They have noted that after each such event, jobs that were supposed to have disappeared have crept back in. The latest plan is an acknowledgement that those previous attempts underestimated the effort required to change processes accumulated over decades. One Rolls-Royce engineer said:

This all comes back to the culture of the organisation. The bureaucracy just finds a way of reintroducing itself to make sure this doesn't happen.

One internal study found there were 4,500 posts in a corporate centre that had 'almost endless rights' to meddle in the business, imposing costs for services they neither needed nor wanted.

Mr East has made it clear to staff that this time, failure was not an option. Someone at the meeting:

He has said that if we do not do this, someone else will.

Source: From an article by Peggy Hollinger, *Financial Times*, 17 June 2018, p.17.

Context affects the ability to change

While people managing a project aim to change the context, the context within which they work will itself help or hinder them. All of the elements of Figure 18.1 will be present as the project begins, and some will influence how people react. Managers will review a proposal from their personal career perspective, as well as that of the organisation. For retailers going online, the existing technology (stores, distribution systems, information systems) and business processes would influence managers' decisions about how to implement an online shopping strategy.

Nigam et al. (2016) examined why some ways of achieving an organisational goal gain support, while others do not. A group of Canadian hospitals wanted to carry out more surgical procedures within their existing operating rooms – so asked staff to identify 'routines' (procedures for doing tasks) in the operating rooms, which would cut the time tasks needed, and so enable staff to do more (the goal). The surgical units set up teams to consider the proposals and decide which to implement. The researchers interviewed all those involved in suggesting and selecting proposals, and concluded that for a proposal to be accepted, it had to have the support of at least one 'elite' – defined in this context as someone whose role (such as being a senior consultant) gave them authority to decide whether to change a routine. They tended to support a change that would serve their personal or professional goals, regardless of its value to the organisation's goals.

Receptive contexts are those where features of the organisation (such as culture or technology) appear likely to help change.

Non-receptive contexts are those where the combined effects of features of the organisation (such as culture or technology) appear likely to hinder change.

Key ideas — Receptive and non-receptive contexts

Pettigrew et al. (1992) sought to explain why managers in some organisations were able to introduce change successfully, while others in the same sector (the UK National Health Service) found it very hard to move away from established practices. Their comparative research programme identified the influence of context: **receptive contexts** are those where features of the context 'seem to be favourably associated with forward movement [while] ... in **non-receptive contexts** there is a configuration of features that may be associated with blocks on change' (p.268).

Their research identified seven contextual factors – conditions that energise change:

1 Quality and coherence of policy.
2 Availability of key people leading change.
3 Long-term environmental pressure – intensity and scale.
4 A supportive organisational culture.
5 Effective managerial–clinical relations.
6 Cooperative inter-organisational networks.
7 Fit between the district's change agenda and its locale.

Together these factors give a widely applicable model of how context affects ability to change.

Source: Pettigrew et al. (1992).

History

The present context is the result of past decisions and events. Management implements change against a background of previous events that shaped the context. The promoter of a major project in a multinational experienced this in his colleagues' attitudes, and he explained it to the author:

> They were a little sceptical and wary of whether it was actually going to enhance our processes. Major pan-European redesign work had been attempted in the past and had failed miserably. The solutions had not been appropriate and had not been accepted by the divisions. Europe-wide programmes therefore had a bad name (private communication).

Experience also affects how staff adapt to change – see 'Key ideas' below.

Key ideas — Experience shapes how staff learn new methods

Lawrence (2018) showed how the previous experience of staff affected how they reacted to change in a supermarket. It changed the way staff were required to re-stock shelves, at each of the 294 stores. A study of performance over several weeks showed that staff with previous experience of the work (and who knew the old procedures) performed much worse at first than staff without prior experience. However, after four weeks, their performance exceeded that of newer staff, and remained higher.

The explanation seemed to be that while the older staff found the change confusing at first, they were able to learn more quickly, as they had learnt, by working together for many months or years, how to coordinate and communicate with each other: applying this to the new procedure, they were soon performing well.

Source: Lawrence (2018).

Levels

The context represented by Figure 18.1 occurs at (say) operating, divisional and corporate levels. People at any of these will be acting to change their context – which may help or hinder those managing change elsewhere. A project at one level may depend on decisions at another about resources, as this manager leading an oil refinery project discovered:

> One of the main drawbacks was that commissioning staff could have been supplemented by skilled professionals from within the company, but this was denied to me as project manager. This threw a heavy strain and responsibility on myself and my assistant. It put me in a position of high stress, as I knew that the future of the company rested upon the successful outcome of this project. One disappointment (and, I believe, a significant factor in the project) was that just before commissioning, the manager of the pilot plant development team was transferred to another job. He had been promised to me at the project inception, and I had designed him into the working operation (private communication).

Acting to change an element at one level will have effects at this and other levels, and elements may change independently. The manager's job is to create a coherent context that encourages desired behaviour, by using their preferred model of change.

18.4 External contexts

Beyond the internal context, Figure 18.1 shows the immediate competitive environment and the general environment. Practitioners pay particularly close attention to the immediate competitive environment as changes at competitors can affect their performance very directly, and prompt them to make corresponding changes.

Elements in the general (macro) environment also stimulate or constrain change. Chapter 3 showed how changing social habits, consumer preferences, legal changes and technological developments, amongst others, are a powerful source of change. Conversely, political pressures lead to legal changes trying to prevent changes that appear to be against the interest of society as a whole (rules against internet pornography), or some sectors in particular (attempts to protect incumbent taxi firms against Uber).

Case study

Amazon – the case continues www.amazon.com

Having established itself as the Internet's top retailer, it has become a versatile technology firm, selling cloud computing infrastructure (Amazon Web Services) and inexpensive digital devices such as the Kindle Electronic Reader and the Kindle Fire tablet.

Amazon's success in entering new markets and product categories is shown by the rapid growth in earnings – to over $200 billion in 2018. In the last two years it had:

- bought the large US grocery chain Whole Foods, which firmly established it in that sector
- bought PillPack, a mail-order pharmacy – probably to gain entry to the large US pharmacy market
- launched private label clothing brands, advertised in Vogue and formed a partnership with Calvin Klein
- offered Amazon Echo, a camera which lets customers send selfies of their outfits to an artificial intelligence-powered stylist
- opened a try-before-you-buy fashion service which delivers a bag of three to eight pieces of clothing with no initial charge and free delivery for Prime subscribers
- bought UK rights to the US Open tennis
- bought UK rights to show some Premier League matches.

This apparent growth in Amazon's power has led to calls, especially in the United States, for tougher enforcement of rules designed to protect consumers and small businesses from domination by large ones. Amazon recognises it has a potential political problem. The company is likely to spend $15 million in 2019 lobbying the federal government, compared with $2.5 million five years ago. The European Commission is also considering investigating how the company uses data it has on third-party companies who sell through its site.

FT Sources: *The Guardian*, 20 April 2018, p.37, 31 October 2018, p.37; *Financial Times*, 31 October 2017, p.11, 8 June 2018, p.13, 1 July 2018, p.13, 21 September 2018, p.18; company website.

Case questions 18.3

This instalment highlights further examples of change in Amazon.

- How has the external environment stimulated those changes?
- How have those changes stimulated changes in the external environment?

18.5 Theories of change

Chapter 3 set out four complementary theories of how practitioners reach decisions, depending on their context. 'Change' is evidently an accumulation of decisions so this chapter uses a similar way of distinguishing approaches to change.

Rational (or life cycle)

Rational (or life cycle) models of change are those that view change as an activity that follows a logical, orderly sequence of activities that can be planned in advance.

Much advice given to those responsible for managing change uses the **rational** approach, which includes the idea of the project *life cycle*. Projects go through successive stages, and

results depend on managing each one in an orderly and controlled way. The labels vary, but common themes are:

1 Define objectives.
2 Allocate responsibilities.
3 Fix deadlines and milestones.
4 Set budgets.
5 Monitor and control.

This approach reflects the idea that people can identify smaller tasks within a change and plan the (overlapping) order in which to do them. It predicts that people can make reasonably accurate estimates of the time required to complete each task and when it will be feasible to start work on later ones. People can use tools such as bar charts (sometimes called Gantt charts after the American industrial engineer Henry Gantt, who worked with Frederick Taylor), to show all the tasks required for a project, and their likely duration (see the example in Figure 7.7 on page 183). These help to visualise the work required and to plan the likely sequence of events.

In the life cycle model, successful change depends on specifying these elements at the start and then monitoring them to ensure the project stays on target. Ineffective implementation is due to managers failing to do this. Figure 18.4 shows the stages in the life cycle of a small project (Lock, 2013) – cyclical because they begin and end with the customer. He emphasises this is an oversimplification of a complex, iterative reality, but that it helps identify where decisions arise:

> Travelling clockwise round the cycle reveals a number of steps or *phases*, each of which is represented by a circle in the diagram. The boundaries between these phases are usually blurred in practice, because the phases tend to overlap (pp.8–9).

Many books on project management, such as Lock (2013), present advice on tools for each stage of the life cycle. For some changes, the life cycle gives valuable guidance. It is not necessarily sufficient in itself, since in uncertain conditions it makes little sense to plan outcomes in much detail – and it may be necessary to take into account other views about the change – through a participative approach.

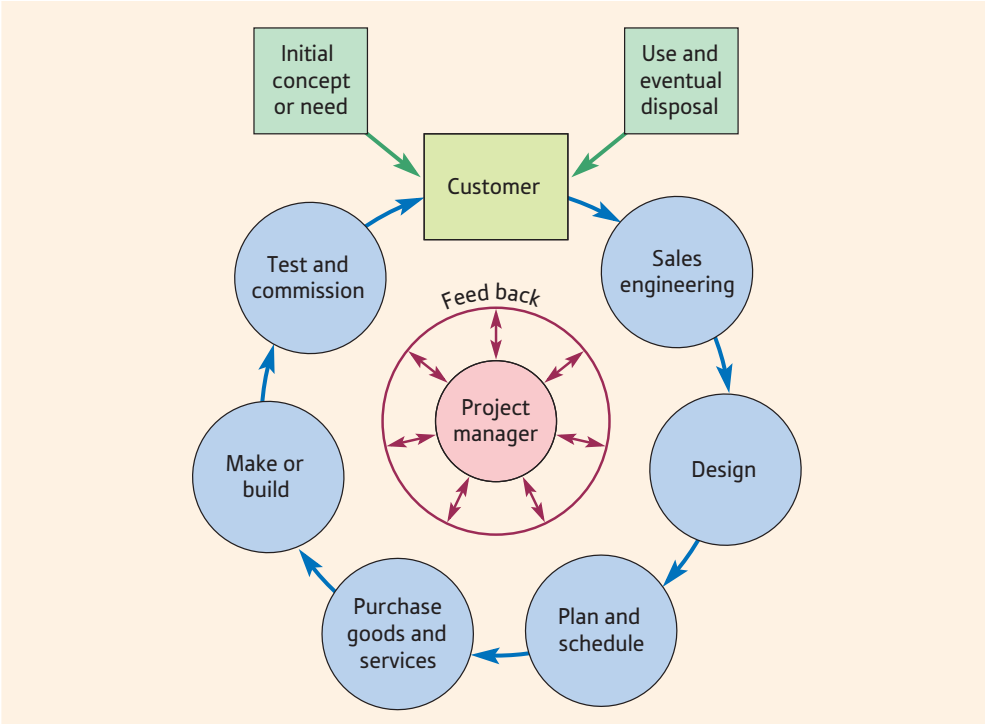


Figure 18.4
A project life cycle
Source: Lock (2013) p.10.

Activity 18.2 Reflection on the project life cycle

You may be able to gain some insight into the project life cycle by using it on a practical task. For example:

- If you have a piece of work to do that is connected with your studies, such as an assignment or project, sketch out the steps to be followed by adapting Figure 18.4; alternatively do the same for some domestic, social or management project.
- If you work in an organisation, try to find examples of projects that use this approach, and ask those involved when the method is most useful, and when least useful.
- Make notes summarising how the life cycle approach helps, and when it is most likely to be useful.

Participative

Those advocating **participative models** stress the benefits of personal involvement in, and contribution to, events and outcomes. The underlying belief is that if people can say 'I helped to build this', they will be more willing to live and work with it, whatever it is. It is also *possible* that since participation allows more people to express their views the outcome will be better. Ketokivi and Castañer (2004) found that when employees participated in planning strategic change, they were more likely to view the issues from the perspective of the organisation, rather than their own position or function. Participation can be good for the organisation, as well as the individual.

The **participative model** is the belief that if people are able to take part in planning a change they will be more willing to accept and implement the change.

Chapter 2 (Pages 46–47) includes an excellent example of a manager who responded to a change imposed by head office by adapting the change, with some participation by staff to local needs: his was the only branch to implement the change successfully. While participation is consistent with democratic values, it takes time and effort, and may raise unrealistic expectations. It may be inappropriate when:

- the scope for change is limited, because of decisions made elsewhere
- participants know little about the topic
- decisions must be made quickly
- management has decided what to do and will do so whatever views people express
- there are fundamental disagreements and/or inflexible opposition to the proposed change.

Participative approaches assume that a sensitive approach by reasonable people will result in the willing acceptance and implementation of change. Some situations contain conflicts that participation alone cannot solve.

Activity 18.3 Reflection on participation

Have you been involved in, or affected by, a change in your work or studies? If so:

- What evidence was there that those managing the change agreed with the participative approach?
- In what way, if any, were you able to participate?
- How did that affect your reaction to the change?

If not:

- Identify three advantages and three disadvantages for the project manager in adopting a participative approach.
- Suggest how managers should decide when to use the approach.

Negotiated (or political)

Change often involves people from several levels and functions with different aims and priorities who need to negotiate their way to a solution:

> Strategic processes of change are … widely accepted as multi-level activities and not just as the province of a … single general manager. Outcomes of decisions are no longer assumed to be a product of rational … debates but are also shaped by the interests and commitments of individuals and groups, forces of bureaucratic momentum, and the manipulation of the structural context around decisions and changes (Whipp et al. 1988, p.51).

Political models reflect the view that organisations are made up of groups with separate interests, goals and values, and that these affect how they respond to change.

Several analyses of organisational change emphasise a **political model** (Pettigrew, 1985; Pfeffer, 1992a; Buchanan and Badham, 1999). Pettigrew (1985) was an early advocate of the view that change requires political as well as rational (life cycle) skills. Successful change managers create a climate in which people accept the change as legitimate – often by manipulating apparently rational information to build support for their ideas.

Pfeffer (2010) shows that power and political skill is essential to get things done, since decisions in themselves change nothing – people only see a difference when someone implements them. Projects frequently threaten the status quo: people who have done well are likely to resist the change. Innovators need to negotiate with others to ensure the project is put onto the senior management agenda, and that influential people support and resource it. Buchanan and Badham (1999) conclude that the roots of political behaviour:

> lie in personal ambition, in organisation structures that create roles and departments which compete with each other, and in major decisions that cannot be resolved by reason and logic alone but which rely on the values and preferences of the key actors. Power politics and change are inextricably linked. Change creates uncertainty and ambiguity. People wonder how their jobs will change, how their work will be affected, how their relationships with colleagues will be damaged or enhanced (p.11).

Reasonable people may disagree about means and ends, and fight for the action they prefer. This implies that successful project managers understand they have to develop the political will to build and use their power.

The political perspective recognises that major changes will be technically complex and challenge established interests. These will pull in different directions and pursue personal as well as organisational goals. To manage these tensions managers need political skills as well as those implied by life cycle, emergent and participative perspectives.

Management in practice — Political action in hospital re-engineering

Managers in a hospital responded to a persistent performance gap (especially unacceptably long waiting times) by 're-engineering' the way patients moved through and between the different clinical areas. This included creating multi-functional teams responsible for all aspects of the flow of the patient through a clinic,

rather than dealing with narrow functional tasks. The programme was successful, but was also controversial. One of those leading the change recalled:

> **I don't like to use the word manipulate, but … you do need to manipulate people. It's about playing the game. I remember being accosted by a very cross consultant who had heard something about one of the changes and he really wasn't very happy with it. And it was about how am I going to deal with this now? And it is about being able to think quickly. So I put it over to him in a way that he then accepted, and he was quite happy with. And it wasn't a lie and it wasn't totally the truth. But he was happy with it and it has gone on.**

Source: Buchanan (2008), p.13.

Adaptive

Chapter 8 (Section 8.3) showed how Mintzberg (1994) saw strategy as an *emergent* or adaptive process. These ideas apply to change as much as to strategy, since it takes place in the same volatile, uncertain environment. While the life cycle approach can help implementation, change agents can also use the **adaptive model** to guide them. Choi and Moon (2013) trace how Toyota implemented 'The Toyota Way' – a process innovation which, over many years of incremental change, revolutionised the motor industry: see 'Key ideas' below.

Adaptive models of change emphasise that in uncertain conditions a project will be affected by unknown factors, and that planning has little effect on the outcome.

Key ideas — Implementing the Toyota way

The idea of only ordering new stock when existing stock had been used was inspired by a visit to a US supermarket. In the early 1950s, Toyota engineers decided to apply the principles to their fledgling car business, without any clear idea of the final shape of the innovation in that context. Rather, they envisaged a series of controlled experiments through which the company continually responded to problems identified during implementation. The 'just-in-time' production method was complemented by a system where employees were empowered to make spontaneous improvements as circumstances changed.

The authors suggest that innovations depend heavily on how they are implemented since, if done properly, this stage provides ample opportunities to 'rediscover' or refine innovations by observing the distinct ways people use them. They advocate a conscious process of mutual adaptation between innovations and individual users, to realise the full potential of an innovation.

Source: Choi and Moon (2013).

These four perspectives are complementary in that successful large-scale change is likely to require elements of each. Table 18.1 illustrates how each perspective links to management practice.

Table 18.1 Perspectives on change and examples of management practice

Perspective	Themes	Example of management practices
Rational	Rational, linear, single agreed aim, technical focus	Measurable objectives; planning and control devices such as Gantt charts and critical path analysis
Participative	Ownership, commitment, shared goals, people focus	Inviting ideas and comments on proposals, ensuring agreement before action, seeking consensus
Negotiated	Oppositional, influence, conflicting goals, power focus	Building allies and coalitions, securing support from powerful players, managing information
Adaptive	Objectives change as learning occurs during the project, and new possibilities appear	Open to new ideas about scope and direction, and willing to add new resources if needed

18.6 Stakeholders and interest groups

Stakeholder theory

Stakeholders have featured at several points in this text: they are those individuals, groups or organisations with an interest in, or who are affected by, what the organisation does. Frequent, major changes are likely to affect employees' psychological well-being, which a study by Rafferty and Jimmieson (2017) confirmed. An online survey completed by 460 respondents suggested that experiencing frequent transformational organisational changes was associated with insomnia and reduced psychological well-being. The authors conclude that part of the reason for this is that it is rare for employers to discuss the negative emotional consequences of change with their staff – and that they have much to gain from providing suitable emotional support to employees at such times.

Managers are not usually under any legal requirement to take account of their views, though research by Nutt (2008) implies that doing so is a good idea. Taking reasonable account of stakeholder interests, and trying to balance them, may avoid unexpected difficulties. There may also be benefits from sharing ideas with a wider group of people with an interest in a change. Ackermann and Eden (2011) offer a theory with much practical potential, as it suggests distinguishing between stakeholders according to an assessment of their interest in a change (high or low) and their power to influence it (high or low). It is probably wise to deal differently with 'low-low' stakeholders than with those who appear to be 'high-high' – the latter need close attention.

Stakeholders have an interest in the substance and results of the change, and in how people manage it. They can make a difference to the situation, and those managing a change may need to gain and keep their support. Spending time to anticipate reactions makes the project less vulnerable to unexpected snags and may uncover potential allies. Boddy (2002) cites a change manager:

> If we had carried out a stakeholder analysis during the early stages of the project, and presented it to the team, it would have resolved a tremendous amount of confusion (p.83).

It concentrates time and energy on the most critical groups – those whose attitude will make or break the project – rather than dissipating them: see 'Key ideas' below.

Key ideas **Stakeholders affect change**

Chapters 3 and 5 discussed the significance of understanding stakeholders in relation to corporate governance and responsibility. Those wanting to implement change also benefit from being able to identify and manage influential stakeholders. Important tasks for someone engaged in a change project include:

- Identify those with a stake in the change.
- Assess their commitment.
- Assess their power to help or hinder the change.
- Assess their interests, and what they are likely to think or do about it.
- Manage relations with them – to gain support, minimise opposition, and generally create an atmosphere favourable to the change.

Source: Boddy (2002).

The 'Develop a skill' feature in the next section is an opportunity to practise.

18.7 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 18.2 shows the questions we can ask, the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and what variables they assumed would help achieve them) and about process (how they tried to gain the support of stakeholders). *These are examples only – not a comprehensive analysis.* You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *On the basis of material in this chapter, evaluate Kurt Lewin's contribution to thinking about change in organisation, and to the practice of managing change.*

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 18.2 'Clear thinking' questions about practice and theory

Clear thinking elements	From the Chapter Case study – How Amazon may respond to criticisms of the negative consequences of its growth and spread	Theory – a question on evaluating Kurt Lewin's contribution to understanding and managing change (Section 18.2)
Checking assumptions (task and process)	Some alternative assumptions that may guide its response: • that saying 'what we do is legal' will be enough to dispel criticism • that most of the criticisms come from politicians, journalists and competitors: customers don't seem to mind • that it has responded to some criticisms (on pay, for example), showing it is willing to listen How valid are these assumptions, and the responses based on them? Are they likely to be in its long-term interests?	Outline his contributions – emphasis on the group, and force-field analysis Assumptions in his work: • Focus on the group, rather than the individual or the organisation, as the route to understanding • Valuable in itself, but later writers place equal emphasis on context – internal and external. Does that run counter to his focus on the group? • Force-field analysis as a way of understanding a situation • Valuable as a broad-brush insight into likely pressures either way. But the observer is noting these, and inferring their significance. How to confirm accuracy or validity of those impressions?

(continued)

Table 18.2 (*continued*)

Clear thinking elements	From the Chapter Case study – How Amazon may respond to criticisms of the negative consequences of its growth and spread	Theory – a question on evaluating Kurt Lewin's contribution to understanding and managing change (Section 18.2)
Recognising contexts	Some contextual features that may shape Amazon's response: • Criticism of globalisation (and of companies like Amazon) is no longer a radical left-wing monopoly – many people, and the mainstream parties who aim to represent them, are also aware of the negatives • That is likely to mean more attempts (as there have been in Germany and Australia) to pass laws to protect local businesses, even if that harms consumers • Limited evidence of serious competitors – Amazon has the advantage of scale, and the low costs that brings, to discourage new entrants from even trying • A trend in some sectors of some communities to return to more local suppliers and products. How big a threat?	Organisations now are more likely to employ more mobile, well-educated and professional staff than when Lewin was writing More are entrepreneurial, with change being continuous, not exceptional More are operating internationally – would his emphasis on the group be as relevant as he suggests it is in all cultures? (See Hofstede's individual/collective dimension.) Do these (and similar changes) alter the value of his ideas, or not?
Alternatives	Ignore criticism Respond constructively where it has transgressed Make more of its philanthropy, to help counter negative image in some sectors	Value his ideas where they apply, but complement them with consideration of organisational and external factors, as well as group-related ones
Limitations	Jeff Bezos is firmly in control, and is unlikely to do anything that would damage customers, or obstruct his grand vision	As above – group not the only unit of analysis to consider in change

Skill

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of identifying stakeholders and their interests.

Develop a skill: identifying stakeholders and their interests

Those hoping for change need to manage stakeholders with an interest in what is going on. The first step is to identify them, and note their interests. This exercise will help you do that.

- **Assessment.** Review how you usually consider stakeholders in relation to a work or social task that you have taken on. Have you ever been aware of forgetting that someone would be affected by your plans for

something, and been surprised by their reaction? Or do you always spend time working out who will be involved, and how best you can secure their support?

- **Learning**. Read again Sections 18.6 – especially the 'Key ideas' feature on p.464. You may also want to read Section 3.6. Summarise the main ideas about managing stakeholders, and consider why managing them can affect a project outcome. How might being familiar with using those ideas help your career?
- **Analysis**. Identify a major change project that you can find out about, in which a family member or friend is involved. Ask if they can help you. Alternatively, use the Amazon case, and the project to grow the business almost indefinitely as your focus. Using the stakeholder concept implies understanding who they are, and their interests. How important is their reaction likely to be to the success of the project?
- **Practice**. To answer these questions, draw a stakeholder map. A simple way to do this is to write the name of the project in a circle at the centre of a piece paper. Draw other circles around the sheet, each representing an individual or group that has a stake in the project. Place the most significant near the centre, the less significant around the edge.

  For two significant (in your judgement) stakeholders, assess their interests in the project. Do this by considering these questions:

  - What are their main goals, apart from this project?
  - What is the tone of their general relationship with the company – adversarial? supportive? other?
  - What specific behaviour will this project require of them?
  - Are they likely to see this as positive or negative for them?
  - How may they react to defend or advance their interest?
  - What action might the project team consider to influence and to support the project?

  You can summarise your answers on a grid like this – which is useful when doing this for several stakeholders. Record your notes under these headings:

Stakeholder	Goals?	Current relationship?	What is expected of them?	Positive or negative to them?	Likely reaction?	Ideas for action?

  If possible, compare your map and table with a colleague, noting where they agree, and where they differ. Reflect on what you can learn from this, and summarise your conclusions.
- **Application**. Decide on another opportunity to practise this skill within the next week.

Summary

1 Explain, with examples, why change can add or destroy value, depending on how people manage it

- A change programme is an attempt to change one or more aspects of the internal context, which then provides the context of future actions. The intention is to add more value to the organisation's resources, though some changes have the opposite effect.

2 **Use Kurt Lewin's 'force-field' theory to diagnose a potential change**

- Lewin introduced the concepts of driving and restraining forces affecting an organisation's equilibrium. Change depends on the driving forces being stronger than the restraining ones, which management actions can affect.

3 **Explain the interaction of change and contexts**

- Change is often triggered by people observing movements in the external contexts and promoting an idea to change elements of the internal context to react more effectively. In some cases that reaction changes the external world in such a way that players there act to make their context less attractive to a new entrant or competitor.

4 **Show how those managing change can draw on four theories of the process**

- **Rational (life cycle)**: change projects can be planned, monitored and controlled towards achieving their objectives.
- **Participative**: successful change depends on human commitment, which is best obtained by involving participants in planning and implementation.
- **Negotiated**: change threatens some of those affected, who will use their power to block progress, or to direct the change in ways that suit local objectives.
- **Adaptive**: reflecting the uncertainties of the environment, change is hard to plan in detail, but emerges incrementally from events and actions.

5 **Take account of the interests of stakeholders and interest groups in relation to a change**

- Stakeholders have an interest in change that affects them, and taking account of those can avoid unexpected trouble and may identify useful allies.

6 **Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of identifying stakeholders and their interests**

- Major change requires the support of stakeholders, and the chapter has provided an opportunity to understand how to develop the skill of identifying stakeholders and their interests.
- The skill of identifying stakeholders and their interests assumes a reasonable degree of familiarity with them, and this may be lacking in some change situations. If the context is highly uncertain and changing rapidly, it becomes progressively harder to identify key stakeholders, let alone their interests.

Test your understanding

1 How does change in an organisation add or destroy value?
2 Draw a diagram to illustrate Lewin's force-field analysis.
3 Explain the meaning of the phrase – 'contexts and change interact.'
4 Outline the rational theory of change and explain when it is most likely to be useful.
5 How does it differ from the 'adaptive' perspective?
6 What are the distinctive characteristics of a participative approach, and when is it likely to be least successful?
7 What skills are used by those employing a negotiated theory?

Read more

Catmull, E. (2008) 'How Pixar fosters collective creativity', *Harvard Business Review*, vol. 86, no. 9, pp.64–72.

The co-founder explains how it works.

Jacques, E. (1952) *The Changing Culture of a Factory*, The Dryden Press, Oxford.

A classic study made at the time Kurt Lewin's work was gaining notice. The aim was to create satisfactory group relations when methods in the factory were changing quickly.

Lawrence, M. (2018) 'Taking stock of the ability to change: The effect of prior experience', *Organization Science*, vol. 29, no. 3, pp.489–506.

Empirical study of change in a supermarket, and how employees adapted to a new system.

Stone, B. (2013) The everything store: Jeff Bezos and the age of Amazon, Corgi, London.

Well-informed account of the many changes that have made Amazon the company it is.

Go online

These websites have appeared in the chapter:

www.amazon.com
www.royalmail.com
www.pixar.com
www.theguardian.com
www.unilever.com
www.dyson.co.uk
www.rolls-royce.com

Visit two of the business sites in the list, and navigate to the pages dealing with corporate news, investor relations or 'our company'. What examples can you find of major changes which the company has been introducing, or is planning?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



PART 5 CASE

BRITISH HEART FOUNDATION

www.bhf.org.uk

The organisation

In 1961, a group of medical professionals wanted to raise funds for research into the causes, diagnosis, treatment and prevention of heart disease. They created The British Heart Foundation (BHF) which has grown into the UK's largest independent funder of cardiovascular research. In the financial year 2017–18, it raised £170 million. It uses this to fund the work of scientists in UK universities, on projects to prevent heart disease, and to care for those recovering from it.

The BHF current strategy sets out its mission as being to win the fight against heart and respiratory disease. It is driven by the research that it funds, and identifies six areas of work to support that:

- **Support**: we will make sure patients and their families receive the best possible support, information and care.
- **Grow income**: we will deliver an ambitious programme of activity to raise more money to power our life-saving work.
- **World-class organisation**: we will ensure that every part of the Charity is well-led, effective, and promotes the spirit and value of 'Fight for Every Heartbeat'.
- **Listen, influence, engage**: everything we do will be informed by the needs and views of patients and key stakeholders.
- **Prevention**: we will promote cardiovascular health and the prevention of cardiovascular disease.
- **Survival**: we will lead the fight to ensure more people survive a heart attack or cardiac arrest.

The income to support these activities came, in 2017–18, from four sources:

- legacies (£83.4 million) – when supporters leave money to the BHF in their will
- fundraising (£53 million) – including high-profile national events such as the London to Brighton cycle ride, a Beating Hearts gala ball, and volunteers collecting donations
- retail (£27.7 million) – BHF is the largest charity retailer in the UK with 727 shops
- other (£6.1m) – income from investments in shares and other financial assets.



© Jack Sullivan/Alamy Stock Photo

The BHF accounts for over half of the cardiovascular research in the UK, and has played a major role in the development of heart science. A director:

> **We are there for heart patients in terms of care, in terms of setting up nursing programmes, and defibrillator programmes to help with emergency life skills in the community. We're also there in terms of prevention, helping people to stay well if they've had a heart attack, and trying to prevent them getting a heart attack in the first place. But principally, and the words run through the stick of rock that is the British Heart Foundation, we are a research charity. We spend more on medical research than any other single entity, including the government, so we are there to try and unlock the key to heart disease: why it is that someone can smoke for eighty**

years, drink like a fish and live to be a hundred: and somebody else who lives a heart-healthy life can be afflicted with heart disease in their thirties? We're trying to unlock that key. So that's the BHF.

BHF supports research by scientists in UK universities – in 2017–18 it awarded £108.4 million for research, including funding almost one hundred individual fellowships for distinguished scientists, and helped to build and equip several major research facilities. It also spent £33 million on 'healthcare innovation' – prevention, survival and support. This all depends on raising money – the then chief executive Peter Hollins said:

Although set up for altruistic purposes, the only way [BHF can achieve its vision] is if you're successful at raising money – and to be successful at raising money you've got to have really good financial information. So we're pretty meticulous about monitoring trends in the income we get from every single bit of the organization. Most people coming into the British Heart Foundation from a commercial organisation, as I did myself, will recognise our financial structure.

As well as raising money and funding research, the BHF has an educational role, in advising individuals on healthy life-styles and how to avoid heart disease. It also seeks new ways to care for people with heart disease, and if something works cost-effectively, passing it to the NHS in the hope they will implement it.

Managing to add value

Monitoring income and costs

The chief executive:

The money the BHF raises involves a lot of hard work by a lot of dedicated people. People do all sorts of things for us, climb mountains, cross deserts, organise tea parties: so we've got a moral obligation to make sure that money is properly used – everybody needs to understand that and make sure they're behaving accordingly. We expect everybody in the organisation to be financially literate, and to look for opportunities to save money.

The financial ratio that guides us more than anything else is whether the money we've got coming in is broadly matching what we're spending. That apart, a ratio I look at very closely is our cost to income ratio. In other words, I look at how much of the income that we raise actually gets to the coalface. Because people do all sorts of extraordinary things to raise money for us, and what they want to see is as much of that money getting to charitable purpose as possible. They don't want to see money being spent on buildings or administration or executive salaries. So looking at how much of our income is spent on that is probably the most critical ratio as far as I'm personally concerned.

The BHF finance teams pay close attention to income and expenditure. On the former they have a range of familiar income measures such as monthly management accounts which staff analyse in what they call a quite 'intrusive' way to understand what lies behind a set of figures. Does a positive or negative figure reflect a temporary factor, or the beginning of a trend? They spend a lot of time forecasting short, medium and long-term income, and the factors affecting them.

An example is legacies – their main source of income. If these were to stop growing or begin to fall, this would have a have a major impact. The average time between someone making a will and dying is about seven years. So BHF tracks measures of legacy intent and legacy interest, and uses sophisticated statistical techniques to forecast the amount of income they are likely to receive from legacies in seven years – similar to an actuary valuing a pension scheme.

Such financial planning matters because BHF commits to long-term programmes of research – which it needs to be confident it can sustain. Staff analyse income and expenditure trends to understand accurately the present position and the likely outcome for the year. The trustees (similar to the board of directors in a commercial business) expect the chief executive and the finance director to give them timely and accurate advice on the likely financial position for the year.

Retailing success

The chief executive:

We have won several awards for the success of our charity retailing operation and the question is, how do we do it? The answer is actually very simple, we are more professional than everybody else. Those leading our retail operation have been professional retailers and they have decided to come into the British Heart Foundation quite frequently for some family reason – a member of the family has been touched by heart disease. They're professional retailers, they come to BHF and we have generated a terrific feeling of professionalism and teamwork. I'm very proud of our retail operation – it's the best in the sector. I think we've got an ethos and belief in ourselves that feeds on itself; I'm convinced it'll go from strength to strength.

Protecting the reputation

Betty McBride, director of policy and communications:

BHF is very conscious of the value of a positive reputation. We *are* our reputation because people

need to trust our advice. They need to understand that when we say things, we say them because they are evidence-based statements. They come to us for help, and our reputation is the only thing that keeps us in people's minds and keeps them seeing us as being the one-stop shop for heart health.

Our reputation is everything, and protecting our reputation is a significant part of not only my job, but everybody's job, and brand is a word that is thought about and said by people across the foundation. It isn't just something that sits in my office and with my communications and multimedia team; people understand how important our reputation, and therefore our brand, is. So you get a workforce and a volunteer force who understand that our good name and the things that we stand for are everything to us.

We take a two-layered approach to managing our brand and reputation. [As well as the evidence base you'd expect from a medical research charity] we have a brand-tracker system: twice a year we ask a representative sample of people – what do they think of us? What do they think about our brand? How are we performing against our brand values? How are we performing against their aspirations and hopes for us? We also have an independent look at our brand via a charity brand tracker service that we buy into. And we have our own online panel of about three thousand people who give us feedback. That's the first element of managing our brand and reputation.

The second is a very strong internal communication strategy so that we are constantly telling our teams about who the British Heart Foundation is, who it aspires to be, and what they need to do in order to row for team BHF.

Simon Hopkins, the finance director, explains how this fits his area of responsibility:

Motivation's about translating for people how the work that they do is fundamental and pivotal to the work that the scientists and the campaigners, and the other people at the frontline of the charity do. Having a vision and a strategy gives my teams, all of whom are in analytical roles, a 'line of sight' to the [bigger purpose of BHF] and shows them how our priorities in financial analysis translate into the organisation's priorities.

This year we produced a graphical strategy document for use with staff, showing each of the six BHF operating priorities and showing our objectives as a division under them. Whether it's providing heart health statistics or ten-year financial models – we demonstrate how generating these helps BHF grow its research capacity: it says 'the better we are at financial forecasting, the more aggressively we can invest in research'. And I use the word 'aggressively' advisedly. The better we produce incisive statistics about differences in heart health around the UK, the better that our campaigners and prevention care professionals can target really explicit and incisive campaigns to remove those inequalities. So analysis leads to decisions, and decisions lead to differences in peoples' lives, and my people respond absolutely to that.

And the other important thing is that when there are site visits or when visiting professors coming to head office to give a talk, I make sure that people from the procurement team, the internal audit team, the accounts payable team, attend those events because it brings the science to life. And without fail, whenever I've had a member of staff who's gone on a site visit, or to a talk by an eminent cardiologist who's in the building, those people come to their desks reinvigorated because they've re-established and revalidated their connection with the cause. Using those motivational things are really, really important.

Managing staff

The chief executive:

In recruitment and selection we look for people who've not just accepted what's come to them, but who've taken a different direction, done something that's innovative. We look for evidence that they've been part of a team – have caused a group of people to do something which is worthwhile and that actually matters.

In a charity it's extremely hard to give people financial incentives. To the extent that we've got incentives they are mainly around recognising people and giving them more responsibility. We expect a lot of people – I always say I want everybody to go home tired at the end of the week because we expect that level of commitment. In the absence of financial incentives it is very much around recognition. We make it absolutely crystal-clear to people what it is we're trying to achieve, and giving them recognition when they do that.

We also have internal development programmes where people get to work with other people from around the organisation, and help each other learn and grow as managers and potential managers.

We also move people between the teams. We move everybody round a bit and we find that that is an incentive – people know that good work and demonstrating a continual improvement ethic will

bring some good broadening opportunities. That ends up on their CV, and a good CV, by definition does the right thing for you. We're very keen on helping people grow a very well-rounded and impressive CV.

Staff commented on BHF's attitude towards ideas, which is to welcome them and be positive – they are things to nurture. It also runs a 'Live, Well. Work Well' programme to encourage staff, especially in the retail stores, to look after their health, and to get out of their office or shop during free time. A manager said:

If people are in a good place, their sales go up as well as feeling healthy – the benefits of this sense of well-being are easily converted into commercial terms (*People Management*, October 2018, pp.22–3).

Communicating

BHF was quick to adopt social media as part of its communication strategy, and sees many benefits. Betty McBride:

Social media has been a revolution that has freed us up to do wonderful things in a really cost-effective way. We did a campaign involving Vinnie Jones teaching the world to press hard and fast on the chest, so you could save someone who'd had a cardiac arrest in front of you. We paid a lot of money to put the video on television but it was picked up on YouTube and we used social media channels – Facebook, Twitter – to 'blow on the flames of social media'. That worked – two and a half million people viewed our Vinnie Jones video on YouTube. Now, we couldn't pay for that kind of interaction with the public, so social media, for us, has made an enormous difference in the way that we communicate.

It has also meant that we can have really bespoke communities – groups of people who become online members of a community. It can be as big as three thousand for broader issues, but it also can be something much narrower – you could have something as small as two or three hundred people with a special interest who connect to each other through Facebook or our online communities.

Sometimes you realise that you have to stick to your guns and continue what you're doing. But when you know why people don't like it if you have to continue, you can encourage people to understand the reasons behind your work. One quite delicate example is that as a medical research charity we fund research involving animals. Now, we have to do that because there is no alternative to a beating heart, so we do fund work involving animals. But when people complain to us, I like to be able to speak to them about what we do, and we always find that by being straightforward with people they appreciate what we do. We often get responses which say: 'Actually, I don't agree with what you do but thank you for responding to me and thank you for telling me why you do it. Audiences react really well to that kind of response.

Aspects of BHF's context

Charities inevitably compete with each other for resources – income in all its forms, and the support of volunteers. The retail outlets compete with other retailers and with other charity shops – including for donations of things to sell.

Economic conditions may reduce the available money people wish to give to charities in general. Against that, harder times mean more people come into the shops and it is easier and cheaper to secure shop space as other store chains go out of business,

The efforts of the UK Government to cut the budget deficit reduced the money available to charities – the amount of government grant-giving reduced very significantly and that affected some charities very badly – but had little direct effect on BHF.

Management dilemmas

Ensuring funding resilience

The BHF mix of funding streams may protect it from the worst effects of reductions in government spending as it does not rely on that for funds. However, cuts in government funding to universities and related organisations may lead to requests that the BHF fills those gaps. The chief executive:

That's a really important issue for us – we've got a responsibility towards our donors to make sure that the money we spend is discharging our mission, which is really a catalytic one, finding new ways of doing things – not simply filling holes that the government has decided it can't afford to fill any more.

Acceleration and deceleration

The finance director:

Most of our funds go to run discrete programmes, projects and campaigns, so we have a lot of discretion, and can accelerate or decelerate should we need to. There's a real key thing, probably the single most important part of my job is to make sure we get that balance right between resilience and acceleration. Why do I talk about acceleration? We don't want to beat heart disease in ten or twenty

years, we want to beat it tomorrow. There's something that says we should go as fast as we can, as long as the quality of research, the science talent, is there. It's my job to define the capacity for speed in the organisation. That is the single most important measure that I work to.

Developing staff

The finance director again:

It's vital that we continue to adapt the organisation to meet changing conditions, all of which depends on our staff. To help BHF and to make their jobs more intrinsically rewarding we will create more specialised, more focused and probably more interesting jobs for people within my own division, so we've told them that. And people's response has been pretty positive, because they're thinking we'll grow, we'll develop as individuals if we support this change, we'll have greater focus and we'll be able to specialise. We've told them what's in it for them (better CV) and we can see the results of engaging people like that.

Part case questions

(a) Relating to Chapters 14 to 17

1 The case mentions 'influence' or 'persuasion' at several points. List the examples you find, and consider whether the same influence methods are likely to work on each of them. Why may they differ? (Section 14.2)

2 Identify two specific examples of BHF trying to influence another person, group or institution, and decide which approach to influence they used. (Sections 14.5 and 14.6)

3 How do they motivate staff, and which theories of motivation do these methods relate to most closely? (Sections 15.5, 15.6 and 15.7)

4 Identify at least three groups with whom BHF needs to communicate. What communication channels do they use with each? (Sections 16.4 and 16.5)

5 Social media has clearly worked well. Would it work equally well for all those receiving BHF communication? If not, why not? (Section 16.4)

(b) Relating to the BHF

1 Visit the BHF website (www.bhf.com) and read one or more of the management reports, including the Annual Report, you will find there. Note recent events that add to material in this case, such as major stories about fundraising or research.

2 What new issues is BHF facing which the case did not mention?

3 What part does reputation play in managing the charity? Recall the 'twin-track' approach they take and summarise what they do under each track.

4 Why is financial management and forecasting so important to a non-commercial organisation?



PART 6

CONTROLLING

Introduction

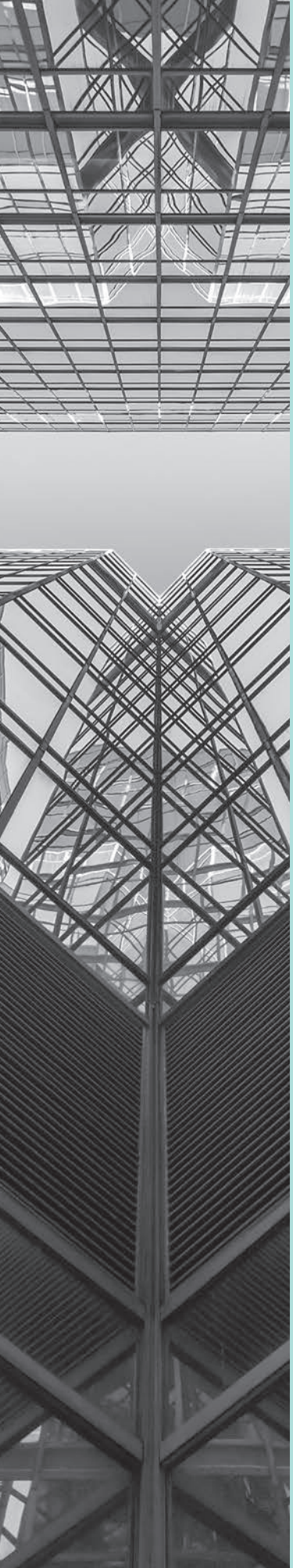
Any purposeful human activity needs control if it is to achieve what is intended. From time to time you check where you are in relation to your destination. The sooner you do this, the more confident you are of being on track. Frequent checks ensure you take action quickly enough to avoid wasting time, effort and resources.

An owner-manager can often keep control by observing directly what is going on, and using their experience to decide what, if any, corrective action they should take. As the organisation grows, so does its complexity. It becomes increasingly difficult to know the current position as work goes on simultaneously in many places. Work activity, objectives and measures differ across the organisation, making it harder for senior managers to understand which areas are working well, and which are not.

To help them exercise control, managers use many systems and techniques. Chapter 19 introduces operations management as a source of control and discusses the concept of controlling the quality of products and services.

Chapter 20 explores generic methods of control and performance measurement, showing how they can enable the enterprise to monitor and adjust activities to ensure they support stated objectives.

The Part Case is Tesco, Britain's largest retailer, which illustrates many approaches to controlling a large retail business with thousands of geographically separate units.



CHAPTER 19

MANAGING OPERATIONS AND QUALITY

Aim

To introduce the organisation as a set of linked operational processes working together to deliver a product that conforms to a predefined quality standard.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Describe the transformation process model of operations management
2. Show how operations management can contribute to competitiveness
3. Distinguish between operational processes
4. Be aware of alternative theories of process design (CW)
5. Identify five elements of operations
6. Understand 'quality' in the operations context
7. Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of assessing what customers mean by quality

Key terms

This chapter introduces these terms:

operations management
transformation process
augmented reality
craft system
factory production
operations strategy
span of control (CW)
supply chain management (CW)
just-in-time inventory systems (CW)
span of processes (CW)
break even analysis (CW)
layout planning (CW)
total quality management

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

Process design
Additional dimensions of service quality
Quality systems and procedures

Case study

Zara www.zara.com

Inditex is the world's biggest clothes retailer (measured by sales), and Zara is its largest brand. Amancio Ortega (who retired as Chairman of Inditex in 2011) formed the company with Rosalia Mera in 1975. Ortega had begun working as a delivery boy for a shirt-maker and, in 1963, when still in his twenties, he started supplying clothes to wholesalers. In 1975, a German customer cancelled a large order, so the firm opened its first Zara retail shop in La Coruña, Spain – simply as an outlet for cancelled orders. The experience taught Ortega the importance of the 'marriage' between the operations of production and retailing. This guided the company's evolution – Miguel Diaz, a senior marketing executive:

> **It is critical for us to have five fingers touching the factory and the other five touching the customer (Ferdows et al. 2004, p.106).**

The company had six stores by 1979 and opened them in all major Spanish cities during the 1980s. In 1988, the first international Zara store opened in Porto, Portugal, followed by New York (1989) and Paris (1990). The company is now a worldwide business: national frontiers do not prevent people from sharing a single fashion culture.

Zara claims to move with society, reflecting the ideas, trends and tastes that society creates. It moves quickly:

> **it keeps to a time period between the decision to produce a garment and the moment it is ready for the consumer that no one else has ever achieved: an average of two weeks for any of the shops in [all of the countries where they operate]. Its main competitors' times lie between 40 days for H&M and over 60 for Benetton, to mention only those which … get anywhere near the Inditex times (Badia, 2009, p.130).**

Zara designers link closely with the public. Information travels continuously from the stores to the design teams, transmitting the demands and concerns of the market. The close integration of activities – design, production, logistics and sales (through the Zara stores) – means it is flexible and quick to adapt. Many



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of the stores now have Radio Frequency Identification (RFID) technology – each garment is alarmed with a unique code at the logistics centre, which enables staff in the stores to respond instantly to a customer request about availability – in the store, at another store, or online. This illustrates the group's drive for continuous innovation. It takes great care over the stores' design, window displays and interior decor, and locates them in the best sites of major shopping districts.

Management created the Inditex Group in 1985 as the holding company for their businesses, including Zara – which accounts for 65 per cent of group sales. In 2017, Inditex employed over 170,000 people in 96 countries, selling through 7,500 stores. The Zara website alone has over 1 million daily visits, while 23 million people follow the brand on Facebook. Sales in 2017 were 25.3 billion euros, of which 10 per cent were online (now available in 47 countries).

Sources: Ferdows et al. (2004); Badia (2009); company website; Inditex Annual Report, 2017.

Case question 19.1

- Good operations management is based on process consistency. What do you think are the major managerial challenges in setting up an operations system to serve a fast-moving and fickle market such as fashion?

19.1 Introduction

Zara depends on good operational systems. It offers new designs quickly to catch the latest fashion trend and aims to sell them in large quantities – so they must be of a consistent quality to ensure customers buy again. It is an integrated fashion business: Zara staff design, manufacture, distribute and sell most of the products. Two factors are critical to Zara's success: the creative ability to catch the mood of customers with exciting designs, and the operational ability to design, manufacture and distribute goods quickly and efficiently. Neither factor would be enough alone – it needs good design *and* good processes.

Adding value in any business needs good operating systems – the activities required to deliver products and services: a flight depends on coordinating many separate but linked operating systems to ensure the aircraft is cleaned, maintained, fuelled, crewed and in the right place for passengers to board. Similar challenges confront charities engaged in humanitarian emergencies – famines, droughts, earthquakes or floods. They need to source food, water and medical supplies from around the world and deliver them quickly and efficiently to their destination – a huge logistical challenge.

Large organisations employ a chief operating officer (COO) to ensure smooth day-to-day running of operating processes and implement new ones. Operational failure destroys value – the delay in completing Crossrail in 2018, a US warehouse failure at ASOS in 2019 – both cost the companies millions of pounds as well as damaging their reputations.

This chapter begins by introducing the concepts and language of operations management, which you will be able to use in any sector of the economy. It then explains what a 'product' is in services and manufacturing respectively and outlines the activities of operations. It concludes by exploring the meaning of quality and how to manage it: this depends on understanding what your customers mean by quality – the focus of the 'Develop a skill' feature at the end of the chapter.

19.2 The transformation process view of operations

System and process

We live in a world of systems that shape our personal lives, our transport, our security, our work. The system that is our society 'manages' our lives – bringing safety and economy by removing many random events, and allowing better use of time and energy. Organisations also benefit from consistency and predictability, so creating effective systems is the central challenge of operations management.

The operations challenge

Operations management is all of the activities, decisions and responsibilities of managing the production and delivery of products and services.

Slack et al. (2016) define **operations management** as the activities, decisions and responsibilities of managing the production and delivery of products and services.

The way to do this is to implement systems and processes that are:

- repeatable – can be done over and over again
- consistent – produce the same result every time
- reliable – do not break down randomly.

The standard of performance now required against each criterion is growing because of:

- increased competition in an international economy
- more complex activities as customers expect products with more functions

- tighter regulations to control pollution
- legislation on employment and working conditions.

Process therefore needs also to be:

- efficient – producing most output for least input
- competitive – at least as good as others in the same business
- compliant – with relevant legislation.

The transformation process

The first step in achieving an efficient, process-based organisation is to understand the work of the organisation as a transformation process which turns inputs (resources) into outputs.

Figure 1.1 (slightly adapted here as Figure 19.1) models the **transformation process**. It shows inputs entering the operational processes of the organisation which transforms them into an output - the product or service to be sold. There are two types of input:

The **transformation process** refers to the operational system that takes all of the inputs (raw materials, information, facilities, capital and people) and converts them into an output product to be delivered to the market.

- transforming resources are the elements that carry out the transformation
- transformable resources are the elements that the process transforms into the product.

Transforming resources are:

- facilities – buildings, equipment/tools and process technology
- staff – people involved in the transformation process
- capital – to buy materials and pay for facilities and staff.

Transformable resources are:

- materials – such as metal, wood or plastic, which change to become components of the final product such as cars, buildings or phones
- information – such as design specifications, assembly instructions, scientific concepts or market intelligence. Information can inform the transformation process – such as design specifications and can itself become part of the output – when raw data becomes a published report.

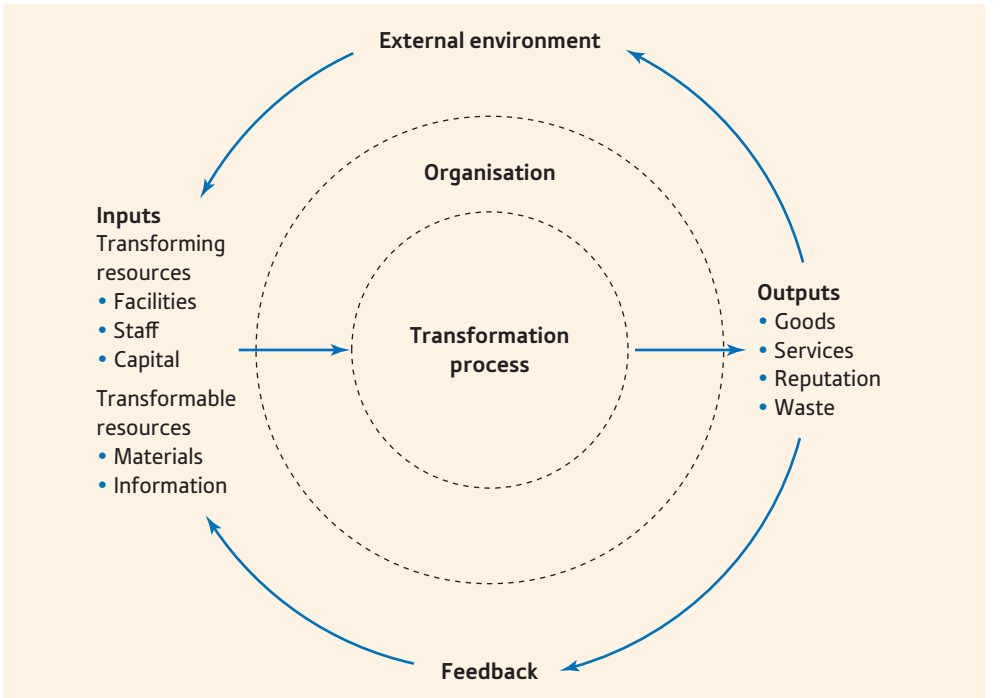


Figure 19.1 The transformation process

Key ideas — Augmented reality and operations

An article in the *Harvard Business Review* (Porter and Heppelmann, 2017) gives some revealing insights into how the technology of 'augmented reality' is beginning to transform many operating processes. **Augmented reality** refers to a technology that overlays images or animations derived from data about an object onto the physical object. For example, a heads-up display from a satnav device can display images of the direction to take on a road directly into the driver's line of sight, instead of onto a digital device – which the driver then needs to 'convert' into an image of the road ahead.

The authors claim that 3D images of assembly or service instructions can be superimposed on a machine, making it easier for workers to know what to do than if they were using a printed manual – in two dimensions. The authors include many examples – such as how Boeing uses the technique to guide workers assembling aircraft wings, and claims a 35 per cent increase in productivity with the technique.

Source: Porter and Heppelmann (2017).

Augmented reality refers to a technology that overlays images or animations derived from data about an object onto the physical object.

The transformation process includes the feedback system which monitors performance on specified dimensions, and records deviations from standards. Feedback ensures the process performs in a repeatable, reliable and consistent manner, in two ways:

- by feedback that is internal to the process, ensuring a consistent product. This feedback is generally quantitative and monitors specified aspects of the product or process, such as units produced, dimensions, or oven temperature. Any deviation indicates it requires remedial action.
- by feedback that is external to the process, ensuring the product is acceptable to the customer and the intended market. This feedback can be either qualitative – how the customer enjoyed the product, or quantitative – how many people buy it.

Figure 19.2 illustrates the transformation process for the manufacture of a motor car.

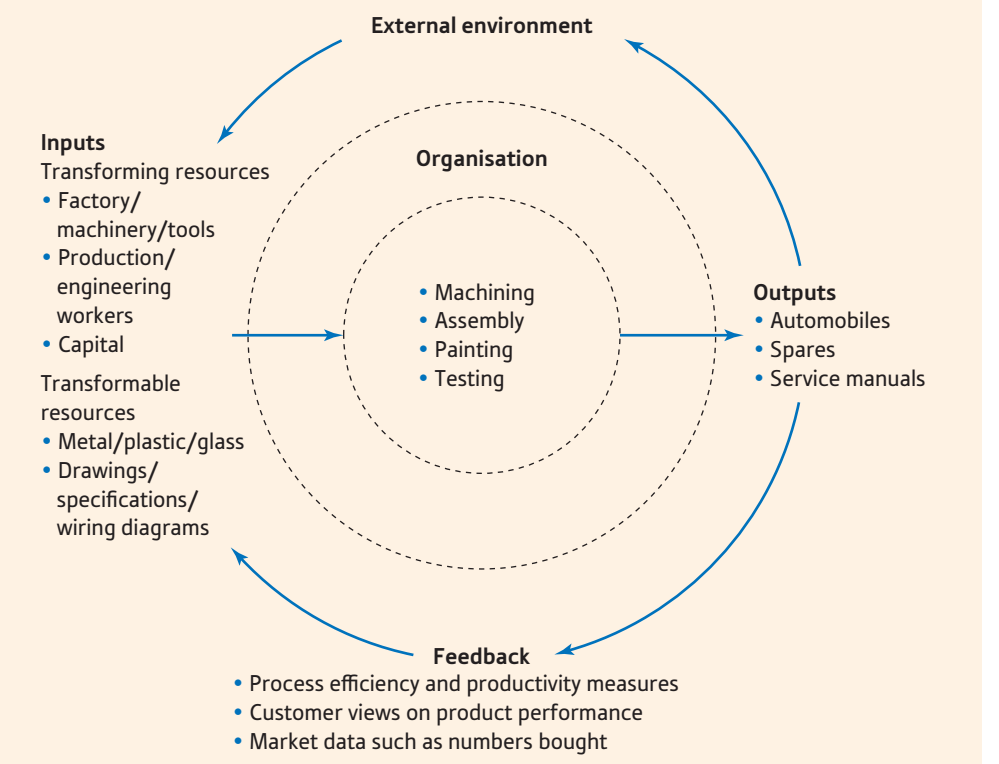


Figure 19.2 A manufacturing transformation

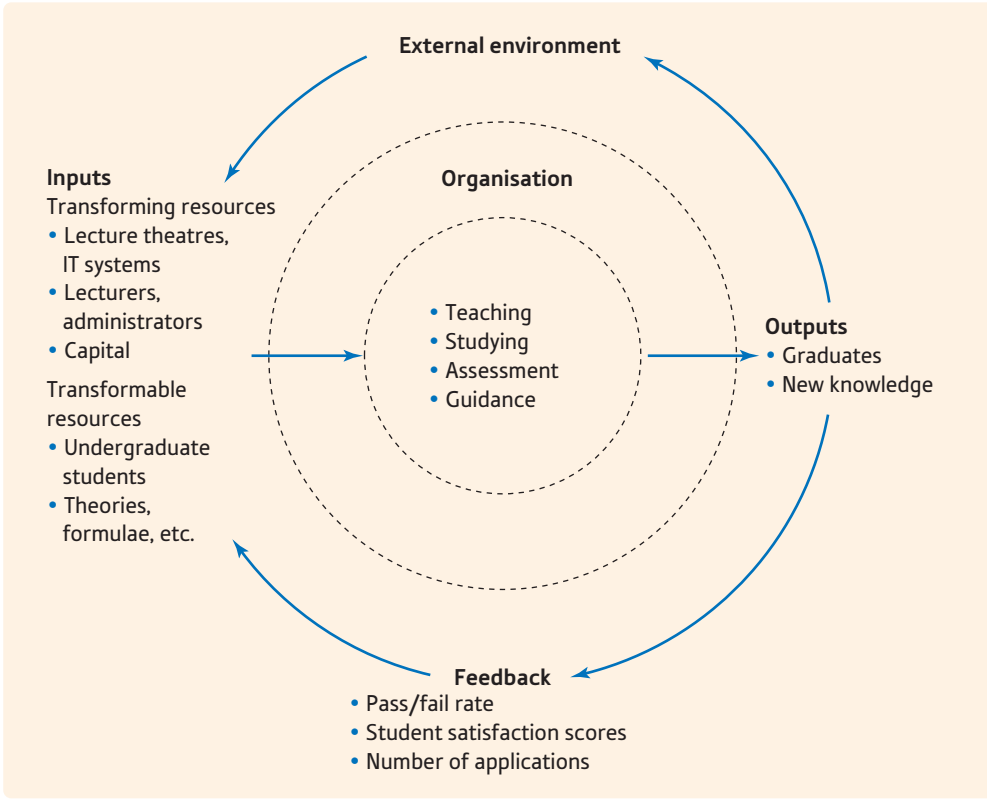


Figure 19.3 An educational transformation

The nature of products

It is common to associate the term 'product' with something tangible – a physical artefact that can be seen, held and used. Until recently, this was generally correct as most of what was bought and sold took a physical form. The growing service sector means the term is often applied to intangibles such as financial services, holidays or legal advice. A mortgage is no less a product than a car or a watch. It is designed for a purpose, sold, paid for and used. Operations managers see the 'production' process of these intangible products in the same way as the production process of tangible products – inputs, processes and feedback loops.

In restaurants, the product is the experience of the meal. Although eating out is considered a service, it combines the physical product (the meal), the service experience that staff provide, and the ambience of the surroundings.

The distinction between physical product and service delivered is therefore becoming blurred. Few physical products are sold without some form of service package. For operations managers this means that the transformation process model applies as much to restaurants, banks, schools and hospitals as it does to factories. Figure 19.3 illustrates a transformation process for a typical service – education.

Service delivery and the customer

While the transformation process applies to goods and services, there are differences. The main one is that in service delivery the customer is present during the process, and is indeed one of the raw materials that is transformed – a student from non-graduate to graduate, a customer with untidy hair to one with styled hair or a patient with a disease to one who is cured. The presence of the customer has consequences for operations:

- **Randomness**: the process needs to be able to handle the randomness that the customer brings.

- **Heterogeneity**: that randomness leads to inconsistencies in the service delivered, as each customer may have a slightly different experience: a dining experience will be affected by the atmosphere created by other customers.
- **Intangibility**: the nature of the service experience makes it difficult to ensure service quality. It is more difficult to measure the service experience than the utility or functionality of a physical product.
- **Perishability**: services are difficult to store: an unused hotel room loses that revenue for ever, as the next night is a different revenue opportunity.

Activity 19.1 Service operations

If you have ever sought legal advice, from a customer's perspective consider how a lawyer can ensure consistency, reliability and repeatability in the process of delivering legal services.

Key ideas Designing transformation with the customer in mind

Cachon and Swinney (2011) develop and compare alternative production systems in the fashion industry, taking into account their likely effects on 'strategic' consumer behaviour. This refers to the consumer's decision to buy a fashion item now at full price, or to wait until the end-of-season sale for a bargain – if it is still available. The company's operations processes will affect that choice, and so its revenue.

A 'fast fashion' system has two components:

- Short production and distribution lead times, closely matching supply with uncertain demand ('quick response'). Firms achieve this by combining local production with modern information systems that continuously monitor sales and inventory levels (to reduce the risk of selling surplus stock cheaply).
- Highly fashionable, trendy product design ('enhanced design'). Firms achieve this by carefully monitoring consumer tastes and incorporating ideas into their designs very rapidly (to increase the consumer's willingness to pay full price).

Fast fashion is costly, as it requires trend spotters to monitor tastes, talented and responsive designers, and expensive local production. As with any operations strategy, firms considering the approach compare the benefits (greater willingness to pay) with the greater costs.

The authors' mathematical analysis shows that while using either quick response or enhanced design bring benefits in terms of higher revenue, using them both together brings a much greater increase in revenue than using either in isolation. The two approaches are complementary, in the sense that using one increases the benefits from using the other.

Source: Cachon and Swinney (2011).

19.3 Operations management and competitiveness

The birth of process management

When we walk into a McDonald's, we enter a process for queuing, are served by someone who is not a trained waiter, and purchase a meal cooked by someone who is not a skilled chef. It has been designed to particular standards of quality; is the product of a process of manufacture; and will be made in exactly the same way regardless of where or when it is bought. McDonald's is the ultimate in systemisation.

Process design is often associated with F.W. Taylor and scientific management. In the late nineteenth century, the United States was experiencing rapid industrialisation. Skilled workers were scarce, so Taylor's methods aimed to solve this by making the attributes of the worker almost irrelevant. Taylor and his supporters believed in 'rationalism' – the view that if one understands something one should be able to state it explicitly and write a rule for it. Taylor's objective in applying rules and procedures to work was to replace uncertainty with predictability. By applying this thinking to the process of manufacturing, it would become more reliable, consistent and repeatable.

Management in practice — Disney's 'production' of cartoons

At the age of 21, Walter Elias (Walt) Disney moved to Hollywood and opened a movie studio. In *The Magic Kingdom*, Steven Watts (2001) describes Disney's attempts to apply the techniques of mass production to the art of making cartoons. Disney had great admiration for Henry Ford and introduced an assembly line at the studio. Like all production lines, this system employed a rigorous division of labour. Instead of drawing entire scenes, artists were given narrowly defined tasks, meticulously sketching and inking characters while supervisors looked on with stopwatches timing how long it took to complete each activity.

During the 1930s, this 'production' system resembled that of an automobile plant. Hundreds of young people were trained and fitted into the machine for 'manufacturing' entertainment. While this was labelled the 'Fun Factory', the working conditions on the assembly line were not always fun for the workers with operations management methods leading to employee dissatisfaction and strikes.

Source: Watts (2001).

Before Taylor, work was based on the **craft system** where individuals controlled the work process because their skill and knowledge told them what to do and how to do it. This left managers and owners who were trying to implement **factory production** with little control over production methods or levels of output. To take full advantage of the possibilities of mechanisation and the factory system, all of the activities within a particular transformation process had to be fully understood by those who controlled the organisation.

Although Taylor worked mainly in the steel industry, his ideas became the basis of operations management today. Henry Ford used them to design the production line system that came to dominate manufacturing, from where they spread to the service sector.

While Taylor's principles raised efficiency they could also have negative effects for those doing the work, and hence for long-term performance. Separating planning and organising work from doing it, while at the same time implementing detailed process rules for the worker to follow with little discretion, diminished the worker's skills and disrupted the craft system. This meant the worker no longer had the knowledge or skill to ensure the quality of the product, which depended more on the quality of the manufacturing process than on the worker's skills. The design of the process was paramount, as a poorly designed process would produce a poor product.

The **craft system** refers to a system in which the craft producers do everything. With or without customer involvement, they design, source materials, manufacture, sell and perhaps service. The craft system is based on workers with the embodied knowledge, skill and experience to carry out all necessary activity.

Factory production is a process-based system that breaks down the integrated nature of the craft worker's approach and makes it possible to increase the supply of goods by dividing tasks into simple and repetitive processes and sequences that could be done by unskilled workers and machinery on a single site.

Activity 19.2 — Taylor's processes

Observe the organisations that you come into contact with in your daily life. Try to identify the processes that they use. Can you find any that are not underpinned in some way by Taylor's principles?

Management in practice — Sunseeker www.sunseeker.com

From modest beginnings in a shed to a workforce of 2600 working in modern shipyards, Sunseeker is the leading brand of yacht for the very rich. While the products are at the cutting edge of quailty and technology, the company remains committed to crafts skills. Although much of the work in design and manufacturing is done by computers and machinery, Sunseeker claims the basis of its success is the skill of the artisans who form and polish the woods, metals and glass that produce the work of art that is a Sunseekeer.

Production is a subtle blend of machine-produced fabrication using the best that process management can offer, and hand-assembly and detailed finishing where the human influence on product quality cannot be matched.

Sunseeker admits that you can build a quality boat without the traditional craftsmanship it relies on – but, it says, it wouldn't be a Sunseeker …

Source: Company website.

Activity 19.3 — Craft versus factory

Consider the manufacture of high-quality products such as a Sunseeker yacht, a Rolls-Royce motor car or a Rolex watch. In each of these products, consider which parts of the manufacturing process are best done by machines and which parts are best done by hand.

Operations strategy

Operations strategy defines how the function will support the business strategy by ensuring the organisation has the resources and competences to meet market requirements.

Chapter 8 looked at strategy as the process of setting an organisation's direction. The business creates and delivers products through its operations, so it also needs an **operations strategy** to define how the function will support the business strategy, by ensuring the organisation has the resources and competences to meet market requirements. It clarifies the primary purposes and characteristics of the operations processes, and designs systems to achieve these.

Management in practice — Linn Products www.linn.co.uk

Linn Products was established in 1972 by Ivor Tiefenbrun (who retired as chairman in 2011). Born in Glasgow, he was passionate about two things – engineering and listening to music. When he couldn't buy a hi-fi good enough to satisfy him, he decided to make one himself.

In 1972, Linn introduced the Sondek LP12 turntable, the longest-lived hi-fi product still in production anywhere in the world and still the benchmark by which all turntables are judged. The turntable revolutionised the hi-fi industry, proving categorically that the source of the music is the most important component in the hi-fi chain. Linn then set out to make the other components in the hi-fi chain as revolutionary as the first, setting new standards of performance with each new product.

Today, Linn is an independent, precision-engineering company uniquely focused on the design, manufacture and sale of complete music and home theatre systems for customers who want the best. Linn systems can be found throughout the world in royal residences and on luxury yachts. In 2012, it received the Queen's Award for Enterprise and Innovation, and launched the Kiko music system.

At Linn operations is an integrated process, from product development through to after-sales service. Company staff design all aspects of the products and control all the key processes. Linn believes everything

can be improved by human interest and attention to detail. So the same person builds, tests and packs a complete product from start to finish. They take all the time necessary to ensure every detail is correct.

Only then will the person responsible for building the product sign their name and pack it for despatch. Every product can be tracked from that individual to the customer, anywhere in the world. Linn systems are sold only by selected retailers who have a similar commitment to quality.

Source: Company website.

Activity 19.4 Searching for excellence

While most organisations strive for excellence in some way or other, consider the operational challenges in actually becoming and remaining a world leader.

Case study Zara – the case continues www.zara.com

What distinguishes Zara from many competitors is the business information and operations processes. Rather than trying to forecast demand and producing to meet that (possible) demand, it concentrates on reacting swiftly to (actual) demand:

> **The shops act as aerials, detecting the directions and preferences of the market in every specific area … [the shop managers are a vital link in the organisation as the experts in sensing trends]. The boss of each shop therefore acts as a leader [providing information which central departments process continuously, which] is made completely available to suppliers, including on-line access. From the early days the group has received and treated its suppliers more like partners than mere occasional suppliers (Badia, 2009, p.88).**

A distinctive aspect of the operation is the close link between stores and headquarters:

> **Store managers hold daily staff meetings to discuss local trends, such as which colour of pastel trousers are selling well in Dubai, or what hemlines are in Bogota – information which is then fed back to headquarters (*Financial Times*, 23 May 2011, p.23).**

Most clothes suppliers take three months to develop the styles for a season's range and the same again to set up the supply chain and manufacturing processes. Zara does this in weeks by:

- making decisions faster with better information
- running design and production processes concurrently
- holding stocks of fabric that can be used in several lines
- distributing products efficiently.

The company's operations strategy is clearly directed at speed – ensuring the shortest time between the design idea and the garment in the stores.

Sources: Ferdows et al. (2004); Badia (2009); company website.

Case question 19.2

- Do you think the current tendency towards globalisation will help or hinder Zara's success?

The 4Vs of operations

Although all operations systems transform inputs into outputs, they differ on four dimensions:

- **Volume**: how many units they produce of each type of product. Consumer goods are examples of high volume production, supported by investment in special facilities, equipment and process planning.

- **Variety**: how many types (or versions) of a product they manufacture in the same facility. Fashion houses and custom car makers use more hand tools and highly skilled staff to enable the flexibility required to make a variety of unique products.
- **Variation** in demand: how the volume of production varies with time. Facilities at holiday resorts cope with wide variations in throughput depending on the time of year.
- **Visibility**: the extent to which customers see the manufacturing or delivery process. This applies mainly in services, where the presence of the customer is vital to the process.

The 4Vs help to define operations strategy. By deciding on the type of operation it will be – what volume, how much variety, how will volume vary and how visible will it be, managers can begin to design the operations processes.

19.4 Operations processes

Production systems

For production operations these decisions translate into two main considerations: volume of product and flexibility of the operations system – its ability to cope with changes in volume and/or variety. Hayes and Wheelwright (1979) propose that a single manufacturing system cannot efficiently produce different volumes of a variety of products. If a high volume is required consistently and reliably, then the manufacturing system must be arranged to produce only one product. If several products are required then the system must be more flexible to cope with their multiple requirements. Hayes and Wheelwright categorise four types of production operation – see Figure 19.4.

Project systems

These exist at the low-volume end of the spectrum and deal with the manufacture of very small numbers of product – often only single units. This entails many interdependent parallel operations of long duration to achieve an output. Examples include construction projects such as oil rigs, dams and skyscrapers, in which thousands of operations accumulate to complete one product over several years. The defining feature of this system is that the

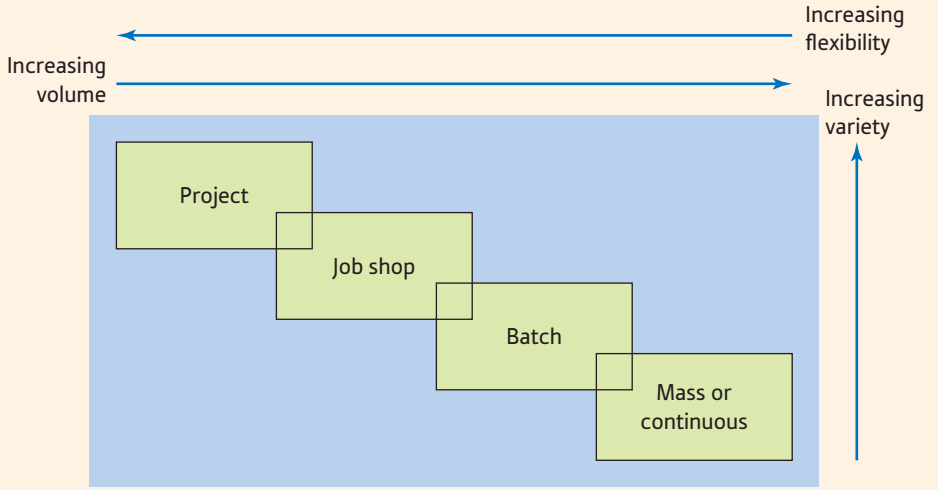


Figure 19.4
The product–process matrix

Source: Based on Hayes and Wheelwright (1979).

product is built in one place with all the resources brought to it and all the activities going on around it. The product will not move until it is complete, and sometimes not at all.

Job-shop systems

These are also relatively low-volume producing special products (a ship) or services (an exhibition) to customer specifications with little likelihood that any product will be repeated. In a manufacturing context, a tool room that makes special tools and fixtures is a classic example, as is a tailor who makes made-to-measure clothes to customer requirements. Such low-volume systems tend to use general-purpose equipment worked by skilled staff. They exhibit a high degree of flexibility but have high unit costs.

Batch operations

These are possibly the most common systems in use today. Many distinct products are produced as required. One of the distinctive features of such systems in comparison to job-shop systems is that, since orders are repeated from time to time, it becomes worthwhile to spend time planning and documenting the sequence of processing operations, employing work study techniques, providing special tooling and perhaps some automation. There will be a mix of skilled, semi-skilled and unskilled labour in this type of system.

Mass production and continuous flow manufacturing

This type is used where demand for a single product is sufficiently high to warrant the installation of specialised automatic production lines. With their high rates of output and low manning levels, unit costs are typically very low. Such systems generally have little flexibility. Where the entities produced are discrete items such as cars or mobile phones, the term 'mass production' is used, where the entity is not discrete such as chemicals like petroleum or other substances such as cement then the term 'continuous production' is used.

Service systems

In service delivery operations, the product-process matrix does not adequately cater for the fourth V – visibility: the presence of the customer in the process and the potential for diversity and randomness this brings will defeat the best-designed processes. Figure 19.5 shows a similar model which helps to categorise service processes.

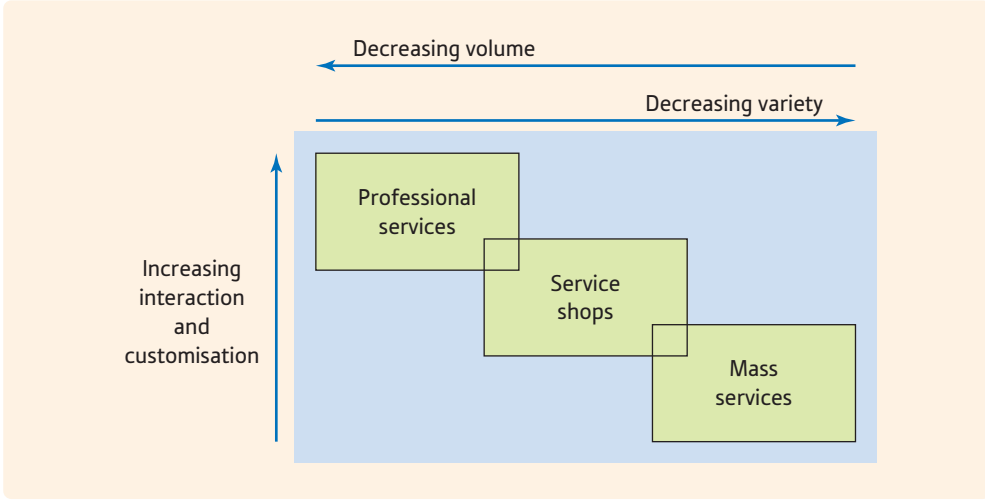


Figure 19.5 Service process types

Professional services

These are high-contact operations where customers may spend a lot of time in the process. These services provide high levels of customisation and are adaptable to individual customer's needs. As a result, the operational system relies on skilled and knowledgeable people rather than high levels of automation. Typical examples of these are legal services or healthcare.

Service shops

These offer lower levels of customer contact and less customisation to deal with larger volumes of customers with similar needs. Examples include most restaurants and hotels, high street banks and many public services. Essentially, the customer is buying a standard service which may be slightly customised to their needs. While people are still part of the process they tend to have limited skills and knowledge, and less discretion while working within a more rigid process.

Mass services

These provide standard customer transactions, very limited contact time and little or no customisation: the emphasis on automation and repetition. Staff will be low skilled and follow set procedures much like the staff on a production line, and the processes may be highly automated. Typical mass services include supermarkets, call centres and mass transport systems. For example in a railway station, staff can sell tickets but have no discretion to offer customised journeys or make decisions beyond the scope of the process.

Activity 19.5 Cutting up craft skills

Consider a service such as a surgical operation. Do you think that routine surgery could be carried out by more scientifically managed methods where for example the person that performs the operation is not a qualified surgeon, but is trained to carry out a single procedure?

It is important to note that in the service sector 'interaction' (how much the customer can intervene in the process) is not the same as 'contact time'. A lecture to a large number of students is high in 'contact' but comparatively low in 'interaction': so high duration of contact does not always mean a more interactive service.

'Customisation' reflects the degree to which the service provided is tailored to the needs of the customer. Organisations that have a high degree of both interaction and customisation are categorised as professional services (e.g. legal practices). Conversely, organisations that have a low degree of both interaction and customisation are categorised as mass services (e.g. schools). The purpose of such classification systems is to allow operations managers to decide how systems should be set up to deliver the type of process required.

These classifications exist as a continuum. Using education as an example, most state schools would be positioned near the bottom right-hand corner of the matrix in Figure 19.5. A fee-paying school could be positioned more to the top-left due to its smaller classes, more support staff and after-school activities. Another example would be a specialist clinic dealing with rare and difficult-to-diagnose conditions which may operate as a professional service, while a hospital that deals with standard operations such as cataracts or hip replacements may be set up more as a service shop. The type of service operation is therefore less about what the service is and more about how it might be provided.

CWS **Process design**

The companion website contains material on alternative process designs – including the decision about whether to make or buy a component, process selection (using break-even analysis) and alternative ways to design facilities.

Case study Zara – the case continues

Zara designs all its products in-house – about 40,000 items per year from which 10,000 are selected for production. The firm encourages a collegial atmosphere amongst its 700 designers, who seek inspiration widely – trade fairs, discos, catwalks, magazines and feedback from the stores.

The designers for women's, men's and children's wear sit in separate areas of a modern building at headquarters. In each of these open spaces designers occupy one side, marketers the middle, and buyers (procurement and production planners) the other side. Designers first draw design sketches by hand and discuss them with colleagues – not just other designers but also the marketers and buyers. This process is crucial in retaining an overall 'Zara style'.

The sketches are then redrawn to achieve better matching of weaves and textures, and colours are made. Critical decisions are made, especially selecting the fabric. Before moving further, staff must establish that the new design could be produced and sold at a profit. Skilled tailors then make a sample in small workshops next to the designers: if a problem arises, the tailors walk over to the designers to discuss and resolve them.

The final decision on what to produce is normally agreed between designer, marketers and buyers.

Sources: Ferdows et al. (2004); company website.

Case question 19.3

- Is Zara a craft or a factory system? Review the information about the manufacturing system Zara uses and list its advantages and disadvantages.

19.5 Main activities of operations

Providing goods and services to a customer depends on five key operations activities, and these provide a useful way of describing and analysing an organisation's operations system (Sprague, 2007). These activities are:

- capacity
- standards
- materials
- scheduling
- control.

None of these activities operates alone but combines to form an operations system.

Capacity

Capacity is the ability to yield an output – it is a statement of the ability of the numerous resources within an organisation to deliver to the customer. Defining capacity depends on identifying the main resources required to deliver a saleable output – staff, machinery, materials and finance. Capacity is limited by whichever resource is in shortest supply – a hospital's capacity to conduct an operation will be determined by some minimum number of specifically competent surgeons, nurses and related professionals. In service organisations, all aspects of capacity may be visible to the customer – they can see the quality of staff, and the state of equipment and resources.

Standards

Standards relate to either quality or work performance. Quality standards are embedded in the specification of the product or service delivered to the customer. Work performance standards enable managers to estimate and plan capacity by providing information on the time it takes to do something. One of the advantages that low-cost airlines have established is that they can turn around an aircraft between landing and take-off more quickly than conventional airlines. This enables each aircraft to fly more journeys, significantly reducing costs.

Materials

Just-in-time inventory systems schedule materials to arrive precisely when they are needed on a production line.

A vital aspect of the operations function is to ensure an adequate supply of the many material resources needed to deliver an output. Holding stocks of materials, called inventory, is expensive – it ties up working capital, incurs storage costs and in changing markets there is a risk that stocks become outdated. Too much material can be as problematic as too little. Materials management is particularly important in manufacturing systems where the cost of raw materials and components, all of which may become obsolete if fashions change are significant. **Just-in-time inventory systems** are intended to deliver supplies exactly when they are needed – see 'Management in practice' below.

Management in practice

Smith and Nephew – inventory for surgery

Smith and Nephew (an orthopaedics company) hired an executive from Federal Express (parcel delivery) to improve its operations and reduce the cost of holding stocks of parts. The problem arises from the fact that when S&N sells an artificial hip or knee to a surgeon, it also provides a suite of ancillary instruments as well as joints of different sizes in case the original choice does not fit as well as it should. While the hip replacement alone may cost $10,000 there could easily be $250,000 of additional hips and specialist tools in an operating room. The chief executive of S&N:

> **We have to get a couple of hundred thousand dollars' worth of inventory, including instruments and tools to do the surgery, plus all the right implants to the right customer and the right surgical suite every single time without fail. It's a huge logistical challenge for us.**

FT Source: *Financial Times*, 15 March 2010, p.18.

Scheduling

This is the function of coordinating the available resources by time or place – specifying which resources need to be available, when, to meet demand. It begins with incoming information about demand and its likely impact on capacity. Service, productivity and profitability depend on matching supply with demand. Capacity management generates supply; scheduling links demand with capacity. It can be carried out over several time periods. Aggregate scheduling is done for the medium term, and is closely associated with planned levels of capacity: as airlines plan their future fleets, which they need to do several years ahead, they make judgements about both their capacity and the likely demand (translated into frequency of flights on particular routes). Master scheduling deals with likely demand (firm or prospective orders) over the next few months, while dispatching is concerned with immediate decisions, for example about which rooms to allocate to which guests in a hotel.

Control

Control is intended to check whether the plans for capacity, scheduling and inventory are actually working. Without control, there is little point in planning, as there is no mechanism learnt from the experience. There are four steps in the control process (see Chapter 20):

- setting objectives – setting direction and standards
- measuring – seeing what is happening
- comparing – relating what is happening to what was expected to happen
- acting – taking short-term or long-term actions to correct significant deviations.

Only through control can immediate operations be kept moving towards objectives, and lessons learned for future improvements.

19.6 Quality

What is quality?

In addition to the factors that govern the design of effective and efficient operations systems, features of the product or service that is being delivered must also be considered – especially price and quality.

For undifferentiated products such as transport, consumer goods such as cleaning products or services such as fast food, price is paramount: many customers reason that cheapest is best. The price the customer is charged is governed largely by the cost the company incurs in producing the product or service. That in turn is largely driven by the efficiency of the operation. Therefore, if low cost is important, the operational processes – how they are sequenced, the automation and tooling, and the people who work within them – must all be designed with low cost in mind. This may mean compromising on the quality of the product by offering a basic service or product as opposed to a more comprehensive or functional one.

Quality appears difficult to quantify as it depends on the product, the application and the subjective views of the person making the assessment. As Crosby (1979) wrote:

> The first erroneous assumption is that quality means goodness, or luxury or shine, or weight. The word 'quality' is used to signify the relative worth of things in such phrases as 'good quality', bad quality … Each listener assumes the speaker means what he or she, the listener, means by the phrase … This is precisely the reason we must define quality as conformance to requirements if we are to manage it. If a Cadillac conforms to the requirements of a Cadillac then it is a quality car, if a Pinto conforms to the requirements of a Pinto then it is a quality car. Don't talk about poor quality or high quality talk about conformance and non-conformance (p.14).

Crosby's proposal moves the definition of quality from a term that is nebulous and difficult to define to a set of more tangible measures.

Key ideas Product quality

The quality of products and services is based on the requirements of the customer. Any product that does what the customer wants is a quality product. The most important activity is therefore to define and understand precisely what the customer wants, and set up operations to deliver exactly that.

Six features help to define quality in terms of what customers expect:

- **Functionality**: what the product does. Where price is less of a consideration, products that do more may be more attractive. This is especially true with technology-based products such as the iPhone where

functionality is the prime consideration in choice: users see a product that does more as being of higher quality than one that does less.

- **Performance**: how well it does what it is meant to do. This element will feature more strongly in higher value 'statement' products such as a Porsche car where top speed and acceleration are considered important. A product that is faster, more economical, stronger or easier to use will be seen as higher quality than others that are not. A higher performance product is seen as a higher quality product.
- **Reliability**: the consistency of performance over time. Are the promises made to the customer honoured correctly and in the same way over many occasions? A more reliable product is seen as a higher quality product.
- **Durability**: how robust it is. This may feature more on products that are used a lot such as tools and equipment or products that operate in a harsh environment. Climbing equipment needs to be resistant to breakage. A more durable product is seen as a higher quality product.
- **Customisation**: how well the product fits the need. This is more relevant in products where additional features may be added to the core functions in products such as a mobile phone, or in financial services. The more a product fits exactly to a customer's need, the higher the quality.
- **Appearance**: how the product looks. This is important not only to convey the correct image such as a well-decorated house or a highly polished car but also where appearance affects the utility of the product such as a website: a clear layout affects how easy it is to use. A product that looks good is considered a higher quality product.

The customer's perception of quality will combine some or all of these factors: each can contribute to the quality standard the customer desires.

Case study

Zara – the case continues www.zara.com

The mother buys clothes at Zara because they are cheap while her teenage daughter buys because they are in fashion. Matching low cost and acceptable quality is a winning combination. Like any industry, low-cost clothing comes from efficient and streamlined operational processes. Quality is more subjective, being defined more by the design or 'look' that the customer wants to be seen wearing, than by the quality of construction. Most of these garments will have a short life as they will be discarded when fashion changes. This implies that aspects of manufacturing quality such as durability will not matter to the customer beyond some minimum standard.

In the Annual Report for 2017, Pablo Isla, chairman of the Board, wrote that sustainability and social value creation were at the heart of the business, having contributed to 17 UN Sustainable Development Goals for tackling climate change, poverty and inequality. It had invested significantly in R&D on environmental sustainability, eco-offices and transport, advanced waste recycling and re-usability solutions, especially for board and plastics.

The company had made decisive progress in using sustainable fabrics and processes in their collections, and on improving textile fibre recycling, and creating new fabrics using clean technologies, as well as pioneering techniques for separating and recycling fabrics.

The company's sustainability Plan includes a Closing the Loop project to collect, re-use and recycle used garments and this has begun in almost 600 stores in eight markets. These and other works have been recognised: the company has received many industry and media awards for sustainability.

Source: Company website.

Case question 19.4

- Consider the concept of fashion, what does quality actually mean? Think of specific factors that define the quality of fashion.

CWS Additional dimensions of service quality

Quality management

Quality depends on operational systems. Theory and techniques about managing quality were developed first in the manufacturing sector, but service providers now use them as well.

In manufacturing, craftspeople have pride in their work and continuously strive to improve their mastery of the craft. During the evolution of the factory system, the craft system suffered as management subdivided the work process into smaller tasks performed by different people. This had two detrimental effects on quality. Firstly, no single person was responsible for the whole process, so the pride in work that was evident in the craft system and was the basis of quality was removed. Secondly, craft skills were eroded and the consequence of this was that the capability of the individual to build quality into a product was lost. In essence, process management removed quality assurance from the remit of production staff, in effect taking the responsibility for producing quality products away from manufacturing workers. To remedy this situation attempts were made to 'build' quality into the process with more and more detailed and comprehensive processes used for the manufacture of each product. This however had only limited success.

The problem of production quality was not fully grasped until the mid to late twentieth century with pioneers such as Juran (1974), Deming (1988) and Feigenbaum (1993), working to develop philosophies and methods. Although developed initially in the West, it was the Japanese who had most success as they applied the lessons widely and conscientiously. They also recognised the fundamental truth of craft production which is the person who performs the transformation is the best person to ensure quality. The Japanese quality revolution was therefore based on placing the responsibility for quality with the worker. History has thus come full circle, with individuals taking pride in doing quality work and striving to make regular improvements in the production process.

Key ideas — Principles of total quality management (TQM)

- **Customer focus**: the aim is to meet the needs and expectations of customers.
- **Comprehensive**: covers all parts of the organisation.
- **Inclusive**: includes every person in the organisation and across the supply chain.
- **Measurement**: tracks all costs affecting quality, especially those of failures and of getting things right first time.
- **Methods**: clear systems and procedures to support quality, implemented by teams.
- **Continuous**: developing the idea of continuous, incremental improvement.

Source: Based on Slack and Brandon-Jones (2016) pp.548–9.

Although many people were involved in the search for quality, the system of **Total Quality Management (TQM)** best encapsulates the principles. It advocates that a constant effort to remove waste adds value – see 'Key ideas'. Some of these wastes are obvious – scrapped material and lost time through equipment failure – but other wastes come through bad systems or poor communications and may be more difficult to find and measure. Progressive, small improvements reduce costs as the operational process uses resources more effectively. Crosby (1979) introduced the idea that 'quality is free': it is getting it wrong that costs money.

Total Quality Management (TQM) is a philosophy of management that is driven by customer needs and expectations and focuses on continually improving work processes.

An example of the many empirical studies of the effectiveness of TQM is that by Zatzick et al. (2012). They suggest the idea of 'internal fit' (see Section 11.2) is an 'overarching contextual factor' that influences the success or otherwise of a TQM system. They found that in companies following a cost leadership strategy, supported by a relatively mechanistic structure, the principles of TQM appeared to 'fit' those principles, drove a tighter integration – and led to better performance. If the company was following a differentiation strategy, with a more organic structure, TQM did not 'fit' those principles, and introducing TQM did not improve performance.

CWS Quality systems and procedures

19.7 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 19.1 shows the questions we can ask and the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and what variables they assumed would help achieve them) and about process (how they tried to gain the support of stakeholders). *These are examples only – not a comprehensive analysis*. You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

Explain the meaning of quality, and what managers can do to meet their customers' expectations of quality.

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 19.1 'Clear thinking' questions about practice and theory

Clear thinking practices	From the Chapter Case study – Zara's sustainability projects	Theory – a question on quality and how to manage (Section 19.6)
Check assumptions (task and process)	**Introduction** Set the scene – Zara putting time and money into becoming more sustainable Some assumptions may be: • building sustainability into the core operations of the business will help to counter climate change • it will offset the increased waste likely to be produced by sales projects such as 'try before you buy' • customers will participate in returning and recycling to a worthwhile extent • it will bring reputational benefits as well as environmental ones In time evidence will accumulate to be able to test the validity of these	**Introduction** Outline the idea: • Quality as meeting customers' requirements • Text identifies dimensions of quality in products and services – set out as many of these as you can to show knowledge • TQM a popular approach to managing quality Assumptions may be: • quality is a visible factor in customers' choice • altering quality will affect choice at least as much as altering price • weight attached to quality (vs price) varies demographically • process may affect quality as much as product – such as being involved in design or production (co-creation) Suggest that all these can be tested empirically – cite examples if you can

Clear thinking practices	From the Chapter Case study – Zara's sustainability projects	Theory – a question on quality and how to manage (Section 19.6)
Recognise contexts	Public awareness of climate change growing Expectations that business becomes part of the solution as well as part of the problem Other major companies have projects with similar aims Tight margins at Zara's end of the market limit funds available for these projects Fashion industry seen as wasteful in its core approach – encouraging consumption of more short-life garments, and by doing so making garments' life ever shorter	Appropriate measures of quality and their significance vary with context. Note as many of the features of quality (in 'Key ideas'), and then bring in one other perspective – three ideas: • use Porter's five forces model to ask whether quality (or dimensions) is equally significant in each • use PESTEL to ask if any of these elements affects dimensions of quality (demographics will value features differently) • is sustainability becoming a feature of quality that (some) customers will react positively to? All of these have management implications
Imagine alternatives	Design for durability rather than to be thrown away soon? Hire rather than purchase? Will sustainability become fashion?	One option for managers is to use TQM – outline the idea as fully as you can (content) and also the value of the TQM process as a way of involving all in the activity, not just a management-led one
Acknowledge limitations	Will competitive pressure preserve current fashion model? Do customers value their sustainability credentials over a fashionable image?	All quality exercises depend on the skill with which they are applied and maintained (tasks and processes) Quality only one of many dimensions in performance – other tasks and processes need to be adding value too

Skill

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to develop the skill of assessing what customers mean by quality.

Develop a skill: assessing what customers mean by quality

Understanding what customers regard as 'quality' is an essential part of the operations function, so this exercise helps you begin to develop that skill.

- **Assessment.** Assess how aware you are of what counts as 'quality' in a product or service you use. Do you instinctively think of it as being related to price, or packaging, or a familiar brand – or do you feel it is very subjective and hard to manage?
- **Learning.** Section 19.6 introduced theories of product and service quality. Read that section again, paying especial attention to the 'Key ideas' feature on page 493 which describes six features of product quality

and the sub-section on additional considerations when assessing service quality. Summarise the main idea presented in this feature. Why is this significant for managers?

- **Analysis.** Consider the six product features and the three extra service ones. Which of them will probably be the easiest to monitor and assess in practice? How do you think organisations do this? What if customers make widely contrasting assessments on one or more of these quality criteria?
- **Practice.** Identify a product or service you use regularly, and whose quality matters to you. Make an initial subjective assessment of the quality of the product or service, and record that. Now use the criteria in Section 19.6 to assess the quality of the product systematically, and record your assessment.
  - Compare what you have found with colleagues on your course, and comment on what you learned from using these factors to assess quality systematically.
- **Application.** When you have completed the work, review it, and what you can learn from it about understanding customers' quality requirements.
  - Decide on another opportunity to practise this skill within the next week.

Summary

1 **Describe the transformation process model of operations management**

- Transformation process is the organisational system that takes inputs and transforms these into outputs – either tangible goods or intangible services – that have more value than the original resources.

2 **Show how operations management can contribute to competitiveness**

- Operations practitioners seek to design transformation processes that add value to the resources used. While methods based on scientific management can be very efficient, they can also have negative effects on employees, so operations are likely to contribute more to competitiveness if processes meet the needs of people as well as of production.

3 **Distinguish between operational processes**

- Production systems include projects, job-shops, batch, mass-production and continuous flow.
- Service operations distinguish between professional services, service shops and mass services.

4 **Identify five elements of operations**

- These are managing capacity, setting standard for processes and products, managing materials, scheduling resources and controlling activities.

5 **Understand quality in the operations context**

- Quality means conforming to the requirements of the customer.
- Product or service quality can be assessed in relation to functionality, performance, reliability, durability, customisation and appearance.

6 **Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of assessing what customers mean by quality**

- Identifying what customers regard as 'quality' is an essential part of the operations function, so the chapter provided an opportunity to begin to develop that skill.
- Understanding what customers mean by quality is likely to be more effective if someone questions their assumption that, say, what the customers want remains stable over time, and that it does not vary much as the customers' context changes. People have many sides to their characters, so alternative measures may provide different answers, and that may also be a limitation of trying to understand what quality means to a customer.

Test your understanding

1 Review some consumer goods such as mobile phones, cars and kitchen appliances. Identify the service elements attached to the purchase of these products.
2 Discuss why variation in the inputs to the transformation process is a bad thing. Which of the five inputs is likely to be subject to most variation and which to least?
3 Distinguish between, and explain, the two types of resources in Figure 19.1.
4 List the four dimensions of operations, and note why each is significant.
5 Draw the product-process matrix.
6 Why is control over quality at source so important?
7 What are the six features of quality that customers may use to assess a product?
8 How does service quality differ from manufacturing quality?

Read more

Crosby, P. (1979) *Quality is Free*, McGraw Hill, New York.

A classic text detailing the basics of quality management and showing how it all started.

Sprague, L. (2007) 'Evolution of the field of operations management,' *Journal of Operations Management*, 25, pp.219–38.

A brief but comprehensive summary of the field of operations and management from a historical perspective.

Porter, M.E. and Heppelmann, J.E. (2017) 'Why every organization needs an augmented reality strategy', *Harvard Business Review*, vol. 95, no. 6, pp.46–57.

Useful introduction to an emerging technology from a leading writer on management.

Go online

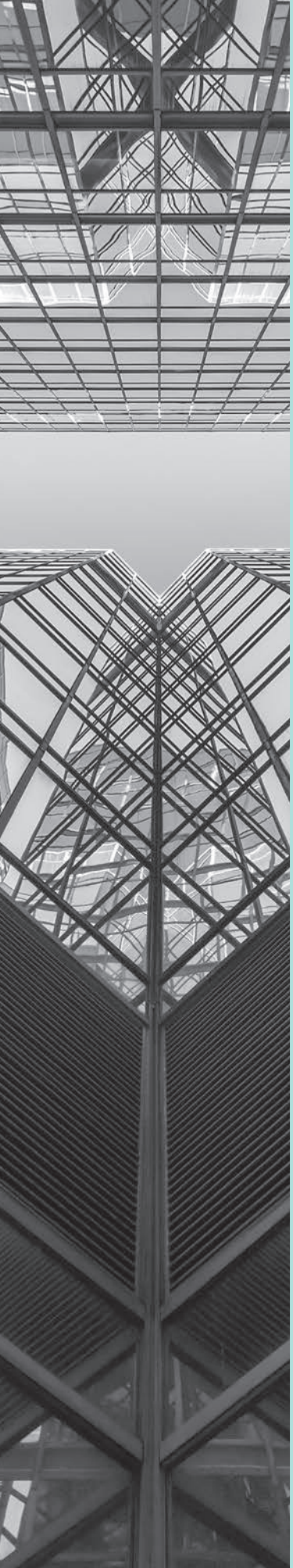
These websites have appeared in the chapter:

www.zara.com
www.sunseeker.com
www.linn.co.uk
www.ebay.co.uk
www.apple.com
www.dell.com

Visit two of the websites in the list (or any other company that interests you) and navigate to the pages dealing with the products and services they offer. This is usually the first one you see, but in some it may be further back.

- What messages do they give about the nature of the goods and services they offer? What challenges are they likely to raise for operations in terms of their emphasis on, for example, quality, delivery or cost? What implications might that have for people working in the company?
- See if you can find any information on the site about the operating systems, or how they link with their suppliers.

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



CHAPTER 20

CONTROL AND PERFORMANCE MEASUREMENT

Aim

To show how the design of control and measurement systems can help or hinder performance.

Objectives

By the end of your work on this chapter and companion website (CW) you should be able to outline the key terms below in your words and:

1. Define control and explain why it is an essential activity in managing
2. Describe and give examples of the generic control process
3. Compare strategies and tactics for control and explain how context may affect choice
4. Compare alternative ways to measure performance, including Balanced score-card (CW)
5. Explain the influence of human factors on control
6. Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of monitoring progress on a task

Key terms

This chapter introduces these terms:

control
control process
control system
standard of performance
range of variation
corrective action
management by objectives
performance measurement
input measures
process measures
output measures
efficiency
effectiveness
key performance indicators
balanced scorecard
organisational performance

Each term is defined within the text and in the Glossary at the end of the book.

Companion website

The companion website includes additional material on:

The balanced scorecard
Problems with formal control systems
Competing values and performance measurement

Case study

Performance management in the NHS www.nhs.uk

NHS Foundation Trusts (often called Foundation Hospitals) are at the cutting edge of the Government's commitment to devolution and decentralisation of public services and are at the heart of a patient-led NHS. They are not subject to direction from Whitehall. Instead local managers and staff working with local people have the freedom to develop services tailored to the particular needs of their patients and local communities. (*A Short Guide to NHS Foundation Trusts)***

Foundation Trusts were introduced in 2004 and, by early 2016, there were 152 NHS Foundation Trusts (NHSFTs). They were intended to be a new type of organisation, established as independent, not-for-profit public benefit corporations with accountability to their local communities rather to central government. The Secretary of State for Health was to have no direct powers of direction over NHSFTs, although they were to remain firmly part of the NHS. They exist to provide and develop healthcare services in a way consistent with NHS standards and principles: free care, based on need not ability to pay.

NHSFTs were to have greater freedoms and flexibilities to manage their affairs, for example in freedom from central control, freedom to access capital sources, and freedom to invest surpluses (Harradine and Prowle, 2012, p.217).

The intention of this change was to devolve decision making from central government to local communities, so that hospitals were more responsive to their needs. They were an important part of the government's agenda to create a patient-led NHS in England, and would bring significant change to the control of Foundation hospitals.

Those with Foundation status are accountable locally to a board of governors and nationally to Monitor, the independent regulator of NHS Foundation Trusts (www.monitor-nhsft.gov.uk). This form of control should allow each hospital more autonomy to use its income to provide relevant care and services for its geographical area.

Hospitals are amongst the most complex of organisations. They employ a large number of highly skilled staff, use very sophisticated technology, operate extremely complex processes and deal in life or death situations. They also have limited budgets, and the issue of their performance and value for money has concerned all governments for many years. Central to the issue of performance is that of control.



© Christopher Furlong/Staff/Getty Images

Foundation hospitals represent a shift in philosophy from centralised, 'one size fits all', directive control by government to a more decentralised, customised and empowered form of control. Hospitals are responsible for managing their income in an attempt to create a market-like environment in the hope that empowered managers will be better able to allocate resources to areas where they will add most value.

Limited resources mean that some form of budgeting system is essential, though health professionals often see the budgeting system as a tool of administrative control aimed at constraining NHS expenditure and their ambitions to improve services (Harradine and Prowle, 2012, p.219).

Sources: *A Short Guide to NHS Foundation Trusts, 2005,* Department of Health Publications; Harradine and Prowle (2012).

Case questions 20.1

- What are the likely benefits of control in a hospital?
- What will be the main issues in developing a control system in a hospital?

20.1 Introduction

Effective public organisations add value, in part, by implementing and controlling processes that are consistent, repeatable and reliable. Doing so enables them to achieve standards that their stakeholders expect – and legislation requires public organisations to report to their regulators on how their performance compares with targets. Mid-Staffordshire Hospitals Trust required all of its hospitals, including Stafford Hospital, to provide such measures. These are intended to show how well it is using resources and to draw attention to areas for improvement. All hospitals do this – beds are scarce and expensive resources that incur surprisingly high daily costs for the hospital: so they invest in bed management systems to ensure that patients leave as soon as they are able to, freeing the resource for others. They monitor how many patients attend clinics to ensure that they provide the right number, and that they deliver value for money.

Designing and using a performance measurement system is often controversial, given the diversity of stakeholders with an interest in both the measures and in the performance of the service. Some see it as a way to exert central control over local institutions if, for example, units' performance is published in league tables. Others see it as a necessary element in public accountability, where services are required to report annually on what they have achieved with public money. Others see performance measurement as a useful tool guiding front-line managers to focus resources on organisational priorities.

Commercial businesses face similar demands from their stakeholders – especially their investors. Public companies like Shell or Apple publish annual reports which review performance and make estimates for the year to come: private companies like the Virgin Group do not make their reports public, but its shareholders receive regular reports on the performance of the part of the group in which they have invested. Measuring performance is central to **control**, which shows whether a unit is performing in the way people expected.

Control is the process of monitoring activities to ensure that results are in line with the plan and acting to correct significant deviations.

All managers exercise control as they transform input resources into output products and services. No matter how thoroughly they plan their objectives and how to meet them, unforeseen events will intervene, so they supplement planning with controlling – checking that work is going to plan, and if necessary taking corrective action. The sooner they note deviations, the easier it is to bring performance into line. This applies at all levels – a senior nurse responsible for the flow of patients in the A&E department, a consultant responsible for the quality of work in an operating theatre or a chief executive responsible for overall hospital performance.

Control has many positive meanings standing for order, predictability or reliability. If things are under control employees are clear about what they are expected to do and customers know what standard of product they will receive. Control helps ensure that the cooperative work of many resources adds value. An absence of control implies uncertainty, chaos, inefficiency and waste. As control depends on influencing people's behaviour, designing a control system is not a technical process, but one that needs to take account of human and contextual factors.

The chapter begins by describing what managerial control is and the strategies and tactics that can be used to achieve it. It then goes on to discuss how to measure an organisation's performance. The last section introduces a human perspective on control and monitoring progress – this is the focus of the 'Develop a skill' feature at the end of the chapter.

The **control process** is the generic activity of setting performance targets and standards, measuring actual performance, comparing actual performance with the standards, and acting to correct deviations or modify standards.

20.2 The control process

A **control system** is the way the elements in the control process are designed and combined in a specific situation.

The **control process** is intended to support the achievement of objectives. Managers design **control systems** throughout the enterprise. While their degree of formality and explicitness varies, all incorporate the four elements in Figure 20.1 – setting targets, measuring

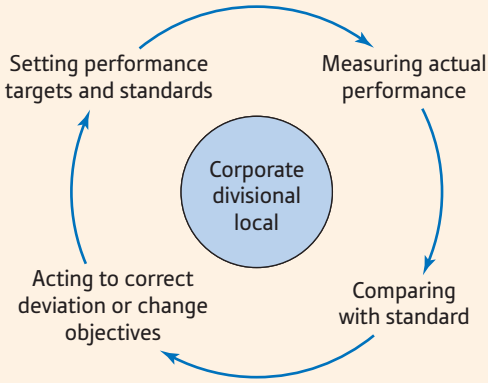


Figure 20.1 The control process

performance, comparing this with the standard, and taking action to correct any significant gap between the two.

Setting targets

Targets provide direction and a **standard of performance** to aim for. The standard will itself affect achievement – people will ignore standards that are too high as unattainable, or too low as not being worthwhile. Some measures are generic, widely used and relevant to most management situations such as employee satisfaction or absence, costs against budget, or sales against target. Managers will also use measures that are unique to their activity and area of responsibility – pages of advertising booked or students recruited.

Standard of performance is the defined level of performance to be achieved against which an operations actual performance is compared.

Some aspects of performance can be measured in objective and quantifiable terms – such as sales, profit or return on assets. Equally important aspects of performance (product innovation, flexibility, company reputation or service quality) are more subjective and here managers look for acceptable qualitative measures.

Measuring – the tools of control

Control requires that performance can be measured against a target. Table 20.1 shows the sources of information people can use to measure performance, and their advantages and disadvantages: combining them gives a more reliable picture than relying on one alone.

Table 20.1 Common sources of information for measuring performance

	Advantages	Disadvantages
Personal observation	Gives first-hand knowledge, information is not filtered, shows the manager is interested	Subject to personal bias, time-consuming, obtrusive – people see what is happening
Oral reports	Quick way to get information, allows for verbal and non-verbal feedback	Information is filtered, no permanent record
Written reports	Comprehensive, and can show trends and relationships, easy to store and retrieve	Time to prepare, may ignore subjective factors
Online information systems	Rapid feedback, often during the process	Information overload, may be stressful to staff

Management in practice

Can you trust what is reported?

Chris Finlayson is CEO of BG Group, a global oil and gas producer. He worked for Shell for 30 years, including several years as head of exploration for the company's Russian interests, including the Sakhalin Liquified Natural Gas project. This experience taught him that one of the challenges of leadership is that you cannot know the detail of every project. The pipeline infrastructure for Sakhalin 2 alone comprises 300km of offshore pipes and 1600km of onshore pipework.

That said, every two or three months he visited Sakhalin and, together with the project's CEO, made sure that what was being reported to them was accurate. The trick is to know when to dive down into the detail and head off problems, he says.

You have to stay at a sufficiently high level to understand what is going on right across the business, while having a sense of intuition [to know] there is something here that makes me worried.

FT Source: From an article in the *Financial Times*, 30 December 2013, p.12.

Comparing

The **range of variation** sets the acceptable limits within which performance can vary from standard without requiring remedial action.

This step shows the variation between actual and planned performance. There is bound to be some variation, so before acting a manager needs to know the acceptable **range of variation** – the acceptable limits of variation between actual and planned performance – which Figure 20.2 illustrates. As long as the variation is within this range, the manager need take no action – but as it goes beyond that range, the case for action becomes stronger, especially if the trend is continuing. This implies searching for the causes of a significant variation, to increase the chances of an appropriate response.

Correcting

Corrective action aims to correct problems to get performance back on track.

The final step is to act on significant variations – either to correct future performance or to revise the standard. Attempts to bring performance up to the required standard could involve any aspects of the transformation process and involves taking **corrective action**,

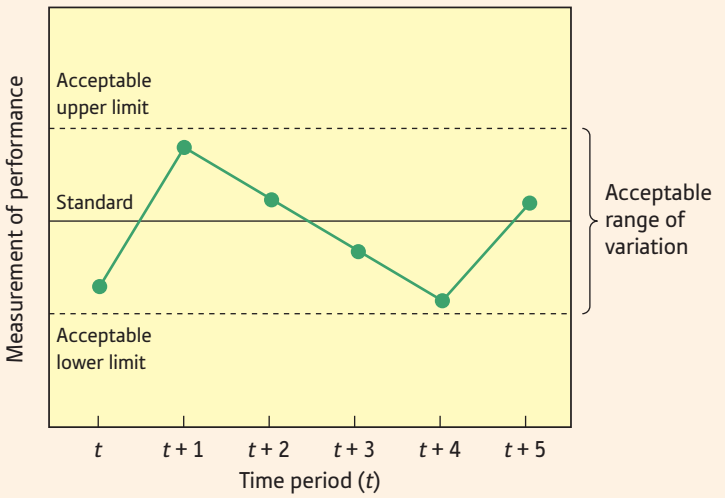


Figure 20.2 Defining the acceptable range of variation

such as redesigning a process, resetting a machine or cutting prices to sell excess stocks. This may mean dealing with longer-term issues of design, quality or skill.

Activity 20.1 Assessing control systems

Consider the course you are studying. With your fellow students, analyse how your performance on the course is controlled by answering these questions:

- **What standards of performance are you expected to achieve?**
  - Who sets the standards?
  - Are they clear or ambiguous?
- **How is your performance measured?**
  - Do you know what the criteria are?
  - How often is performance measured?
- **Who compares your performance with the standard?**
  - Is this done publicly?
  - Is the comparison objective or subjective?
- **What happens if your performance is not up to standard?**
  - What feedback do you get?
  - Is it useful?

Management in practice Enron – a lack of control

The Enron scandal, revealed in October 2001, eventually led to the bankruptcy of the Enron Corporation, an energy company based in Texas, and the dissolution of its auditor, Arthur Andersen, then one of the largest accountancy partnerships in the world.

Enron was formed in 1985 after the merger of Houston Natural Gas and InterNorth. By 1992, Enron was the largest merchant of natural gas in North America. In an attempt to achieve further growth, Enron pursued a diversification strategy. By 2001, it had become a conglomerate owning and operating gas pipelines, pulp and paper mills and electricity and water supplies. The corporation also traded in financial markets for products and services.

When chief executive Jeffrey Skilling was hired, he developed executives who were able, by exploiting accounting loopholes and poor financial control, to hide billions of dollars in debt from failed deals and projects. The roots of the scandal lay in the accumulation over several years of inappropriate habits and values, which finally spiralled out of control.

From late 1997 until its collapse, the primary motivations for Enron's accounting and financial transactions seem to have been to keep reported income and reported cash flow up, asset values inflated, and liabilities hidden. These practices led not only to the company's bankruptcy, but also to criminal charges, and then prison sentences, for several Enron managers.

The lack of control was not limited to accounting matters. By the mid-1990s, Enron had developed a culture that encouraged innovation and risk-taking: it rewarded short-term performance at the expense of longer-term success. There were few control mechanisms in place to ensure that managers were performing in a sensible and professional manner.

Source: McLean and Elkind (2003).

20.3 Strategies for control – mechanistic or organic?

Managers design a control system using their assumptions about how it will affect behaviour. Rules and procedures clan be implemented to give people precise and unambiguous directions on how to perform tasks and deal with unusual events. Alternatively, they can be

written in broader terms leaving more discretion to staff. Procedures may cover all aspects of work or a small number of critically important activities. Controls may emphasise conformity or encourage creativity.

If such decisions are made consistently and coherently, this suggests that managers are taking a strategic approach to control, in the sense that they have a clear understanding of its purposes and how to implement it. Two opposing strategies are mechanistic and organic, terms introduced in Chapter 10.

Mechanistic control refers to the extensive use of rules and procedures, top-down authority, written job descriptions and other formal methods of influencing people to act in ways that suit the situation. Organic control refers to the extensive use of flexible authority, relatively loose job descriptions, and more reliance on self-control. Each approach will work well in a situation to which it is suitable. Table 20.2 compares the two approaches.

Which strategy to choose?

Chapter 10 contrasted mechanistic and organic structures, and introduced the theory that choice of form reflects one or more contingencies. It showed that organisations often combine both approaches, using mechanistic forms in stable, predictable areas, and organic for more uncertain areas. The same applies to the choice of control systems. Contingency factors that could affect this choice include competitive strategy, importance of innovation and employee expertise – shown in Table 20.3.

An empirical study in a small Dutch manufacturing company (Pesalj et al. 2018) showed how management and staff were able to combine several types of control system as part of

Table 20.2 Examples of mechanistic and organic controls

Tools	Mechanistic control	Organic control
Supervision	Stress on following procedures and plans	Stress on encouraging learning and creativity
Organisation structure	Top-down authority, emphasis on position power, detailed job descriptions	Dispersed authority, emphasis on expert power, flexible job descriptions
Rules and procedures	Detailed, on many topics	Broad, on as few topics as practicable
Machinery	Information on performance used by supervisors to check on staff	Information on performance used by staff to learn and improve
Cultural	Encourages conformity, focus is on controlling individuals	Encourages creativity and innovation, promotes freedom

Table 20.3 Contingencies and choice of control strategies

Contingency	Control strategy likely to be appropriate	
	Mechanistic, use of rules, procedures and machinery to measure quantitative output	Organic, use of HRM and cultural controls stressing self-managing teams, and qualitative output measures
Competitive strategy	Cost leadership	Differentiation
Importance of innovation	Low	High
Employee expertise	Low	High

their control strategy. In particular, using several approaches helped them to manage the organisational tensions that arise between, for example: control and creativity, short and long-term, and an internal or external focus.

20.4 Tactics for control

Defining the strategy is the first step in creating a coherent control system, which then requires support from a set of relevant practices – each of which can contribute in the right circumstances.

Direct supervision

In small organisations or units, most control is by direct supervision as the owner or unit head can see directly what is happening. They can personally inspect and report on progress, quickly see if it is in line with the plan, and act if necessary. Done with enthusiasm and sensitivity this method is very effective – if people use it clumsily, staff will find it intrusive and overbearing.

Organisation structure

Most organisations set out what people are expected to do by giving them job descriptions that allocate the person's tasks and responsibilities. These can be very narrowly and specifically defined, or they can be broad and defined in general terms. They may also establish with whom the job holder is expected to communicate, and the boundaries of their responsibility. This is a form of control as it constrains people – by specifying what they can or cannot do, and what output standards they should achieve. Similarly, organisations can be centralised, with control being held at the top, or decentralised with control spread throughout the structure.

Rules and procedures

As organisations become too large for personal control, managers develop rules and procedures to control activities and alert senior people to significant deviations. Rules establish acceptable behaviour and levels of performance and so are a way of controlling the workforce. They can guide people on how to conduct the business, how to perform the tasks, how to apply for equipment or what to do when a customer places an order.

Management by objectives

Some organisations use a system of **management by objectives** to exercise control. Here managers throughout the hierarchy agree their goals for the following period. The approach is partly based on goal-setting theory which predicts that the level of difficulty of a goal will affect the effort people put into achieving it. The key is that workers should focus on the outcome to be achieved and therefore must be given the latitude to achieve it by a variety of methods as they see fit.

Management by objectives is a system in which managers and staff agree their objectives, and then measure progress towards them periodically.

Control through machinery

In this method, machines or information systems are designed to control, directly or indirectly, what people do. Direct technological controls occur where the machine directs what people do or say. Assembly lines transport the object being made along a moving conveyor,

with operators performing a short task to add another piece to the product, with almost no scope to alter the way they work. The machine sets the speed of work, time spent on each task is short, and workers have little if any influence over their tasks. The scripts in a call centre specify the questions to ask, how to respond to customer questions, and how to close the conversation, and have a similar controlling effect on the way a person works. In process industries such as brewing, computer sensors capture information on process performance, compare it with set criteria and, if needed, automatically adjust the equipment to keep the process in line with the plan.

Human resource management control

The processes of HRM discussed in Chapter 11 can support the control process. Selection and training procedures ensure that the number and type of recruits fit the profile of attitudes, social skills and technical competence that support wider objectives, and that new staff are trained to follow the company's ways of working. The appraisal and reward system can encourage behaviour that supports business objectives. The behaviour of employees can be controlled by offers of rewards if people comply with management policies and of penalty if they do not.

Key ideas **Barker on concertive control**

Barker (1993) notes three broad strategies that have evolved as organisations seek to control members' activities. The first is 'simple control', the direct, authoritarian and personal control of work by bosses, best seen in nineteenth-century factories and in small family-owned companies today. The second is 'technological control', in which control emerges from the physical technology, such as in the assembly line found in traditional manufacturing. Third and most familiar is 'bureaucratic control', where control follows from the hierarchically-based social relations in the organisation, and the rules that reward compliance and punish non-compliance.

Technological control resulted not only from technological advances but also from worker alienation from the authoritarianism which can arise in simple control. But technological control via the assembly line also led to worker dissatisfaction. Bureaucratic control, with its emphasis on rational–legal rules, hierarchical monitoring and rewards for compliance was developed to counter the problems of technological control.

Bureaucracy too has problems – the main one being an inability to respond quickly to changing conditions. Many companies have sought to overcome these problems by introducing a greater degree of self-control by introducing self-managing teams.

Barker's research in one company showed how team members developed values and norms about good team behaviour, and put pressure on members, especially new members, to follow them. This form of concertive control was not only stronger than many bureaucratic controls, but was also less visible, as team members accepted it as the normal way to do things.

Source: Barker (1993).

Values and beliefs

Another approach to control aims to ensure that members of the organisation meet management requirements by encouraging internal compliance rather than relying on external constraint. To the extent that a unit develops a strong culture with which staff can identify will help to control their actions. Extensive socialisation and other practices encourage them to act in ways that are consistent with the dominant values and beliefs. This may be positive, but can sometimes be oppressive and constraining.

Activity 20.2 Examples of control tools

- From your experience of organisations – a part-time job or the university – identify examples of each of these approaches to control.
- What are their advantages and disadvantages in the situation where they are used?

Case study Performance Management in the NHS – the case continues

www.nhs.uk

Foundation Trusts work within a context that affects their managers' roles. Although hospital managers are legally responsible to their trust's Board of Governors, some have doubted whether the latter will be able to control hospital management, which is heavily influenced by powerful medical professionals. These have a tradition of autonomy and resistance to outside interference with their professional judgements.

They will also face challenges from the evolving policy context affecting the health service. For example, trusts that increased the services they deliver (to defined quality standards) receive more funding, and vice versa. They therefore have a strong incentive to attract patients and deliver a higher volume of service. In addition, many services in an area are commissioned by groups of general practitioners, for which trusts compete to provide at an agreed price. Trusts need to balance three objectives:

- delivering health services as agreed in contracts with commissioners
- maintaining a financial balance over the accounting period
- developing and implementing a plan for changing the delivery of health services to maintain longer-term sustainability (Harradine and Prowle, 2012, p.219).

Case questions 20.2

- Why do you think professions such as doctors resist managerial control?
- What are the implications of having three objectives for the control process?
- Which aspects of a hospital's work are likely to suit mechanistic controls, and which organic?

Management in practice Creativity and control at Apple www.apple.com

All organisations use a mix of control tactics, many combining mechanistic and organic strategies. A simple example of this can be seen in organisations that both design and manufacture products. Apple is renowned for introducing innovative high-tech products, in a culture that allows innovation to flourish. The success of the company is built on the excellence of this design and development capability. Ideas cannot be 'manufactured' by process or thought of 'to order' therefore the control strategy used for R&D workers is organic, with knowledge workers working within a flexible and supportive environment.

However, the products are manufactured using a mechanistic approach. Each unit must be exactly the same with each manufacturing process designed to be completely consistent and reliable. Control of quality is critical with manufacturing tolerances sometimes specified in microns (millionths of a meter) and process defect rates of less than one in a million. Cleanliness is vital with 'clean rooms' ensuring contaminants are minimised. To achieve this, workers must fit into the process with no deviation tolerated as any unplanned activity will lead to a process failure.

Control of cost in volume manufacturing is critical, with companies like Apple manufacturing their products in low-wage countries, using many of the principles of scientific management, within a strict cost control system. People doing exactly what they are told is the key to production efficiency in this system.

Source: Gamble et al. (2004); company website.

Activity 20.3 Control and operational efficiency

- From a manufacturing control point of view, are lower skilled and poorly educated workers more suitable than highly skilled and better educated workers?
- Which do you think will be easier to control?

20.5 How to measure performance

Once the strategy for guiding the control system has been decided and the tactics to be used for controlling the organisation selected, some mechanism for setting standards and monitoring performance must be implemented. This depends on measuring key variables regularly.

Types of performance measurement

Feedback is essential to check that systems are consistently reliable, and depends on **performance measurement** – quantifying the efficiency and effectiveness of an action – checking progress against defined parameters at the beginning, during, or at the end of the process (Barrows and Neely, 2012). Figure 20.3 illustrates these in relation to a car journey.

Performance measurement refers to quantifying the efficiency and effectiveness of an action.

Input measures

Think of the journey as a 'process' of travelling from one place to another. The driver can re-fuel the car before the journey. If they then measure what they put in and what is left at the end, and do some arithmetic, they can calculate the fuel efficiency of the car. In organisational terms, this may mean measuring the amount of material that is input to the process then working to reduce the waste so that less is needed. A more sophisticated **input measure** may be the skill of the workers, since a better worker may result in a more efficient process.

An **input measure** is an element of resource that is measured as it is put in to the transformation process.

Process measures

Instruments can measure speed during the journey to tell us whether we are moving fast enough to arrive as planned. Moving too quickly means arriving too soon with the associated reduction in fuel efficiency, moving too slowly means the danger of being late. In

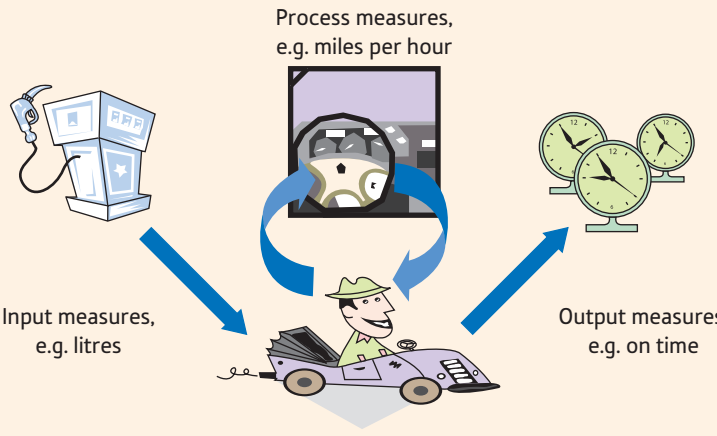


Figure 20.3 Types of performance measure

organisational terms, **process measures** may be the heat of an oven, the flow rate of liquid in a pipe or the speed of rotation of a machine. In all cases, deviation from the norm will indicate possible sub-optimal performance. Another process measure is health and safety – the number and type of accidents occurring during a process, against a target of zero.

A **process measure** is a measurement taken during an operational process that provides data on how the process is performing.

Output measures

This is the activity of measuring the quantity of output for a definable area of work – whether for a unit or the business as a whole. In relation to our car journey this may be the arrival time or total fuel used. In an operational process this may simply be the number of units produced: is it on target or not? It may be a dimension: is a 100 gram bar of chocolate actually 100 grams; if more, then too much chocolate has been given and profit reduced; if less, the customer is receiving less than the advertised amount and the company is in trouble. Other popular **output measures** are financial metrics such as labour and materials cost.

An output measure is a measurement taken after an operational process is complete.

The measures taken in our car journey should show us how to alter the process the next time to improve either fuel consumption or on-time performance. The same is true in operational processes. The measures taken should provide information that allows the control system to be adjusted to achieve a better outcome and so optimise efficiency.

Performance measures are required to calculate how efficiently or effectively our organisation is operating. While both these terms are sometimes used interchangeably in fact they have very different meanings.

Efficiency

Efficiency is often thought of as 'doing things right'. It is a measure of output divided by the inputs needed to produce the output. It is widely used to show how productively a process is working, and how well people have managed it – more output for fewer inputs implies that transformation is adding value. A simple measure of output would be sales revenue (number sold × price), while input can be measured by the cost of acquiring and transforming resources into the output. An increase in the ratio of output to input indicates an increase in efficiency. Managers are under constant pressure from shareholders or taxpayers to produce their output more efficiently, by using fewer resources.

Efficiency is a measure of the inputs required for each unit of output.

Effectiveness

Effectiveness is often thought of as 'doing the right things'. It is a measure of how well the outcomes of a process relate to the broader objectives of the unit – that is, how well the process supports the achievement of broader goals. A library can measure the efficiency of its cataloguers by recording the number of volumes catalogued by each employee. That would not measure effectiveness, which would require measures of accuracy, consistency, timeliness or maintenance of the catalogue. A delivery service can measure efficiency (cost of the service) or effectiveness (predictability, frequency of collections, or accuracy of deliveries).

Effectiveness is a measure of how well an activity contributes to achieving organisational goals.

Case study

Performance Management in the NHS - the case continues

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In 2009, the NHS regulator published a report into Stafford Hospital, part of the Mid-Staffordshire NHS Foundation Trust. It had been undertaken to investigate the hospital following a calculation that deaths at the hospital had been significantly higher than would be expected between 2005 and 2008.

The report placed some of the blame on the performance measurement system. One performance metric was the Accident and Emergency four-hour waiting-time target. Staff told the Healthcare Commission that there was a lot of pressure on them to meet this target. Several doctors recounted

occasions where managers had asked them to leave seriously ill patients to treat minor ailments so the target could be met. One had been asked to leave a heart-attack patient being given life-saving treatment.

Nurses reported leaving meetings in tears after being told their jobs were at risk after breaching the target. And the report concluded patients were sometimes 'dumped' into wards near A&E with little nursing care, so the targets could be met.

The four-hour target, which in simple terms aims to ensure that patients are treated and either admitted or sent home within four hours, at first glance seems reasonable. However, on further consideration, it is complicated to enforce. Patients' condition and circumstances differ widely, including some whom it would be dangerous to discharge quickly – such as those with chest pains or recovering from alcohol or drug overdoses: it may also not be suitable to discharge elderly or vulnerable patients in the middle of the night.

Some hospitals were getting round the four-hour target with observation wards attached to A&E to which patients could be admitted. Others refused to accept patients into their A&E departments from the ambulance so that the 'four hour clock' would not start ticking.

Unthinkingly trying to meet this simple but ultimately misconceived target seriously damaged patient care.

Source: Learning and Implications from the Mid-Staffordshire NHS Foundation Trust, Monitor – Independent Regulator of NHS Foundation Trusts, Final Report – 5 August 2009.

Case questions 20.3

- Do you think it is appropriate to allocate performance measures of any sort in organisations that deal directly with people with potentially life-threatening conditions?
- Investigate other performance measures used in the NHS try to find some that are misconceived and therefore open to abuse.

Choosing performance measures

There are five generic performance objectives – quality, speed, dependability, flexibility and cost. Each can be expressed in more detailed measures such as level of complaints or delivery times, or aggregated into composite measures such as customer satisfaction scores. The composite measures usually have more strategic relevance indicating such things as how a product is performing in the market. The more detailed measures tend to have more operational relevance such as how a process or a person is performing.

Key ideas — Designing performance measurement systems

Ferriera and Otley (2009) offer a valuable framework for those involved in creating or improving performance measurement systems. Using evidence and ideas from case studies and empirical research they outline a framework to guide activity – centred on '12 Questions to help Analyse Performance Management'. To give a sense of their approach, here are the first three questions:

1. What is the vision and mission of the organisation and how is this brought to the attention of managers and employees? What mechanisms, processes and networks are used to convey the organisation's overarching purposes and objectives to its members?
2. What are the key factors that are believed to be central to the organisation's overall future success and how are they brought to the attention of managers and employees?
3. What is the organisation structure and what impact does it have on the design and use of performance management systems (PMSs)? How does it influence and how is it influenced by the strategic management process?

Source: Ferriera and Otley (2009).

Detailed measures are usually monitored more closely and more often – in some cases highly mechanised processes are monitored by sensors hundreds of times a second. Companies use multiple measures to build a picture of how they are performing, much like a doctor will check blood pressure, heart rate and cholesterol level rather than relying on any one measure to guide their diagnosis. Table 20.4 shows how detailed performance measures can be aggregated into composite ones.

There are two problems with devising useful performance measures. The first is that of achieving a balance between having too few measures (straightforward and simple to use) and having too many (comprehensive but difficult to manage). Managers aim for a compromise by ensuring that there is at least a clear link between the measures chosen and the strategic objectives of, for example, marketing, operations and finance. If good quality is the main reason that customers buy the product then they place more emphasis on implementing measures that ensure the quality rather than cheapness of the product. The most important measures are called **key performance indicators (KPIs).**

Key performance indicators (KPIs) are a summarised set of the most important measures that inform managers how well an operation is achieving organisational goals.

The second is the problem of setting performance targets that do not create the wrong behaviours as employees try to find ways around them so that the target is met but to the detriment of the overall operation. Here common sense must be applied and the consequences of each target must be thoroughly considered in tandem with the overall control strategy that is in place. In the NHS four-hour case, the key to the successful operation of the A&E is in the skill of the staff, the quality of the support infrastructure and equipment and providing the front-line doctors and nurses with the flexibility to do their job the best way that they see fit. Instead of using an output measure such as four-hour waiting time, implementing input measures such as skills matrices combined with process measures such as equipment availability will, if used correctly, ensure the best people are supported by the best equipment. This should reduce waiting times and also improve care quality.

The five indicators are composites of many smaller measures. Quality is a composite of many process measures which ensure that the product produced is exactly as it should be. Speed is an aggregate of how quickly materials are moved between processes, and how effectively machines and staff work to complete each process.

One criticism of performance measures is the tendency to focus on the 'easy to measure' things such as finance and units of output, while avoiding more complex ones such as customer satisfaction and quality of staff. The more difficult to measure aspects are sometimes the most useful. In design and development work, ensuring that employees have the skills and knowledge to do their jobs will do more for effectiveness than measuring the output of a deficient employee. Likewise, measuring customer satisfaction and loyalty will be more useful than measuring revenue, since a satisfied customer will return and so generate more revenue.

Table 20.4 Aggregating performance measures

Composite measures	Customer satisfaction		Agility		Resilience
Generic measures	Quality	Dependability	Speed	Flexibility	Cost
Examples of detailed measure	Defects per unit Customer returns Scrap rate	Mean time between failures Lateness	Delivery time Throughput	Range of functionality Number of options	Raw material cost Labour cost

Source: Adapted from Slack et al. (2016), p.607.

The balanced scorecard

Kaplan and Norton (1992) noted that while

> traditional financial performance measures worked well for the industrial era ... they are out of step with the skills and competencies companies are trying to master today (p.71).

Financial measures are essential but carry the hazard that short-term targets may encourage practices that damage long-run performance – for example by postponing investment in equipment or customer service. They found that senior executives recognised that no single measure could provide a clear performance target or focus attention on the critical areas of the business. Rather, they wanted a balanced presentation of both financial and operational measures. Their research enabled them to devise a **balanced scorecard** – a set of measures that gives a fast but comprehensive view of the business. It includes financial measures that tell the results of actions taken, and complements these with measures of customer satisfaction, internal processes and innovation – measures that drive future financial performance.

The balanced scorecard is a performance measurement tool that looks at four areas: financial, customer, internal processes and innovation and learning which contribute to organisational performance.

The scorecard illustrated in Figure 20.4 brings together in a single management report many elements of a company's agenda, such as the need to be customer-oriented, to shorten response time, improve quality or cut the time taken to launch a new product. It also guards against the dangers of working in isolation, as it requires senior managers to consider all the important operational measures together. They can then judge whether improvement in one area may have been achieved at the expense of another.

CWS Balanced scorecard

Such measures of **organisational performance** show how well managers have conducted their role of adding value to the resources they have used in their area of responsibility.

Organisational performance is the accumulated results of all the organisation's work processes and activities.

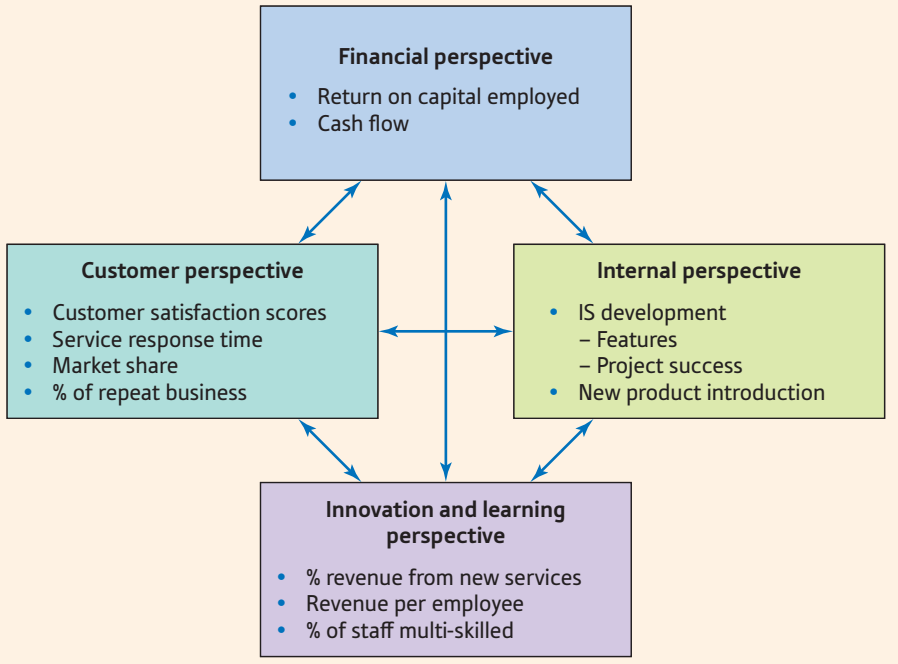


Figure 20.4 The balanced scorecard

Case study

Performance Management in the NHS – the case continues

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An inquest into the mid-Staffordshire Hospital Trust by Monitor found failings in several areas. From a performance measurement and control perspective, the two most relevant were: 1) a lack of clarity on the standards that should be achieved as the threshold for gaining Foundation status; and 2) that Monitor itself – the regulatory body – must revise its view of what information is required as evidence that performance standards are being achieved.

There were two further observations of particular interest to performance measurement. In a conclusion entitled 'Figures preferred to people', the inquiry found that performance data was often given more weight than the opinions of those involved and that performance systems did not bring to light the serious and systemic failures in the hospital – despite this being the purpose of the performance measurement system.

Another conclusion entitled 'A focus on systems not outcomes' indicated that staff were focusing too much on the process and not enough on the standard of care even though that was the intention of the process.

In February 2013, the final report of the public inquiry into the Stafford Hospital failings was published. It built upon the 2009 report, confirming the main findings – such as that trust management had ignored patients' complaints, that the regional health authority was too quick to trust the hospital's management, and national regulators were not challenging enough. The report recommended making it a criminal offence to hide information about poor care, and reaffirmed that many patients had been let down by a culture that put cost-cutting and target-chasing ahead of the quality of care.

In 2014, the responsibilities of Mid-Staffordshire Trust were transferred to two other Trusts, it ceased to exist, and Stafford Hospital was given a new name.

Sources: Learning and Implications from the Mid-Staffordshire NHS Foundation Trust, Monitor – Independent Regulator of NHS Foundation Trusts Final Report – 5 August 2009; Report of the Mid-Staffordshire NHS Foundation Trust Public Inquiry, chaired by Robert Francis QC (2013), The Stationery Office, London.

Case question 20.4

- Discuss the difference between a public sector organisation and a private sector company – do you think that the threat of going out of business tends to make it easier to implement performance measurement systems in a private sector company?

Activity 20.4 Starting a balanced scorecard

Begin to develop a balanced scorecard for activities within an organisation that you are familiar with.

- Create measures and targets under each of the four headings.
- Comment on the strengths and weaknesses of the balanced scorecard for performance measurement.

20.6 Human considerations in control

Effective control depends on systems that are intended to influence people to act in ways that support unit or organisational objectives. People also have needs and objectives, so if those designing a system take the implications of this into account, they will design a different, and possibly more effective, system than if they do not.

People will evaluate a control system in part by asking whether it helps or obstructs them in meeting those needs. They are likely to resist a system that they feel threatens their

satisfaction or in some way undermines their ability to meet their psychological needs from work. There is a table on the companion website that illustrates this by showing how a control system can have either positive or negative effects on a person's ability to satisfy their human needs. Controls can encourage both positive and negative behaviour – positive by encouraging commitment, enthusiasm and higher ambition, negative if they lead people to be fearful and defensive.

One common need is to look good to others, which may lead us to concentrate on activities that are measured. If the consequences of a poor assessment are severe, people will tend to focus on those parts of the job that are assessed, and ignore those that are not. The Chapter Case study showed this, in that managers were keen to 'look good' by meeting their targets. These encourage people to do things that may gain praise or promotion, but that damage the business as a whole. Sales staff in a store that paid a bonus on the volume of sales may focus on generating sales, perhaps using high-pressure tactics that secure a single sale, but discourage the customer from coming again.

Control is also a political process in which powerful individuals and groups seek to dominate others. People may oppose a control system not for its intrinsic features, but for what it implies about their loss of power relative to another group, or because they feel it will restrict their ability to use their initiative and experience. Therefore, while there is a clear operational perspective on control or, put another way, a neutral aspect of keeping actions in line with goals, control is also closely tied to ideas about motivation, influence and power.

Finally, controls may encourage people to supply inaccurate information. The more important the measure, the more likely it becomes that people will distort information to enhance recorded performance. The bargaining that surrounds payment by results or a commission payment system is an example. Line managers and employees will have different views about the fairness of a particular piece rate, and the latter will often give invalid data on the complexity of the work or the time it requires to overcome a difficulty, to ensure a more favourable rate.

CWS Problems with formal control systems
Competing values and performance measurement

20.7 Think clearly to connect practice, theory and skill

Practice and theory

The *second* column in Table 20.5 shows the questions we can ask and the issues we can raise – guided by the elements of clear thinking – about management practice (the Chapter Case study). For example, under 'check assumption' we may ask about task (their goals, and what variables they assumed would help achieve them) and about process (how they tried to gain the support of stakeholders). *These are examples only – not a comprehensive analysis*. You can disagree with these and/or add your own as you learn more about the topic and experience these issues in your career.

The *third* column shows the points you may want to consider if you were writing an assignment or examination question on a topic in this chapter. For example:

> *Why are control systems an essential aspect of managing, and how will an understanding of people help to improve the design of such systems?*

NOTE: This only covers the suggested 'Clear thinking' elements of your answer: your lecturers will provide guidance on the features and presentation of your answer as a whole.

Table 20.5 'Clear thinking' questions about practice and theory

Clear thinking practices	From the Chapter Case study– the four-hour A&E target at NHS North Staffs	Theory – a question on control systems and human factors in designing them (Sections 20.2 and 20.6 (also 15.5))
Check assumptions (task and process)	Some assumptions in setting this could have been that: • management would calculate staff required in A&E to meet the target regularly, and provide them • they would also provide adequate facilities in which patients whose treatment was finished could recuperate outside of A&E • staff would intelligently balance the risks of missing the targets, and meeting them only by damaging patient care • management would engage with staff to hear their views about how the targets were working, and adapt systems to take account of those views These assumptions appear to have been optimistic	Outline the idea: • Control shows whether an activity is adding value, and enables corrective action – use Figure 20.1 to show the process • Does so by influencing how people act, and in varying degrees they have a choice: controls can motivate or demotivate, depending on their design Assumptions to consider could be that: • the four activities in Figure 20.1 are technical, neutral, objective things • the information required by the system is available, credible, accurate • people will act in the way that those designing the control systems expect them to • the system meets the needs of staff as well as the needs of management • management engages with staff to take account of their views about the objectives and design of a control system that will benefit both Suggest that these assumptions give clues about why some (not all) control systems fail to work as intended (Chapter Case study)
Recognise contexts	Long-established differences between managers and medical staff over performance and its measurement mean it is almost always controversial, unless dealt with skilfully Finite budgets and rising demand for care mean that management will always be seeking ways to get more output from the resources available: this can appear to be challenging professional autonomy Funding for a trust at the time of the case depended on their output – so managers wanted to move more patients through their hospitals Trusts are balancing targets for financial performance against patient care	Form of control system depends on context (Section 20.3) – using a mechanistic approach in a context that suggests an organic approach is unlikely to work System needs to take account of human needs (Section 15.5): systems that, for example, help people satisfy their needs for esteem and recognition will be more acceptable than those that don't Most people welcome some involvement in decisions affecting them – discussing targets and measures before introducing them is likely to make them more acceptable to both sides Are staff aware of as much of the business environment as they need to be, to understand which critical factors need to be monitored? Providing more (trustable) information about context may alter attitudes

(continued)

Table 20.5 (*continued*)

Clear thinking practices	From the Chapter Case study– the four-hour A&E target at NHS North Staffs	Theory – a question on control systems and human factors in designing them (Sections 20.2 and 20.6 (also 15.5))
Imagine alternatives	Alternative financial arrangements may help, but demographic trends and lack of will to pay taxes suggest the effect will be marginal Closer engagement between management and medical staff to develop arrangements that would meet both financial pressures (or which medical staff are well aware) and maintain reasonable autonomy could be a more constructive alternative	There are many alternative ways of controlling activities, some of which are acceptable to most people than others High-tech solutions may offer easy ways to monitor performance, but people will reasonably object to what they see as unjustified surveillance
Acknowledge limitations	Targets in some form are a valuable tool, but only if they take account of the interests and views of those at whom they are aimed. Agreeing feasible targets is probably more useful that imposing unrealistic ones	Control systems that depend on influencing human behaviour will not work well unless they take account of that – which is hard (not impossible) to achieve

Skill

You can also think clearly (now, or far into the future) about how you use your skills – the assumptions you made as you prepared, was your approach right for that context, what were the alternatives and limitations? Here you can begin to further develop your skills of monitoring progress on a task.

Develop a skill: monitoring progress on a task

Being able to control a task helps to ensure it is completed on time and within budget, and that it adds value to the resources used. One part of control is to monitor progress during the work, and this exercise should help you develop that skill.

- **Assessment**. Assess how well you 'monitor progress' when you are doing some work – either on your own, or when working with others. Do you, for example, focus on doing the work itself, with little regard to the time it is taking, or whether you are doing what you were expected to? Or do you instinctively make regular checks on progress, or that work is going to plan?
- **Learning**. Read again Section 20.2, especially the work you did on Activity 20.1 ('Assessing control systems'). Summarise the main ideas in the section. Why is being in control of a task likely to help a manager?
- **Analysis**. What are the potential problems in setting a target – and why is it an essential step in control? Think of a situation in which you felt that work was being well, or poorly, controlled. What were the effects on (a) your motivation, (b) your performance? Which of the ideas in Section 20.2 were present, or absent?
- **Practice**. Identify (on your own or with colleagues) a task that you need to undertake, either in your studies or in other aspects of your life (in a job, a fundraising event, a social event you are organising).
  - Develop a simple control process, using Figure 20.1 to guide you.
  - Use this to monitor progress as you and/or other people work on the task.

- Keep records of how this helps you manage the task, and how it helps you to take corrective action if necessary.
- Record what you find, and reflect on what you have learned about control.

- **Application.** Decide on another opportunity to practise this skill within the next week.

Summary

1 **Define control and explain why it is an essential activity in managing**

- Control is the counterpart of planning and is the process of monitoring activities to ensure that results are in-line with the plan and taking corrective action if required.
- Organisational control ensures that operational processes remain consistent, repeatable and reliable.

2 **Describe and give examples of the generic control process**

- Setting targets gives direction to an activity and sets standards of acceptable performance.
- Measuring involves deciding what measures to use, and how frequently.
- Comparing involves selecting suitable objects for comparison, and the time period over which to do it.
- Correcting aims to rectify a deviation from plan either by altering activities or changing the objectives.

3 **Compare strategies and tactics for control and explain how context may affect choice**

- Control systems exist on a spectrum where the extremes are mechanistic and organic.
- Mechanistic approaches are likely to be suitable in stable environments or in support of cost leadership strategies.
- Organic approaches are likely to be suitable in unstable environments or in support of differentiation strategies.
- Organisations use a combination of direct supervision, organisational structure, rules and procedures, management by objectives, machinery, HRM practice and values and beliefs to maintain control.

4 **Compare alternative ways to measure performance**

- Managers can use either input, process or output measures to control the organisation.
- The balanced scorecard supplements measures of financial performance with those of customer satisfaction, internal process and innovation and growth which all play a part in an overall assessment of performance.

5 **Explain the influence of human factors on control**

- Control depends on influencing people, so is only effective if it takes account of human needs.
- Controls can encourage behaviour that is not in the best interests of the organisation.
- Controls can encourage people to supply the system with inaccurate information.
- People will resist controls that they feel threaten their ability to satisfy their needs from work.

6 **Think clearly to evaluate these management practices and theories, and as you begin to develop the skill of monitoring progress on a task**

- Monitoring progress on a task is an essential part of the operations function, so the chapter provided an opportunity to begin to develop that skill.
- The skill is likely to be more effective if someone questions their assumption that the variables they are monitoring are significant, and that their method suits the context. They can also recall the variety of alternative methods from which they can choose, and be aware of their limitations.

Test your understanding

1 Explain why control is important.
2 Is planning part of the control process?
3 Draw the control process and explain briefly what each step adds.
4 Explain how input, process and output measures differ.
5 What is the difference between mechanistic and organic control systems, and when is each likely to be useful?
6 List as many of the tactics for control as you can, and explain each one briefly.
7 Explain the difference between efficiency and effectiveness when measuring performance.
8 Explain how the balanced scorecard was an improvement on earlier performance measurement systems.
9 Give an original example of a measure in each quadrant of the balanced scorecard.

Read more

Barrows, E. and Neely, A. (2012) *Managing Performance in Turbulent Times: Analytics And Insight*, John Wiley & Sons, Hoboken, NJ.

Modern and comprehensive introduction to the topic, covering public and private sectors.

Kaplan , R.S. and Norton, D.P. (1992) 'The balanced scorecard: measures that drive performance', *Harvard Business Review*, vol. 70, no.1, pp.71–9.

The original writing on balanced scorecards as performance management tools.

Kaplan , R.S. and Norton, D.P. (2008) *The Execution Premium: Linking Strategy to Operations for Competitive Advantage*, Harvard, Boston.

Brings balanced scorecards, performance measurement and management control right up to date, linking them all to show how they can be used to create competitive advantage.

Go online

These websites have appeared in the chapter and of the Part Case:

www.apple.com
www.tesco.com
www.monitor-nhsft.gov.uk

Visit any company website and go to the section in which the company reports on its performance:

- What financial measures do they report on most prominently?
- From the chairman's and/or chief executive's reports, what other measures have they been using to assess their performance?

Annotated weblinks, multiple choice questions and other useful resources can be found at www.pearsoned.co.uk/boddy.



PART 6 CASE

TESCO

www.tesco.com

In 2018, Tesco was the UK's largest private sector employer, with over 330,000 staff in about 6,800 stores. The Annual Report for 2017–18 showed a strong recovery after several difficult years. Chief executive Dave Lewis and his new top management team had focused on improving the UK food business, where sales had grown strongly. He had also disposed of marginal businesses, and eliminated 6,000 managerial roles to cut costs. While the UK accounts for over two-thirds of sales, it is also one of the world's largest retailers, with a presence in Europe and Asia, and a joint venture in China. Attempts to enter overseas markets have delivered mixed results, and some shareholders continue to challenge this aspect of management strategy.

Jack Cohen founded Tesco in 1919 as a grocery stall, opening the first store in 1929. He was aware that supermarkets had been successful in the United States and tried to introduce the idea to the United Kingdom. He opened small self-service stores in 1948, followed by his first self-service supermarket in 1956. The company grew rapidly by acquisition during the 1960s, taking advantage of the abolition the Retail Price Maintenance Act in 1964. This had prohibited retailers from selling goods at prices below those which suppliers specified. Abolition allowed Tesco and similar chains to compete aggressively with established retailers (mainly small, family-owned grocers) on price. Tesco's size enabled it to buy products from food manufacturers more cheaply than smaller rivals.

The business prospered and in 1997 Terry Leahy became CEO, having previously been marketing director. Growth accelerated as management increased the scale and scope of the business, by opening more and larger stores, and offering more services including:

- non-food items, especially home wares and clothing
- fuel retailing, through an alliance with Esso
- financial services, now delivered through Tesco Bank
- mobile and home telephone products, and broadband.

Table 1 Financial performance indicators for the year to the end of February each year

	2018	2017
Group revenue (£bn)	57.5	55.9
Operating profit (£bn)	1.64	1.28
Earnings per share (p)	12.08	0.81
Dividend per share (p)	3.00	0.00

Source: Company Annual Report 2018.



© Mike Booth/Alamy Stock Photo

Managing to add value

Diverse formats

As the UK stores widened the range of products available, the company also diversified the way it delivered these to customers. The physical stores took one of six formats:

1. Tesco Homeplus – larger store for all DIY and home electrical products
2. Tesco Onestop – small neighbourhood shop
3. Tesco Express – local stores selling fresh food, wines, beers and spirits
4. Tesco Metro – larger stores in city centres offering a range of food, including sandwiches and ready-meals
5. Tesco Superstore – even larger stores offering a wide range of food and non-food products
6. Tesco Extra – very large, edge-of-town stores offering the widest range of food and non-food products.

For several years the company had been increasing the number of small convenience stores.

Clubcard

In 1994, Tesco launched its Clubcard scheme, which has over 11 million active holders. Shoppers join the scheme by completing a simple form with some personal information, and their purchases earn vouchers based on the amount they spend. Every purchase is electronically recorded, and the data analysed to identify their shopping preferences. Each product is also ascribed a set of attributes – expensive or cheap? An ethnic recipe or a traditional dish? Tesco own-label or an upmarket brand? The company uses the information on customers' shopping habits and product attributes to design a package of offers that are most likely to appeal to that customer and sends it to them each quarter.

The database is believed to be the largest holding of personal information about named individuals within the UK. This information has informed some strategic decisions, such as the move into smaller store formats, and the launch of the internet shopping site. It also shaped the development and sale of Tesco mobile phones, pet insurance and the 'Finest' food range.

Purchase of Booker

In March 2019, Tesco completed the purchase of a larger grocery wholesaler – Booker. This is a profitable business supplying tens of thousands of corner shops and some of the UK's leading restaurants. It will run the company as a separate business within the group, though expects to be able to find significant cost savings, and also secure £2.5 billion in extra sales from joint ventures. Charles Wilson, the former chief executive of Booker, took over as head of the enlarged UK food business in April 2019.

Key performance indicators

To help in controlling such a large and diverse business, Leahy implemented the concept of the balanced scorecard, adapting the idea and calling it the Steering Wheel:

> **This tool helped us to clarify our vision and strategy; to communicate and link our strategic objectives and targets; to plan and set clear targets; and to improve learning and feedback from the shop floor. The very act of creating the Steering Wheel forced the senior management team to agree not just broad-brush strategic statements, but what delivering them would mean in practice … it brought a new discipline and consensus to managing business, day in, day out (Leahy, 2012, p.185).**

The Steering Wheel had the four balanced scorecard quadrants (customer, operations, people, finance) plus 'community', each containing eight performance indicators. In 2015, the company replaced the Steering Wheel with the performance indicators in the table.

Table 2 Key performance indicators and scores in 2017–18 financial year

Indicators	Measure	Scores 2017–18
Customers recommend us and come back time and again	Customer survey and spend	+5 pts on year before
Colleagues recommend us as a great place to work and shop	Survey of staff	88% good place to work (= year before) 49% good place to shop (+1% year before)
We build trusted partnerships with suppliers	Survey of suppliers	75% satisfied
Grow sales	£51.0bn	Up 2.3%
Deliver profits	£1,644m	Up 28.4%
Improve operating cash flow	£2.8bn	Up 21.7% 59.6%

Source: Tesco PLC Annual Report and Financial Statements, 2015.

Responsibility for delivering the KPIs is delegated to the relevant business unit. Every Tesco store has its own set of KPIs with specific deliverables ranging from strategy to day-to-day work. The KPIs are measured regularly, and quarterly reports go to the board to help monitor performance. The summary report for the company is sent to all store managers, and shared with staff.

Tesco online

> **Process, roles, discipline – these are things that irritate people who are in a hurry to see their bold, revolutionary idea become reality … At Tesco, whenever we had a great new idea, or wanted to launch a major initiative, we focussed forensically not just on what we wanted to do, but on how we were actually going to achieve it. And perhaps one of the best examples of an audacious, well-executed plan was the launch of Tesco.com, today the world's largest online food business (Leahy, 2012, p.161).**

Leahy goes on to explain the origins of Tesco.com in 1995, which arose from a chance visit with a senior colleague to a trade exhibition on the future of retailing – at which the computer-based ideas appeared, at the time,

to be quite far-fetched. Leahy and his colleague saw that the fundamental ideas behind the vision would make life easier for customers. They decided to move quickly with a small project that did not require Board approval. The project team set out to create an e-commerce service from their existing stores, with staff picking customers' orders from the shelves and passing them to the van for delivery.

> **Those first few years were a classic example of learning on the job, and the benefits of starting a big project with small, careful first steps. Using information about how customers behaved online, we rapidly reworked our deliberately loose process, gradually firming it up and turning it into a stable system as new patterns of behaviour became more certain and predictable (Leahy, 2012, p.169).**

Overseas operations

Since the mid-1990s, the company has been investing overseas, and at one time was active in 14 countries. Its strategy reflects the lessons learned in developing that business, including:

- Be flexible – each market is unique and requires a different approach.
- Act local – local customers, cultures and suppliers require a local approach: very few members of the Tesco International team are expatriates.
- Keep focus – to be the leading local brand takes years to achieve.

It opened in Eastern Europe and in Asia, the latter growing especially quickly – in 2018 it was the company's most profitable market. Sir Terry Leahy had launched a US venture in 2004, with a plan for up to 10,000 convenience outlets. The chain began trading in 2007, but never became significant: by 2012 it had lost £800 million in five years, so management closed it. It later left Japan, where it had also failed. Some shareholders believe the losses incurred overseas destroyed funds which could have been used to strengthen the UK stores' response to tougher competition.

Over-reporting profits

Late one Friday in September 2014, a member of Tesco's finance team raised concerns over certain half-year profit figures. These soon reached Dave Lewis, the (very) new chief executive, who made further investigations over the weekend and alerted the Financial Conduct Authority. On Monday the company announced that it had suspended four executives, launched an accounting investigation, and admitted that the half-year profit had been overstated by £250 million.

This accounting scandal (relating to 'commercial income' which the company, in common with other supermarkets, receives from suppliers) made current profits appear larger than they really were. Several commentators observed that the Board seemed to be taken by surprise. Another noted the company's incentive scheme meant that 50 per cent of top executives' bonus payments depended on the level of trading profit.

The Serious Fraud Office investigated the matter, and in 2018 three former directors were charged with fraud by abuse of position and false accounting. After a trial that had lasted 18 weeks, the judge at Southwark Crown Court, Deborah Taylor, stopped the trial when one of the three defendants became seriously ill.

Aspects of Tesco's UK context

Competition

Tesco is a diversified retailer providing a wide range of products and services. In the UK, the main competitors are the other three major supermarket chains: these four control about two-thirds of the market – in 2018 market shares were: Tesco 27.1%, Sainsbury's 15.6%, Asda 15.1%, Morrisons 10.6%, Aldi 7.4%, Co-op 6.2% and Lidl 5.4%. Tesco also competes with independent local shops, and with businesses that focus on one area of its product range, such as HSBC in financial services or BP in petrol retailing.

Tesco, like other retailers, faces competition from discounters Aldi and Lidl, which offer comparable quality more cheaply, though with a smaller range of products. Other grocers are also expanding – such as B&M (trading as Home Bargains) which does not sell online. That has not hurt its growth – it now has almost 600 stores, and has a target of 950. It attracts customers by stocking a relatively small number of varieties and selling them cheaply, and by attractive special offers on homeware, toys, DIY and seasonal items.

Waterstones does well by giving local store managers the freedom to sell books tailored to local audiences. JD Sports does well by having close relationships with Nike and Adidas – which enables JD to offer new styles before other retailers. Its customers are also young, and tend to spend a higher proportion of their income on clothing – it has grown from 332 stores in 203 to 385 in 2018.

Online shopping

A major change affecting most parts of the retail sector is the growth of online shopping. About 3 per cent of retail sales were made online in 2005, and this had grown to 20 per cent by 2019. Tesco was an earlier leader in this (see above) but is now aware of a new threat from Amazon, which in 2017 bought US grocer Whole Foods. It then opened a 'shop and go' unmanned store called Amazon Go, where shoppers can pick their goods and walk out, paying online without passing

through a checkout. One industry observer described Amazon as 'the elephant in the room', adding that 'grocers know that Amazon will be able to outmanoeuvre them and undercut them every step of the way' (*The Guardian*, 1 May 2018, p.17).

Global retailing

Consumer habits may be converging towards global brands, especially as those in emerging economies develop tastes for IKEA furniture or Scotch whisky. But for basic food and drink needs, local habits prevail. After 20 years in which some major national retailers have tried to expand overseas, the dream of building a global grocer is dying. There have been some successes, such as Carrefour in Brazil, Walmart of the USA in Mexico, and Tesco in South Korea, but no chain has yet built itself into a truly global player. Investors query if it would be better for food retailers to curtail their global ambitions, and concentrate instead on delivering value to shareholders by defending their position at home:

> **Better management at home is more important than sticking flags around the world to try to build an empire. Maybe shareholders don't want an empire. They just want attractive returns (from an article by Andrea Felstead, *Financial Times,* 6 January 2012, p.9).**

Retail space

By 2015, it was clear that all the big supermarket chains were becoming very cautious about opening large stores. UK shoppers are changing their buying patterns – buying more online, at smaller convenience stores, or at Aldi and Lidl. The big stores have cut their store opening plans, and have written down the value of their property assets. To the extent that they are opening stores, most are smaller convenience stores: some larger ones have been closed or divided so that other retailers can take over some of the space.

Current management dilemmas

As Dave Lewis began to rebuild the business that had performed poorly for several years, he and his management team had to decide where to focus their investment budget – regaining competitiveness, balancing online and store sales, and how much to invest overseas.

Regaining competitiveness

'Distractions' such as a video-streaming service and a tablet were discontinued, and the trappings of excess such as corporate jets and an annual golf day for senior executives went. More significantly, he simplified operations and made major investments to improve stores and re-launch the own label brands: these began to draw customers back to the stores. In 2018, it reformulated thousands of brands to reduce salt, fat and sugar, and launched a new range of exclusive food brands – customer perceptions of Tesco quality rose 2.7 per cent in 2018.

Strengthening the balance sheet

Soon after Lewis became chief executive (2015), he began to repair the damage of the over-expansion of preceding years. He has also closed several stores, including seven superstores and six Homeplus non-grocery outlets. His preferred method for reducing debt is 'self-help' – generating cash from the business, and using that to pay off debt. He is also reducing head office space and cutting costs in central functions and store management. £270 million is committed each year to reduce the pension fund deficit. In 2018, net debt was £2.6 billion, down from £3.7 billion the previous year.

Rebuilding trust and transparency

The company acknowledges that it needs to overcome the reputational damage caused by the discovery that it had been over-reporting profits. It has responded by:

- appointing new management who focus on securing favourable costs from suppliers, rather than relying on commercial income from suppliers for promoting their products
- implementing a Code of Business Conduct, supported by a company-wide training programme
- promoting a 'speak-up' culture with a strong focus on ethics and compliance – these factors are now key measures in staff performance management and reward systems.

It has also removed sweets from the check-outs in all stores, and organises a national collection of food for distribution to those in need, through the Trussell Trust and other charities. In 2018, there was a 5-point increase in customers recommending the brand, and in the number saying that Tesco helped them to live healthier lives.

Overseas strategy

Some observers have questioned the value of expanding overseas, especially when the core UK operation was struggling to make a profit. They advocate a more vigorous pruning of the foreign businesses. The Japanese and US businesses were sold in 2012 and 2013 respectively, followed by that in South Korea in 2015. It has reduced its stake in China by merging its stores with a state-controlled company, which will own 80 per cent of the venture.

Sources: *The Guardian,* 7 February 2018, p.25, 12 April 2018, p.45; *Financial Times*, 6 February 2018, p.18, 3 July 2018, p.14, 12 April 2018, p.115 July 2018, p.16, 7 October 2018, p.16, *The Times*, 27 January 2016, pp.38-9; company website.

Part case questions

(a) Relating to Chapters 18 to 20

1 What types of operations processes are referred to, or implied, in the Case? (Section 19.4)
2 Give an example of how each activity of operations will be used in Tesco. (Section 19.5)
3 What issues does Tesco face in meeting customers' expectations of quality? (Section 19.6)
4 How has Clubcard helped Tesco to control the business? What other benefits has it gained? (Section 20.2)
5 What benefits do you expect the company will have gained from using the steering wheel, and its simpler replacement? (Section 20.5)
6 What evidence is there of the company taking account of the human aspects of control? (Section 20.6)

(b) Relating to the company

Visit the Tesco website, including the pages on 'investor relations'. Note recent events that add to material in this case.

1 Which, if any, of the dilemmas identified in the case are still current, and how has the company dealt with them?
2 What is Tesco's relative performance in the most recent trading period? Which competitors have gained and lost share? Access this information from the websites of *The Economist, Financial Times* or *BBC News* (business pages).
3 What new issues appear to be facing the company that were not mentioned in the Case?
4 For any one of those issues it faces, how do you think it should deal with it? Build your answer by referring to one or more features of the company's history outlined in the case.

GLOSSARY

Activity plans set out what a unit, work group or individual is expected to do to help achieve the goals of a larger plan.

People use an **adaptive model** of decision making when they are uncertain about the consequences. They search for a limited range of options, and policy unfolds from a series of cumulative small decisions.

Adaptive models of change emphasise that in uncertain conditions a project will be affected by unknown factors, and that planning has little effect on the outcome.

Administrative management is the use of institutions and order rather than relying on personal qualities to get things done.

Agency theory seeks to explain what happens when one party (the principal) delegates work to another party (the agent).

Ambiguity is when people are uncertain about their goals and how best to achieve them.

Arbitrariness (of corruption) is the degree of ambiguity associated with corrupt transactions.

Artificial intelligence refers to the theory and development of computer systems able to perform tasks normally requiring human intelligence, such as visual perception, speech recognition and decisionmaking.

Assessment centres are multi-exercise processes designed to identify the recruitment and promotion potential of personnel.

Assets are the property, plant and equipment, vehicles, stocks of goods for trading, money owed by customers and cash: in other words, the physical resources of the business.

Augmented reality refers to a technology that overlays images or animations derived from data about an object onto the physical object.

A **balance sheet** shows the assets of the business and the sources from which finance has been raised.

The **balanced scorecard** is a performance measurement tool that looks at four areas: financial, customer, internal processes and innovation which contribute to organisational performance.

Behaviour is something a person does that can be directly observed.

Behaviour modification is a general label for attempts to change behaviour by using appropriate and timely reinforcement.

Big data describes information of an order of magnitude far greater than has been encountered before. Typically, the data comes from social media, or from connected devices including satellites, surveillance cameras and mobile phones.

The **big five** refers to trait clusters that appear consistently to capture main personality traits: openness, conscientiousness, extraversion, agreeableness and neuroticism.

A **blog** is a web log that allows individuals to post opinions and ideas.

Bounded rationality is behaviour that is rational within a decision process that is limited (bounded) by an individual's ability to process information.

A **brand** is a product or service whose [features] differentiate it in some way from other products or services designed to meet the same need.

A **break-even analysis** is a comparison of fixed versus variable costs that will indicate at which point in volume of output it is financially beneficial to invest in a higher level of infrastructure.

Bureaucracy is a system in which people are expected to follow precisely defined rules and procedures rather than to use personal judgement.

A **business plan** is a document that sets out the markets the business intends to serve, how it will do so and what finance they require.

The **capital market** comprises all the individuals and institutions that have money to invest, including banks, life assurance companies and pension funds and, as users of capital, business organisations, individuals and governments.

A **cash flow statement** shows the sources from which cash has been generated and how it has been spent during a period of time.

Centralisation is when a relatively large number of decisions are taken by management at the top of the organisation.

Certainty describes the situation when all the information the decision maker needs is available.

A **channel** is the medium of communication between a sender and a receiver.

Clear (or critical) thinking identifies the assumptions behind ideas, relates them to their context, imagines alternatives and recognises limitations.

Co-creation involves the joint creation of value by the firm and its network of 'actors' such as customers, suppliers and distributors.

Collectivism 'describes societies in which people, from birth onwards, are integrated into strong, cohesive ingroups which . . . protect them in exchange for unquestioning loyalty' (Hofstede, 1991, p.51).

Communication is the exchange of information through written or spoken words, symbols and actions to reach a common understanding.

Competences are the skills and abilities that an organisation uses to deploy resources effectively – systems, procedures and ways of working.

Competencies (in HRM) refer to an individual's knowledge, skills, ability and other personal characteristics required to do a job well.

A **competitive environment (or context)** is the industry-specific environment comprising the organisation's customers, suppliers and competitors.

Competitive strategy explains how an organisation (or unit within it) intends to achieve competitive advantage in its market.

Complexity theory is concerned with complex dynamic systems that have the capacity to organise themselves spontaneously.

Concertive control is when workers reach a negotiated consensus on how to shape their behaviour according to a set of core values.

Consideration is a pattern of leadership behaviour that demonstrates sensitivity to relationships and to the social needs of employees.

Content is the specific substantive task that the group is undertaking.

Context (sometimes called environment or situation) refers to the settings in which people and organisations work.

Contingencies are factors such as uncertainty, interdependence and size that reflect the situation of the organisation.

Contingency theories propose that the performance of an organisation depends on having a structure that is appropriate to its environment.

Control is the process of monitoring activities to ensure that results are in line with the plan and acting to correct significant deviations.

The **control process** is the generic activity of setting performance targets and standards, measuring actual performance, comparing actual performance with the standards, and acting to correct deviations or modify standards.

A **control system** is the way the elements in the control process are designed and combined in a specific situation.

Core competences are the activities and processes through which resources are deployed to achieve competitive advantage in ways that others cannot imitate or obtain.

Corporate governance refers to the rules and processes intended to control those responsible for managing an organisation.

Corporate responsibility refers to the awareness, acceptance and management of the wider implications of corporate decisions.

Corrective action aims to correct problems to get performance back on track.

Corruption is the use of entrusted power for private gain.

A **cost breakdown structure** is a system for categorising and collecting costs which allows cost to be attributed and analysed by activity rather than function.

A **cost leadership strategy** is one in which a firm uses low price as the main competitive weapon.

The **craft system** refers to a system in which the craft producers do everything. With or without customer involvement they design, source materials, manufacture, sell and perhaps service.

Creativity is the ability to combine ideas in a unique way to produce something new and useful.

Critical success factors are those aspects of a strategy that must be achieved to secure competitive advantage.

Critical thinking identifies the assumptions behind ideas, relates them to their context, imagines alternatives and recognises limitations.

Cultural intelligence is when a person is skilled and flexible about understanding a culture, and learns as they interact with it.

Culture is the set of values, beliefs, norms and assumptions that are shared by a group and that guide their interpretations of, and responses to, their environments.

Current assets can be expected to be cash or to be converted to cash within a year.

A **customer-centred organisation** is focused upon, and structured around, identifying and satisfying the demands of its customers.

Customer relationship management (CRM) is the process of maximising the value delivered to the customer through all interactions, both online and traditional.

Customer satisfaction is the extent to which a customer perceives that a product matches their expectations.

Customers are individuals, households, organisations, institutions, resellers and governments that purchase products from other organisations.

Data are raw, unanalysed facts, figures and events.

Decentralisation is when a relatively large number of decisions are taken lower down the organisation in the operating units.

A **decision** is a specific commitment to action (usually a commitment of resources).

Decision making is the process of identifying and defining problems and opportunities, and making plans to resolve them.

Decision support systems help people to calculate the consequences of alternatives before they decide which to choose.

A **decision tree** helps someone to make a choice by progressively eliminating options as additional criteria or events are added to the tree.

Decoding is the interpretation of a message into a form with meaning.

Delegation occurs when one person gives another the authority to undertake specific activities or decisions.

Demands are human wants backed by the ability to buy.

Design thinking refers to an approach to innovation that puts observation and discovery of human needs at the forefront of the innovation process.

Determinism is the view that the business environment determines an organisation's structure.

Differentiation is when the parts of an organisation develop particular attributes in response to the demands posed by their relevant external environments.

Differentiation strategy consists of offering a product or service that is perceived as unique or distinctive on a basis other than price.

Disintermediation is removing intermediaries such as distributors or brokers that formerly linked a company to its customers.

Diversity (at work) refers to differences between individuals at work on any attribute that may evoke a perception that the other person is different from self.

A **divisional structure** is when tasks are grouped in relation to their outputs, such as products or the needs of different types of customer.

Dynamic capabilities are an organisation's abilities to renew and recreate its strategic capabilities to meet the needs of a changing environment.

e-business refers to the integration, through the internet, of all an organisation's processes from its suppliers through to its customers.

e-commerce refers to the activity of selling goods or service over the internet.

Economies of scale are achieved when producing something in large quantities reduces the cost of each unit.

Effectiveness is a measure of how well an activity contributes to achieving organisational goals.

Efficiency is a measure of the inputs required for each unit of output.

Emergent models of change emphasise that in uncertain conditions a project will be affected by unknown factors, and that planning has little effect on the outcome.

Encoding is translating information into symbols for communication.

Enlightened self-interest is the practice of acting in a way that is costly or inconvenient at present, but that is believed to be in one's best interest in the long term.

Enterprise resource planning (ERP) is a computer-based planning system that links separate databases to plan the use of all resources within the enterprise.

Entrepreneurs are people who see opportunities in a market, and quickly mobilise resources to deliver the product or service profitably.

Entrepreneurial alertness is the ability to notice things without engaging in deliberate search.

Equity theory argues that perception of unfairness leads to tension, which then motivates the individual to resolve that unfairness.

Escalating commitment is a bias that leads to increased commitment to a previous decision despite evidence that it may have been wrong.

Ethical audits are the practice of systematically reviewing the extent to which an organisation's actions are consistent with its stated ethical intentions.

Ethical consumers are those who take ethical issues into account in deciding what to purchase.

Ethical decision-making models examine the influence of individual characteristics and organisational policies on ethical decisions.

Ethical investors are people who only invest in businesses that meet specified criteria of ethical behaviour.

Ethical relativism is the principle that ethical judgements cannot be made independently of the culture in which the issue arises.

Exchange is the act of obtaining a desired object from someone by offering something in return.

An **executive information system** provides those at the top of the organisation with easy access to timely and relevant information.

Existence needs reflect a person's requirement for material and energy.

Expectancy theory argues that motivation depends on a person's belief in the probability that effort will lead to good performance, and that good performance will lead to them receiving an outcome they value (valence).

The **external environment (or context)** consists of elements beyond the organisation – it combines the competitive and general environments.

External fit is when there is a close and consistent relationship between an organisation's competitive strategy and its HRM strategy.

An **extranet** is a version of the internet that is restricted to specified people in specified companies – usually customers or suppliers.

Extrinsic rewards are valued outcomes or benefits provided by others, such as promotion, a pay increase or a bigger car.

Factory production is a process-based system that breaks down the integrated nature of the craft worker's approach and makes it possible to increase the supply of goods by dividing tasks into simple and repetitive processes and sequences that could be done by unskilled workers and machinery on a single site.

Feedback (in systems theory) refers to the provision of information about the effects of an activity.

Feedback (in communication) occurs as the receiver expresses his or her reaction to the sender's message.

Femininity pertains to societies in which social gender roles overlap.

Five forces analysis is a technique for identifying and listing those aspects of the five forces most relevant to the profitability of an organisation at that time.

Fixed assets are the physical properties that the company possesses – such as land, buildings, production equipment – that are likely to have a useful life of more than one year. There may also be intangible assets such as patent rights or copyrights.

A **focus strategy** is when a company competes by targeting very specific segments of the market.

Foreign direct investment (FDI) is the practice of investing shareholder funds directly in another country, by building or buying physical facilities, or by buying a company.

Formal authority is the right that a person in a specified role has to make decisions, allocate resources or give instructions.

Formal structure consists of guidelines, documents or procedures setting out how the organisation's activities are divided and coordinated.

A **formal team** is one that management has deliberately created to perform specific tasks to help meet organisational goals.

Formalisation is the practice of using written or electronic documents to direct and control employees.

Franchising is the practice of extending a business by giving other organisations, in return for a fee, the right to use your brand name, technology or product specifications.

Freelancer is a person who is in business for themselves, works their own time with their tools and equipment, and performs services for every clients.

Functional managers are responsible for the performance of an area of technical or professional work.

A functional structure is when tasks are grouped into departments based on similar skills and expertise.

The **general environment (or context)** (sometimes known as the macro-environment) includes political, economic, social, technological, (natural) environmental and legal factors that affect all organisations.

General managers are responsible for the performance of a distinct unit of the organisation.

Global companies work in many countries, securing resources and finding markets in whichever country is most suitable.

Globalisation refers to the increasing integration of internationally dispersed economic activities.

A **goal (or objective)** is a desired future state for an activity or organisational unit.

Goal-setting theory argues that motivation is influenced by goal difficulty, goal specificity and knowledge of results.

Groupthink is 'a mode of thinking that people engage in when they are deeply involved in a cohesive in-group, when the members' striving for unanimity overrides their motivation to realistically appraise alternative courses of action' (Janis, 1972).

Growth needs are those that impel people to be creative or to produce an effect on themselves or their environment.

Heuristics Simple rules or mental shortcuts that simplify making decisions.

High-context cultures are those in which information is implicit and can only be fully understood by those with shared experiences in the culture.

High-performance work practices (HPWP) refer to systems in which a bundle of practices are integrated to encourage employees to identify with organisational goals, and to encourage them to meet those goals.

Horizontal specialisation is the degree to which tasks are divided amongst separate people or departments.

Human relations approach is a school of management that emphasises the importance of social processes at work.

Human resource management refers to all those activities associated with the management of work and people in organisations.

Hygiene (or **maintenance) factors** are those aspects surrounding the task that can prevent discontent and dissatisfaction but will not in themselves contribute to psychological growth and hence motivation.

An **ideology** is a set of integrated beliefs, theories and doctrines that helps to direct the actions of a society.

The **illusion of control** is a source of bias resulting from the tendency to overestimate one's ability to control activities and events.

Incremental innovations are small changes in a current product or process that brings a minor improvement.

Individualism pertains to societies in which the ties between individuals are loose.

Influence is the process by which one party attempts to modify the behaviour of others by mobilising power resources.

An **informal group** is one that emerges when people come together and interact regularly.

Informal structure is the undocumented relationship between members of the organisation that emerge as people adapt systems to new conditions and satisfy personal and group needs.

Information comes from data that has been processed so that it has meaning for the person receiving it.

Information overload arises when the amount of information a person has to deal with exceeds their capacity to process it.

Information richness refers to the amount of information that a communication channel can carry, and the extent to which it enables sender and receiver to achieve common understanding.

Information systems management is the planning, acquisition, development and use of these systems.

Initiating structure is a pattern of leadership behaviour that emphasises the performance of the work in hand and the achievement of production or service goals.

Innovation is the application or implementation of something new and useful.

An **input measure** is an element of resource that is measured as it is put in to the transformation process.

Instrumentality is the perceived probability that good performance will lead to valued rewards, measured on a scale from 0 (no chance) to 1 (certainty).

Integrated risk management is consideration of the full range of uncertain contingencies affecting business performance.

Intangible resources are non-physical assets such as information, reputation and knowledge.

Integration is the process of achieving unity of effort amongst the various sub-systems in the accomplishment of the organisation's task.

The **interaction model** is a theory of change that stresses the continuing interaction between the internal and external contexts of an organisation, making the outcomes of change hard to predict.

The **internal environment (**or **context)** consists of those elements of the organisation or unit within which a manager works, such as people, culture, structure and technology.

Internal fit is when the various components of the HRM strategy support each other and consistently encourage certain attitudes and behaviour.

International management is the practice of managing business operations in more than one country.

The **internet** is a web of hundreds of thousands of computer networks linked together by telephone lines and satellite links through which data can be carried.

An **intranet** is a version of the internet that only specified people within an organisation can use.

Intrinsic rewards are valued outcomes or benefits that come from the individual, such as feelings of satisfaction, achievement and competence.

Job analysis is the process of determining the characteristics of an area of work according to a prescribed set of dimensions.

Job characteristics theory predicts that the design of a job will affect internal motivation and work outcomes, with the effects being mediated by individual and contextual factors.

Job satisfaction refers to the positive emotional state arising from one's assessment of one's wok experience.

A **joint venture** is an alliance in which the partners agree to form a separate, independent organisation for a specific business purpose.

The **judgemental model of decision making** describes how people make decisions in uncertain, ambiguous situations.

Just-in-time inventory systems schedule materials to arrive precisely when they are needed on a production line.

Key performance indicators (KPIs) are a summarised set of the most important measures that inform managers how well an operation is achieving organisational goals.

Knowledge builds on information and embodies a person's prior understanding, experience and learning.

Knowledge management systems are a type of IS intended to support people as they create, store, transfer and apply knowledge.

Layout planning is the activity that determines the best configuration of resources such as equipment, infrastructure and people that will produce the most efficient process.

Leadership refers to the process of influencing the activities of others towards high levels of goal setting and achievement.

A **learning organisation** is one that has developed the capacity to continuously learn, adapt and change.

Liabilities of a business as reported in the balance sheet are the debts and financial obligations of the business to all those people and institutions that are not shareholders, e.g. a bank, suppliers.

Licensing is when one firm gives another firm the right to use assets such as patents or technology in exchange for a fee.

Lifecycle models of change are those that view change as an activity that follows a logical, orderly sequence of activities that can be planned in advance.

A **limited liability company** has an identity and existence in its own right as distinct from its owners (shareholders in Europe, stockholders in North America). A shareholder has an ownership right in the company in which the shares are held.

Line managers are responsible for the performance of activities that directly meet customers' needs.

Linear systems are those in which an action leads to a predictable reaction.

Low-context cultures are those where people are more psychologically distant so that information needs to be explicit if members are to understand it.

Management is the activity of getting things done with the aid of people and other resources.

Management as a distinct role develops when activities previously embedded in the work itself become the responsibility not of the employee, but of owners or their agents.

Management as a universal human activity occurs whenever people take responsibility for an activity and consciously try to shape its progress and outcome.

Management by objectives is a system in which managers and staff agree their objectives, and then measure progress towards them periodically.

A **management information system** provides information and support for managerial decision making.

Management skills are identifiable sets of actions that individuals perform to produce an outcome they value.

Management tasks are those of planning, organising, acting and leading, and controlling the use of resources to add value to them.

A **manager** is someone who gets things done with the aid of people and other resources.

A **market offering** is the combination of products, services, information or experiences that an enterprise offers to a market to satisfy a need or want.

Market segmentation is the process of dividing markets comprising the heterogeneous needs of many consumers into segments comprising the homogeneous needs of smaller groups.

Marketing is the process by which organisations create value for customers in order to receive value from them in return.

The **marketing environment** consists of the actors and forces outside marketing that affect the marketing manager's ability to develop and maintain successful relationships with its target consumers.

A **marketing information system** is the systematic process for the collection, analysis and distribution of marketing information.

Marketing intelligence is information about developments in the marketing environment.

The **marketing mix** is the set of marketing tools – product, price, promotion and place – that an organisation uses to satisfy consumers' needs.

Marketing orientation refers to an organisational culture that encourages people to behave in ways that offer high value goods and services to customers.

Masculinity pertains to societies in which social gender roles are clearly distinct.

A **matrix structure** is when those doing a task report both to a functional and a project or divisional boss.

A **mechanistic structure** means there is a high degree of task specialisation, people's responsibility and authority are closely defined and decision making is centralised.

The **message** is what the sender communicates.

A **metaphor** is an image used to signify the essential characteristics of a phenomenon.

Metcalfe's law states that the value of a network increases with the square of the number of users connected to the network.

Mindfulness is the ability to pay attention in a reflective and creative way to cues in cross-cultural situations.

A **mission statement** is a broad statement of an organisation's scope and purpose, aiming to distinguish it from similar organisations.

A **model (**or **theory)** represents a complex phenomenon by identifying the major elements and relationships.

Motivation refers to the forces within or beyond a person that arouse and sustain their commitment to a course of action.

Motivator factors are those aspects of the work itself that Herzberg found influenced people to superior performance and effort.

Multinational companies are managed from one country, but have significant production and marketing operations in many others.

Needs are states of felt deprivation, reflecting biological and social influences.

Negotiation models reflect the view that an organisation consists of groups with different interests, goals and values that affect how they act.

A **network structure** is when tasks required by one company are performed by other companies with expertise in those areas.

Networking refers to behaviours that aim to build, maintain and use informal relationships (internal and external) that may help work-related activities.

Networking refers to 'individuals' attempts to develop and maintain relationships with others [who] have the potential to assist them in their work or career' (Huczynski, 2004, p.305).

Noise is anything that confuses, diminishes or interferes with communication.

Non-linear systems are those in which small changes are amplified through many interactions with other variables so that the eventual effect is unpredictable.

A **non-programmed (unstructured) decision** is a unique decision that requires a custom-made solution when information is lacking or unclear.

Non-receptive contexts are those where the combined effects of features of the organisation (such as culture or technology) appear likely to hinder change.

Non-verbal communication is the process of coding meaning through behaviours such as facial expression, gestures and body postures.

Observation is the activity of concentrating on how a team works rather than taking part in the activity itself.

An **office automation system** uses several systems to create, process, store and distribute information.

Offshoring is the practice of contracting out activities to companies in other countries who can do the work more cost-effectively.

Open innovation is based on the view that useful knowledge is widely distributed and that even the most capable R&D organisation must identify, connect to, and draw upon external knowledge as a core process in innovation.

An **open system** is one that interacts with its environment.

Operational plans detail how the overall objectives are to be achieved, by specifying what senior management expects from specific departments or functions.

Operational research is a scientific method of providing (managers) with a quantitative basis for decisions regarding the operations under their control.

Operations management is the activities, decisions and responsibilities of managing the production and delivery of products and services.

Operations strategy defines how the function will support the business strategy by ensuring the organisation has the resources and competences to meet market requirements.

An **opportunity** is a favourable set of circumstances that creates a need for a new product, service or business.

Optimism bias is a human tendency to see the future in a more positive light than is warranted by experience.

An **organic structure** is one where people are expected to work together and to use their initiative to solve problems; job descriptions and rules are few and imprecise.

An **organisation** is a social arrangement for achieving goals that create value.

An **organisation chart** shows the main departments and senior positions in an organisation and the reporting relations between them.

Organisation culture is the set of values, beliefs, norms and assumptions that are shared by a group and that guide their interpretations of, and responses to, their environments (Ogbonna and Harris 2014, p.668).

Organisation structure 'The structure of an organisation [is] the sum total of the ways in which it divides its labour into distinct tasks and then achieves coordination among them' (Mintzberg, 1979).

Organisational change is a deliberate attempt to improve organisational performance by changing one or more aspects of the organisation, such as its technology, structure or business processes.

Organisational citizenship behaviours refer to things people do beyond the requirements of their task to help others and to make things run smoothly.

Organisational performance is the accumulated results of all the organisation's work processes and activities.

Organisational readiness refers to the extent to which staff are able to specify objectives, tasks and resource requirements of a plan appropriately, leading to acceptance.

An **output measure** is a measurement taken after an operational process is complete.

Outsourcing refers to the practice of delegating selected value chain activities to an external provider.

The **participative model** is the belief that if people are able to take part in planning a change they will be more willing to accept and implement the change.

Perceived organisational support (POS) refers to the beliefs an employee has about the treatment they receive, irrespective of promises made by the organisation.

A **perceived performance gap** arises when people believe that the actual performance of a unit or business is out of line with the level they desire.

Perception is the active psychological process in which stimuli are selected and organised into meaningful patterns.

Performance imperatives are aspects of performance that are especially important for an organisation to do well, such as flexibility and innovation.

Performance measurement refers to quantifying the efficiency and effectiveness of an action.

Performance-related-pay involves the explicit link of financial reward to performance and contributions to the achievement of organisational objectives.

A **person culture** is one in which activity is strongly influenced by the wishes of the individuals who are part of the organisation.

A **personality test** is a sample of attributes obtained under standardised conditions that applies specific scoring rules to obtain quantitative information for those attributes that the test is designed to measure.

Pervasiveness (of corruption) represents the extent to which a firm is likely to encounter corruption in the course of normal transactions with state officials.

PESTEL analysis is a technique for identifying and listing the political, economic, social, technological, environmental and legal factors in the general environment most relevant to an organisation.

Philanthropy is the practice of contributing personal or corporate wealth to charitable or similar causes.

Planning is the iterative task of setting goals, specifying how to achieve them, acting on the plan and monitoring results.

A **planning system** refers to the processes by which the members of an organisation produce plans, including their frequency and who takes part in the process.

A **policy** is a guideline that establishes some general principles for making a decision.

Political behaviour is 'the practical domain of power in action, worked out through the use of techniques of influence and other (more or less extreme) tactics' (Buchanan and Badham, 1999).

The **political model** is a model of decision making that reflects the view that an organisation consists of groups with different interests, goals and values.

Political risk is the risk of losing assets, earning power or managerial control due to political events or the actions of host governments.

Power is the ability to produce intended effects (attributed to Sir Bertrand Russell).

A **power culture** is one in which people's activities are strongly influenced by a dominant central figure.

Power distance is the extent to which the less powerful members of organisations within a country expect and accept that power is distributed unevenly.

Preferred team roles are the types of behaviour that people display relatively frequently when they are part of a team.

Prior hypothesis bias results from a tendency to base decisions on strong prior beliefs, even if the evidence shows that they are wrong.

A **problem** is a deviation from an expected standard of performance.

A **procedure** is a series of related steps to deal with a structured problem.

A **process control system** monitors and controls variables describing the state of a physical process.

A **process measure** is a measurement taken during an operational process that provides data on how the process is performing.

The **product life cycle** suggests that products pass through the stages of introduction, growth, maturity and decline.

A **profit and loss statement** reflects the benefits derived from the trading activities of the business during a period of time.

A **programmed (or structured) decision** is a repetitive decision that can be handled by a routine approach.

Project managers are responsible for managing a project, usually intended to change some element of an organisation or its context.

A **psychological contract** is the set of understandings people have regarding the commitments made between themselves and their organisation.

Radical innovations are large game changing developments that alter the competitive landscape.

The **range of variation** sets the acceptable limits within which performance can vary from standard without requiring remedial action.

The **rational model of decision making** assumes that people make consistent choices to maximise economic value within specified constraints.

Real goals are those to which people give most attention.

Receptive contexts are those where features of the organisation (such as culture or technology) appear likely to help change.

Reintermediation creating intermediaries between customers and suppliers, providing services such as price comparison and product evaluation.

Relatedness needs involve a desire for relationships with significant other people.

Relational resources are intangible resources available to a firm from its interaction with the environment.

Representativeness bias results from a tendency to generalise inappropriately from a small sample or a single vivid event.

Responsibility refers to a person's duty to meet the expectations others have of them in their role.

Risk refers to situations in which the decision maker is able to estimate the likelihood of the alternative outcomes.

A **role** is the sum of the expectations that others have about the responsibilities of a person occupying a position.

A **role culture** is one in which people's activities are strongly influenced by clear and detailed job descriptions and other formal signals as to what is expected of them.

A **rule** sets out what someone can or cannot do in a given situation.

Satisficing is the acceptance by decision makers of the first solution that is 'good enough'.

Scenario planning is an attempt to create coherent and credible alternative stories about the future.

Scientific management is when the school of management called 'scientific' attempted to create a science of factory production.

Selective attention is the ability, often unconscious, to choose from the stream of signals in the environment, concentrating on some and ignoring others.

Self-awareness refers to a person's understanding of their preferred reaction to people and situations.

A **self-managing team** operates without an internal manager and is responsible for a complete area of work.

Shared value is creating economic value in a way that *also* creates value for society by addressing its needs and challenges.

Shareholders are the principal risk takers in a company. They contribute the long-term capital for which they expect to be rewarded in the form of dividends – a distribution from the profit of the business.

Shareholders' funds are the capital contributed by the shareholders plus profits that have not been distributed to the shareholders.

Social entrepreneurs identify opportunities, secure resources and establish ventures to provide goods or services to disadvantaged groups.

Social networking sites use internet technologies that enable people to interact within an online community to share information and ideas.

A **socio-technical system** is one in which outcomes depend on the interaction of both the technical and social subsystems.

A **span of control** is the number of subordinates reporting directly to the person above them in the hierarchy.

The **span of processes** is the variety of processes that a company chooses to carry out in-house.

Staff managers are responsible for the performance of activities that support line managers.

Stakeholders are individuals, groups or organisations with an interest in, or who are affected by, what the organisation does.

Standard of performance is the defined level of performance to be achieved against which an operation's actual performance is compared.

Stated goals are those that are prominent in company publications and websites.

Stereotyping is the practice of consigning a person to a category or personality type on the basis of their membership of some known group.

A **strategic business unit** consists of a number of closely related products for which it is meaningful to formulate a separate strategy.

Strategic capabilities are the capabilities of an organisation that contribute to its long-term survival or competitive advantage.

Strategic misrepresentation is where competition for resources leads planners to underestimate costs and overestimate benefits, to increase the likelihood that their project gains approval.

A **strategic plan** sets out the overall direction for the business, is broad in scope and covers all the major activities.

Strategy is about how people decide to organise major resources to enhance performance of an enterprise.

Structural choice emphasises the scope for which management has to decide the form of structure, irrespective of environmental conditions.

Structure is the regularity in the way a unit or group is organised, such as the roles that are specified.

Subjective probability (in expectancy theory) is a person's estimate of the likelihood that a certain level of effort (E) will produce a level of performance (P) which will then lead to an expected outcome (O).

Subsystems are the separate but related parts that make up the total system.

Success criteria are the measures against which the outcomes of a decision can be assessed.

Supply chain management refers to managing the sequence of suppliers providing goods and services so that the independent organisations work collaboratively for mutual gain.

Sustainability refers to economic activities that meet the needs of the present population while preserving the environment for the needs of future generations.

A **SWOT analysis** is a way of summarising the organisation's strengths and weaknesses relative to external opportunities and threats.

A **system** is a set of interrelated parts designed to achieve a purpose.

A **system boundary** separates the system from its environment.

Tangible resources are the physical assets of an organisation such as plant, people and finance.

A **target market** is the segment of the market selected by the organisation as the focus of its activities.

Task (sometimes called **content)** refers to the specific substantive task that is the focus of individual or team effort.

A **task culture** is one in which the focus of activity is towards completing a task or project using whatever means are appropriate.

A **team** is 'a small number of people with complementary skills who are committed to a common purpose, performance goals, and approach for which they hold themselves mutually accountable' (Katzenbach and Smith, 1993).

Team-based rewards are payments or non-financial incentives provided to members of a formally established team and linked to the performance of the group.

Technology is the knowledge, equipment and activities used to transform inputs into outputs.

The **theory of absolute advantage** is a trade theory that proposes that by specialising in producing goods and services that they can produce more efficiently than others, and then trading them, nations will increase their economic wealth.

Time management refers to the behaviours that aim to use time effectively while performing certain goal-directed activities.

Total Quality Management (TQM) is a philosophy of management that is driven by customer needs and expectations and focuses on continually improving work processes.

A **trait** is a relatively stable aspect of an individual's personality which influences behaviour in a particular direction.

A **transaction** occurs when two parties exchange things of value to each at a specified time and place.

A **transaction processing system (TPS)** records and processes data from routine transactions such as payroll, sales or purchases.

A **transactional leader** is one who treats leadership as an exchange, giving followers what they want if they do what the leader desires.

The **transformation process** is the operational system that takes all of the inputs; raw materials, information, facilities, capital and people and converts them into an output product to be delivered to the market.

A **transformational leader** is a leader who treats leadership as a matter of motivation and commitment, inspiring followers by appealing to higher ideals and moral values.

Transnational companies operate in many countries and delegate many decisions to local managers.

The **triple bottom line** is the idea that organisations can assess their performance on social and environmental criteria as well as financial ones.

Uncertainty is when people are clear about their goals, but have little information about which course of action is most likely to succeed.

Uncertainty avoidance is the extent to which members of a culture feel threatened by uncertain or unknown situations.

Unique resources are resources that are vital to competitive advantage and that others cannot obtain.

User generated content (UGC) is text, visual or audio material that users create and place on a website for others to view.

Valence is the perceived value or preference that an individual has for a particular outcome.

Validity occurs when there is a statistically significant relationship between a predictor (such as a selection test score) and measures of on-the-job performance.

Value is added to resources when they are transformed into goods or services that are worth more than their original cost plus the cost of transformation.

A **value chain** 'divides a firm into the discrete activities it performs in designing, producing, marketing and distributing its product. It is the basic tool for diagnosing competitive advantage and finding ways to enhance it'. (Porter, 1985).

Venture capital is money that individuals or business invest in start-ups and small businesses with exceptional growth potential.

Vertical specialisation refers to the extent to which responsibilities at different levels are defined.

Virtual teams are those in which the members are physically separated, using communications technologies to collaborate across space and time to accomplish their common task.

Wants are the form that human needs take as they are shaped by local culture and individual personality.

wikinomics describes a business culture in which customers are no longer only consumers but also co-creators and co-producers of the service.

A **work breakdown structure** is a system for categorising work activity based on phases or packages of work rather than the responsibility of the function that is performing the work.

Work engagement is the positive and rewarding work-related state of mind that inspires individuals to undertake their jobs in ways favourable to the organisation's success.

A **working group** is a collection of individuals who work mainly on their own but interact socially and share information and best practices.

Work–life balance refers to the experience of satisfaction and good functioning at work and at home.

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David Boddy is formerly a Reader, and then a Research Fellow, at the Adam Smith Business School, University of Glasgow.

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